Straightforward transparent banking

Annual Report & Accounts 2019

Secure Trust Bank

About us

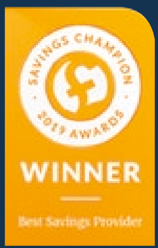
Secure Trust Bank ('STB') is an award-winning UK retail bank, providing savings accounts and lending services to over a million customers.

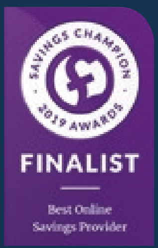
Born in 1952 in the West Midlands, we've had plenty of time to hone our craft.

Safety. Security. Peace of mind.

A bank you can trust.

www.securetrustbank.com





We like to keep it simple. We are a well-funded and capitalised UK retail bank, with a track record of successful performance across a diverse lending portfolio.

We use our market awareness and strong risk management discipline to remain agile, aligning our product mix to meet demand from our retail and business customers in attractive markets.

Profit before tax

£38.7m

2018: £34.7 million

Total assets

£2,682.8m

2018: £2,444.3 million

Pages 2 to 61 form the Strategic Report. It includes our business model, economic and regulatory environment, strategy, financial review and a business review for each of the lines of business. Pages 106 to 108 form the Directors' Report.

Contents

Chairman's statement

"We are well placed to tackle the exceptional challenges arising from COVID-19."

Another successful year for the Group

Despite some headwinds, 2019 has been another successful year for the Group.

Statutory profit before tax grew by 11.5% to £38.7 million, basic earnings per share by 9.9% and lending balances exceeded £2.4 billion at the end of the year.

By the end of the year we had more than 1.5 million customers, deposits of £2,020.3 million and the cost of risk had fallen from 1.8% in 2018 to 1.4% (see page 190 for definition).

COVID-19 will cause substantial damage to the UK and global economy. The Group has plans in place which seek to mitigate business disruption, protect the welfare of our employees and continue supporting customers and business partners during this unsettling period.

The strong start to 2020 would ordinarily see the Board recommend an increased dividend. We have now entered a period of extreme uncertainty driven by the COVID-19 outbreak, however, and in these exceptional circumstances the Board considers that it is prudent to preserve capital and is not recommending a final dividend for approval by shareholders at the Annual General Meeting.

In accordance with the current UK Government guidance on social distancing, prohibition on non-essential travel and public gatherings, the Board regrets that it will not be possible for shareholders to attend this year's AGM in person. We would encourage all shareholders to vote on the resolutions proposed at the AGM however, and further details are set out in the Notice of AGM.

The Group Employee Council established last year is working well and the Group was ranked as the 29th best large company to work for by Great Place to Work® in 2019. We have made changes to benefits and to flexible working to help encourage diversity in our workforce. Our matched giving scheme has been extended to support the impressive charitable work undertaken by our employees.

As a responsible business, we are determined to make a positive contribution to the communities in which we operate, the impact of climate change features on our agenda and you can see the impressive activities conducted by our employees set out on page 55.

As a Board we are committed to good governance and will continue to strive to ensure our committees, our Directors' Remuneration Policy and our actions maintain compliance with best practice.

At the year-end we announced changes to the composition of the Board and its Committees arising from the appointment of David McCreadie as a Non-Executive Director, the resignation of Neeraj Kapur as Chief Financial Officer and the prospective retirement of Paul Marrow at the 2020 AGM. Paul is deemed to be no longer independent under the Corporate Governance Code after nine years' service. He will be much missed and has made an outstanding contribution to our business. I should also like to wish Neeraj well in his new role at Provident Financial. I am especially grateful to Ann Berresford, Paul Myers, Victoria Stewart, Lucy Neville-Rolfe and David McCreadie for taking on additional Board responsibilities.

Finally, I would like to thank all my colleagues for another year of achievement and for their continued dedication and commitment and especially our Chief Executive Paul Lynam who has delivered double-digit growth in profits before tax for the second year in succession. I am grateful too for the resilience my colleagues at STB have shown as we navigated the troubled waters of COVID-19 to continue to serve our customers and support our wider workforce.

Given the resources at our disposal, the talents of our people, the flexibility of our business model and our clear strategy, we are well placed to tackle the exceptional challenges arising from COVID-19.

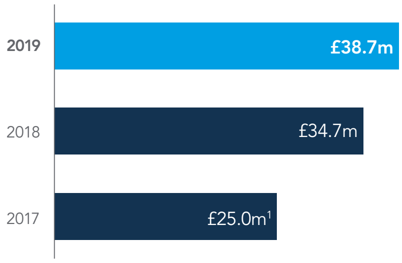
Lord Forsyth
Chairman

6 May 2020

Financial highlights

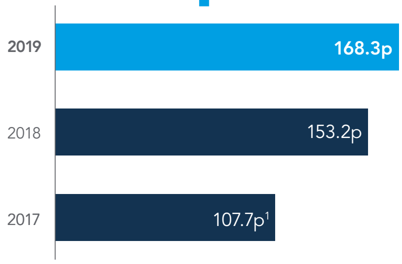
Profit before tax

£38.7m



Earnings per share

168.3p



[1] From continuing operations.

Operational highlights

We have more than

1.5m customers

Deposits of

£2,020.3m

The cost of risk has fallen to

1.4%

FEEFO customer satisfaction ratings

4.7 stars

Our business model
How Secure Trust Bank does what it does

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

8 offices across the UK

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

Our divisions

Business Finance

Read more on pages 26 to 29

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

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

Real estate
Support to SMEs in providing finance principally for residential development and residential investment.

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

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

Asset Finance is currently closed to new business

Consumer Finance

Read more on pages 30 to 35

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

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

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

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

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

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

Consumer Mortgages is currently closed to new business

Savings

Read more on pages 36 to 39

Savings
Customer deposits, from personal and business customers, available online and serviced using internet banking.

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

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

What STB needs to operate

Our people

The Group had 1,017 employees (full-time equivalent) at 31 December 2019, (31 December 2018: 886) most of whom are based at the head office in Solihull, West Midlands.

Read more about our people on pages **55 to 57**

Capital and liquidity

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

Read more on pages **24 and 25**

Risk management

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

Read more on pages **40 to 49**

Market awareness

We have built a management team with significant experience in our chosen markets as well as the wider macro-economic and regulatory environment.

Read more on pages **64 to 66**

Flexible business model

We have grown our lending portfolio across a diverse range of sectors, allowing us to be flexible and focus growth in the most attractive areas. Through carefully targeted lending products, the absence of large fixed overheads in the form of a branch network and a policy of not cross-subsidising loss-making products with profitable ones, we can offer competitive deposit interest rates and have been successful in attracting deposits from a wide range of customers.

Read more on pages **4 and 5**

How STB connects with customers

Phone

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

Internet

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

Business partners

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

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

Retailers

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

The value we create for our stakeholders

Our shareholders

We deliver returns to shareholders by:

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

Read more in our Financial Review on pages **20 to 25**

Business and retail

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

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

Private consumers

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

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

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

Wider stakeholders

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

Read more on pages **59 to 61**

Economic and regulatory environment

Context for growth

The success of our products and services in 2019 was impacted by macro-economic and regulatory developments creating both challenges and opportunities for each of our divisions.

UK GDP annual growth rate 2019

1.4%

Office of National Statistics – 11 February 2020

UK general inflation rate 2019

<2%

Bank of England – 30 January 2020

UK unemployment rate Q4 2019

3.8%

Office of National Statistics – 21 January 2020

UK Residential Market National Enquiries

+23%

RICS UK Residential Market Survey – 13 February 2020

Macro-economic

Recent developments

To give context to the Group's performance in 2019, the following section sets out developments in the macro-economic environment, and particularly the UK economy, in that year. It therefore does not cover the more recent COVID-19 outbreak, which is addressed elsewhere in the Strategic Report.

In 2019, the UK economy was characterised by relatively weak and somewhat volatile growth. The year was significantly impacted by political instability and uncertainties associated with the UK's exit from the EU. Notwithstanding these uncertainties, the economy moved forward in 2019 and the Office of National Statistics reported estimated UK GDP growth of 1.4% in 2019.

The labour market remained robust with the unemployment rate at 3.8% in the three months to October, the lowest since the mid-1970s, and job vacancies at near-record levels. Real wage growth was positive in 2019, underpinning consumer confidence and household consumption. Homebuying activity rose as shown by UK Residential Market National Enquiries. The general inflation rate remained below the Bank of England's 2% target and the housing market was subdued. This resulted in limited pressures on the Monetary Policy Committee to raise interest rates.

The decisive UK General Election result removed the immediate uncertainty surrounding Brexit and preliminary reports indicated a positive response in economic activity. Both business and investor optimism appeared to have lifted with some evidence of a rebound in the housing market.

Nonetheless, the year closed with a continuing level of uncertainty over the course of 2020 as the UK enters trade negotiations. Consequently, policymakers adopted a cautionary stance and the Bank of England's forecasts for 2020 saw the UK economy growing at a weaker rate compared with 2019 of 0.75%.

Outlook

We continue to monitor the macro-economic environment closely, particularly given the COVID-19 outbreak. It is clear that the emerging pandemic will significantly impact on the UK and global economy with the full scale of the impact not being certain for some time.
The Group has the flexibility and business model to be able to respond rapidly to such challenges and, as set out elsewhere in the Strategic Report, has taken steps to maintain operational continuity and ongoing support for customers, business partners and employees.

Regulation

Recent developments

A number of key regulatory announcements have been made over 2019 which are likely to impact the Group. As always, we seek to respond to such announcements promptly and comply with all applicable regulation.

One particular focus area is operational resilience. As set out in its response to the van Steenis review on the Future of Finance, one of the five priority areas for action by the Bank of England is to facilitate firms' use of technology to increase their operational resilience and to protect the wider financial sector and the UK economy from the impact of operational disruption. In December 2019, the PRA and FCA published three consultation papers outlining their expectations of firms in their achievement of operational resilience, with a policy statement expected in Q2, 2020. The need for operational resilience has been demonstrated as the COVID-19 outbreak has progressed.

Reflecting wider concerns in society, there is also an increased supervisory focus on climate change. In April 2019, the PRA published a supervisory statement focused on enhancing firms' approaches to managing the financial risks from climate change and we would expect environmental regulation to remain an ongoing theme. For example, the Bank of England has announced that future stress testing processes will aim to assess the financial risks posed by climate change.

Further details on the Group's position in respect of operational resilience and climate change are set out in the Principal risks and uncertainties section on page 40.

As expected there is a continuing focus on treating customers fairly. In June the UK Government announced that a new 60-day breathing space scheme will be introduced by early 2021 to protect individuals with problem debt. Also, in October the FCA published a consultation which proposes to ban commission models that give Motor Finance brokers/dealers an incentive to raise customers' interest rates. The direct impact of this consultation on the Group is not expected to be material given that the Group does not engage in this type of pricing activity.

The Bank of England is also consulting on the use of regulatory data over the next decade to both enhance insights into the financial system and assess ways to decrease the regulatory reporting burden on the industry. The Bank has also indicated that it will consult on the appropriate level of access to its payments infrastructure and balance sheet.

As noted in the Chief Executive's statement, other aspects of emerging regulation have limited impact on the Group but affect competitors. These include ringfencing requirements affecting large banks and the transition from LIBOR.

Outlook

We continue to prepare for the final Basel III reforms which will now apply from 1 January 2023, which we anticipate will go some way to levelling the playing field between IRB institutions and those on the Standardised Approach. We will also continue to monitor developments arising from the UK's exit from the European Union, particularly any movement towards a more proportionate approach to the regulation of smaller banks, and any regulatory developments arising from the COVID-19 outbreak.

Chief Executive's statement

Paul Lynam
Chief Executive Officer

We continue to focus on consistently delivering good outcomes for customers."

Evolving the business for the future

I am delighted to report a strong year's performance for 2019 when viewed across a broad range of customer, staff and financial metrics. I would like to thank the entire STB team for their commitment and professionalism last year and for the way they have continued delivering good outcomes for our customers.

As expected, the strategic repositioning of the business model, initiated in 2017 towards lower risk lending, and ongoing growth in both Business Finance and Consumer Finance, have continued to deliver benefits. Customer numbers, lending balances and income have grown whilst the cost of risk (see page 190 for definition) has continued to fall. These factors have driven strong growth in reported and adjusted earnings.

The financial results for 2019 show the Group statutory profit before tax increasing by 11.5% to £38.7 million compared to the £34.7 million of profit before tax generated during 2018. Adjusted profit before tax on the same basis has increased by 12.0% to £41.1 million. Adjusted earnings per share increased by 10.4% over the same period with basic earnings per share increasing by 9.9%.

It is noteworthy that the profit growth above was achieved after accommodating a significant fall in used car values in the summer of 2019, which impacted impairment provisions, and a very marked slowdown in UK economic activity last autumn ahead of the planned Brexit date of 31 October and then the General Election.

The Group entered 2020 aspiring to deliver double digit profit before tax growth for the third successive year. After the first quarter performance was in line with management expectations, with strong profit performance despite increased impairment provisioning to recognise the threat of COVID-19. However in recent weeks the UK and global economies have become exposed to unprecedented levels of uncertainty with recessions looking inevitable in many countries. Therefore, notwithstanding a very positive start to the year it is currently impossible to estimate with any degree of accuracy how damaging this virus will be for the UK economy. The lockdown imposed by HM Government in late March 2020 has resulted in demand for the Group's Motor Finance products drying up completely and our Retail Finance lending volumes are circa 50% of expectations. Demand for new Invoice Finance and Real Estate Finance has largely evaporated. The consequence of the material falls in new lending business being written means that the Group's customer lending balances have started to contract for the first time in many years. This contraction is likely to persist and will be influenced by any revival in economic activity and our credit risk appetites which will remain cautious. In light of the rapidly evolving situation the Group has undertaken significant additional stress testing to assess the potential impact of the crisis on capital and liquidity positions which remain healthy. Assessments to date indicate that the short duration of loan books helps to maintain capital and liquidity levels above regulatory requirements throughout a very severe recession. Given the extreme uncertainty we are not providing forward guidance for 2020 at this time.

The Group's immediate focus is on supporting colleagues, customers and business partners and a range of plans is in place to seek to mitigate the operational and economic impact of COVID-19. The Group expects that once through the worst of the outbreak, and assuming a trade deal is agreed with the EU, the UK economic outlook will improve strongly which the Group will seek to leverage as it continues to execute its clearly defined growth strategy. We are well placed to support an increase in demand for working capital funding from businesses and residential development finance from house builders. The latter is aided by a regulatory capital efficient Enable Guarantee we have agreed with the British Business Bank. We are progressing significant investment in our Motor Finance business which will see this portfolio grow considerably over the next five years via the provision of dealer stocking finance (now live) and a prime motor proposition for consumers.

Ongoing growth in customer base with satisfaction levels remaining very positive

Across our consumer and SME business products we are serving well over 1.5 million customers. Total customer numbers are a record 1,598,256 customers which is an increase of 24.9% on the total customer base of 1,279,783 as at 31 December 2018.

We continue to focus on consistently delivering good outcomes for customers and ensuring that the design of our products is appropriate for their needs. From a conduct and behaviour perspective, we do not cross-subsidise losses or low profits on some products with super profits on others. Nor do we discriminate between customers by, for example, paying very low deposit interest rates to existing loyal customers whilst offering much higher rates to new ones. We believe that our approach is the appropriate way to interact with our customers for the long-term benefit of all parties.

Customer satisfaction is measured in a number of ways. It is reassuring that 2019 has once again seen us consistently achieve customer satisfaction ratings in excess of 90% across all of our products as measured by Feefo. We also use Net Promoter Scores to assess our customer service and these scores exhibit similar positive trends to those derived from Feefo.

I am delighted to confirm that for the seventh year running we have retained the Customer Service Excellence standard. This indicates our customer service has been judged to meet Government standards of excellence which are benchmarked against high-performing organisations.

Whilst being pleased with external accolades and ongoing high customer satisfaction scores we are in no way complacent. We are focused on improving our existing service and products and diversifying our customer proposition via targeted investment in people, systems, processes and products.

Highlights of 2019

- **Statutory profit before tax increased by 11.5% to £38.7 million**
- **Adjusted profit before tax increased by 12.0% to £41.1 million**
- **Customer numbers now over 1.5 million**
- **Customer satisfaction scores continue to be consistently over 90%**
- **Launch of new Cash ISA products in April 2019**
- **V12 Vehicle Finance brand launched and initial phases of Motor Transformation Programme implemented**
- **Customer Service Excellence standard retained for the seventh year running**
- **New freehold premises, Yorke House, acquired**

Growth in customer numbers

up 25%

(1,598,256)
2018: 1,279,783

feefo

Feefo customer satisfaction ratings

90%+

2018: 90%+

Chief Executive's statement continued

"The majority of customers with maturing medium-term savings bonds continue to reinvest their funds into deposit products with us."

"2019 was a busy year for our Motor business which was successfully rebranded V12 Vehicle Finance."

Operational progress

Operational resilience remains a key matter for regulatory scrutiny and we have adopted a proactive approach. Having carefully considered the various discussion and consultation papers published by the regulators we have updated our operational risk plans in relation to the identification, assessment and management of risks. This extends to managing the third party risks that arise when outsourcing activities. I am pleased to note that the Group received Cyber Essentials Plus accreditation in the second half of 2019, which is a good reflection on our continued cyber security focus.

Given the continuing growth across the Group and our ongoing ambitions, we acquired new freehold premises in Solihull very close to the existing Head Office building. This is now operational and, with an eye on the future, this is geared to accommodate more agile working practices, including those which will reduce our carbon footprint. These practices, and our well-established business continuity plans, will help us deal with the impact of COVID-19.

Healthy capital position

Our ongoing priority is to safeguard the reputation and sustainability of the Group through conservative balance sheet management, investment for long-term sustainable growth and robust risk and operational controls.

Our year-end CET1 capital levels are healthy with a CET1 ratio of 12.7% compared to the 2018 year-end position of 13.8%. The Total Capital Ratio was 15.0% (2018: 16.3%) and our leverage ratio as at 31 December 2019 was 9.8% (2018: 10.0%). The year-on-year movement in CET1 is a function of the investment of capital to support the strong growth in the loan portfolios.

In December 2019 the Bank of England announced an increase in the countercyclical capital buffer from 1% of risk-weighted assets to 2%, with effect from December 2020, and its intention to consult on offsetting this increase via reductions in variable Pillar 2A add-ons, to ensure the levels of capital in the system stay broadly unchanged. Since then, as part of the package of measures introduced to mitigate the impact of COVID-19, the buffer has been reduced to 0%. This intervention is welcomed and we will continue to monitor capital levels closely throughout the period affected by the outbreak.

Prudent liquidity management

Our year-end loan to deposit ratio was 121.3% (2018: 109.8%). This ratio was higher than normal due to the strong conversion of new business pipeline ahead of year-end. The ratio has reverted to normal levels in the first part of 2020. Customer demand for our deposit products remains very strong, and I am pleased to continue to note that the majority of customers with maturing medium-term savings bonds continue to reinvest their funds into deposit products with us.

The Bank has continued broadly to match-fund its customer lending with customer deposits. This strategy seeks to mitigate maturity transformation and interest basis risks. Given the growth in the balance sheet in recent years, we have continued to invest in our Treasury function and capabilities to further mitigate interest rate risks via the use of hedging instruments. This is a significant step in the development of the Group's capabilities.

We continued to leverage the benefits from the deposit platform installed in 2017 via the launch of a new Cash ISA product to coincide with the new tax year in April 2019. Cash ISAs are the second biggest pool of consumer deposit liquidity in the UK and typically attract margins around 20% below non-cash ISA deposits. Access Account products have also been developed and tested and are ready for launch.

Usage of the Term Funding Scheme ('TFS') is broadly unchanged over the last 12 months. This remains a modest part of the Bank's funding. We note the extension to this funding in light of COVID-19 and will be considering whether the Group will take advantage of it.

Income grew and cost of risk reduced

The Group's operating income grew by 9.2% to a record level of £165.5 million compared to £151.6 million in 2018. Operating costs rose 11.5% to £94.2 million from £84.5 million in 2018, reflecting continued investment in the business. The cost-to-income ratio has increased to 56.9% (2018: 55.7%) for reasons explained on the following page.

In overall terms the loan portfolios have performed as expected with the benefits of the strategic repositioning remaining evident. This is reflected in a reduction in the cost of risk to 1.4% in 2019 compared to 1.8% for 2018. This is driven by the improving book quality and consequent reduction in probability of default. This improvement would have been more pronounced save for the UK car market experiencing unusually severe seasonal falls in asset values during the summer of 2019.

During the year we have recognised £2.1 million of improvements in credit quality relating to our debt collection business as an impairment gain, whereas in the previous year we included the equivalent £2.0 million of improvements in income. This makes no difference to the profit figures but does serve to reduce both income and the cost of risk. Adjusting for this and for costs relating to our freehold property purchase, on a like-for-like basis compared to 2018, the 2019 cost income ratio is stable at 55.5% and the 2019 cost of risk is 1.5%, still well below the 2018 level of 1.8%.

We have continued to refine our credit risk appetite and acceptance criteria over 2019. As a matter of course, we regularly review our credit criteria and pricing to take into account our view of the current and future economic conditions. We have also continued to develop our ability to use artificial intelligence and machine learning to further refine our credit decisions.

Customer lending activities

Once again, double digit percentage growth was achieved across the Group's loan portfolio in 2019, notwithstanding the closure of the consumer mortgage operations in the spring. Total annual new business lending volumes grew 12.0% to £1,413 million (2018: £1,262 million) which translated to an increase of 20.8% in overall balance sheet customer lending assets to £2,450 million (2018: £2,029 million).

Consumer Finance

In 2019 total consumer lending, excluding mortgages, increased 20.9% to £1,095.0 million (2018: £905.7 million). Our Consumer Finance lending strategy during 2019 was to cease new mortgage originations and continue to allocate capital to support the strong ongoing growth in Retail Finance, which is shorter term in duration and prime in nature, and to progress the investment in Motor to support the entry into dealer and prime consumer finance.

The Retail Finance point of sale business grew strongly as intended, with net customer lending balances at 31 December 2019 increasing 15.4% to £688.9 million (2018: £597.0 million). Our Retail Finance business has continued to evolve as we have grown into one of the largest participants in this market. The average loan duration has remained short and provides optionality in the event of worsening economic conditions, such as those arising due to the COVID-19 outbreak. On the assumption the government negotiates a trade deal with the EU which is not economically disruptive, clear scope exists for us to offer Retail Finance in long duration loan sectors that we have not heavily targeted in the past.

Operational highlights

Real Estate Finance	£316.3m
Asset Finance	£nil
Commercial Finance	£162.2m
Retail Finance	£716.6m
Motor Finance	£183.3m
Consumer Mortgages	£31.9m
Other	£2.7m
Total:	**£1,413.0m**

New business volumes

£1,413.0m

2018: £1,261.9 million

Real Estate Finance	£962.2m
Asset Finance	£27.7m
Commercial Finance	£251.7m
Retail Finance	£688.9m
Motor Finance	£323.7m
Debt Management	£82.4m
Consumer Mortgages	£105.9m
Other	£7.6m
Total:	**£2,450.1m**

Loans and advances to customers

£2,450.1m

2018: £2,028.9 million

Chief Executive's statement continued

Key product highlights

- **Growth in Consumer Finance lending balances of 21.3%**
- **Growth in Business Finance lending balances of 20.9%**
- **No material impact on earnings from the cessation of new Consumer Mortgage lending**
- **Improved Consumer Finance book quality has reduced the cost of risk**
- **Business Finance impairment provisions continue to be immaterial**

2019 was a busy year for our Motor business which was successfully rebranded as V12 Vehicle Finance in the summer. The first two phases of our Motor Transformation Programme focused on the provision of auction and dealer stocking finance. These were successfully completed in 2019. The next phase is the launch of a prime lending proposition for consumers towards the end of 2020 with the final phase being the re-platforming of the existing near prime portfolio. This will give us a very strong dealer and consumer proposition allowing us to compete directly with the likes of Close, Blue and Startline. We will also continue to grow the near prime book. As noted above, the very large fall in used car prices during the summer increased the Motor Finance impairment charge. The improvement in the underlying credit quality of the customers has been such that we have been able to accommodate this unexpected charge and still deliver a broadly on plan performance for Motor in 2019.

Motor net lending balances have increased by 17.1% to £323.7 million at 31 December 2019 compared to £276.4 million in the prior year.

Debt Managers (Services) Limited ('DMS'), which is active in third party debt collection and portfolio acquisition, continued to perform well during 2019. DMS revenue from external customers increased to £8.4 million from £7.0 million in 2018.

When announcing our decision to cease originating consumer mortgage lending last year, I noted my expectation that the trend of increasing loan-to-value metrics and lower new net lending margins was likely to be sustained throughout 2019. This has proved to be the case with net interest margins in the sector being squeezed despite the risk indicators including Loan-to-Value, Loan-to-Income and average loan duration all increasing. These market dynamics show no sign of abating given the ambitions of the ring-fenced banks to grow market share in UK mortgages. 2019 was the first year since 2009 when the 'big 6' lenders grew their share of gross new mortgage lending. Inevitably this has squeezed other lenders. This would seem to vindicate our decision to deploy capital elsewhere across our business model. The decision to cease lending was obviously very tough on the staff members impacted who behaved very professionally during this difficult period. Fulfilment of our pipeline led to our mortgage lending balances increasing from £84.7 million as at 31 December 2018 to £105.9 million as at 31 December 2019, representing growth of 25.0%. This book is performing in line with our expectations. As expected the cessation of new lending did not have a material impact on the Group's earnings in 2019.

Business Finance

The Group's SME lending operations have grown strongly, as targeted, and I expect further positive progress in 2020 (subject to the impact of COVID-19) given we started the year with a strong new business pipeline. Total business customer lending balances in 2019 increased by 20.9% to £1,241.6 million (2018: £1,027.3 million). Real Estate Finance lending balances increased by 25.0% to £962.2 million as at 31 December 2019 (2018: £769.8 million). The loan book is performing well and remains biased in favour of modestly leveraged residential investment lending. This is reflected in the portfolio composition, which in round terms is split 75% / 25% in favour of investment lending versus development lending. We have continued to adopt a cautious stance towards Central London house building finance. Demand for property development finance slowed during 2019 albeit the units we have financed have continued to sell well with the underlying loans being satisfactorily repaid. We had seen an increase in enquires about housing development finance since the general election and expected this to translate into increased lending here in 2020. The economic shock arising from COVID-19 has seen this demand fall away and the extent and speed at which this returns remains to be seen. The average LTV across the whole Real Estate Finance portfolio remains less than 60% which means we are very well placed to support customers disrupted by COVID-19 without materially increasing our risk profile.

The asset finance market continued to see very aggressive risk appetites and pricing during 2019. We have allocated capital to our other products in 2019 and allowed Asset Finance lending balances to contract rapidly to £27.7 million as at 31 December 2019 compared to £62.8 million a year ago. At these trajectories these balances will be de minimis by the end of 2020. We will revisit our appetite for recommencing new lending, possibly via inorganic routes, in light of developments in this market post COVID-19.

Secure Trust Bank Commercial Finance, the invoice finance division of the Bank, had another excellent year and has now funded over £3.0 billion of customers' invoices since launch. Excluding the high street banks, based on customer lending balances we are now the 9th largest operator in the invoice finance market but given the fragmented nature of the market we have substantial opportunities to continue to grow very strongly in this sector. This is evidenced by net customer lending balances, which grew 29.3% to £251.7 million at 31 December 2019 (2018: £194.7 million). This growth would have been more pronounced but for the insolvencies of two large steel businesses where we avoided any credit losses despite lending facilities of circa £60 million. These are good examples of why I believe we have one of the most capable teams of invoice financiers in the UK, supported by a scalable modern IT platform. This, coupled with Group management's experience in SME and corporate lending, gives STB a distinct advantage when it comes to structuring transactions and responding rapidly to opportunities. Impairment levels here have been immaterial reflecting very robust credit management disciplines.

Fee-based accounts

As expected, the legacy OneBill product, which closed for new business in 2009, continues to see customer numbers decline over time. Customer numbers fell to 17,024 by 31 December 2019 compared to 18,032 a year earlier.

Evolving regulatory and competitive environment

It has been a very busy year from a Prudential Regulation and Conduct Regulation perspective. Regulatory expectations have continued to become more demanding in respect of issues such as operational resilience, financial crime, regulatory reporting and cyber security. The Group is continuing to invest and evolve to ensure it meets these changing expectations.

The UK's exit from the EU could have far reaching consequences for the Finance industry in this country. As a UK-only firm, we do not expect to be directly impacted by any trade deal reached but will remain very alert to developments.

Another significant challenge facing the industry in the next year or so is the transition from LIBOR to SONIA, which will be very demanding for many firms. Given our very short duration balance sheet, we have been able to manage our exposure to LIBOR such that the move to SONIA is not an issue for us.

The large banks were required to implement ring-fencing of most of their UK operations with effect from 1 January 2019. These firms can no longer move surplus capital and funding around their operations overseas to maximise marginal returns. Instead, surplus capital and funding is effectively trapped in the UK. The introduction of the ring-fencing has usefully highlighted the sheer scale of the advantages enjoyed by these firms in terms of capital requirements and funding costs. As a result these firms are able to offer extremely low priced mortgages to new customers in order to gain market share. As I've noted above, 2019 saw the 'big 6' lenders grow their share of the new mortgage lending market for the first time since 2009. These firms are clearly interested in growing in the scale lending markets in the UK and it seems likely returns for lenders in mortgages will remain under pressure.

Total customers

1,598,256

2018: 1,279,783

Employees (Full-time equivalent)

1,017

2018: 886

STB employees participating in Wolf Run to raise funds for charity.

"I believe we have one of the most capable teams of invoice financiers in the UK."

Chief Executive's statement continued

"Despite a slowing economy… we have been able to continue to increase customer lending balances and profit before tax."

In the short term from a consumer perspective ever-cheaper mortgages will be seen as a good thing. However, it is not difficult to see how continued competitive aggression by the largest firms, with the lowest capital requirements and cheapest funding costs, will see them continuing to gain market share at the expense of smaller firms. So, absent of steps to create a genuinely level playing field, it is not difficult to envisage a future where UK banking becomes extremely polarised with systemic firms on one side holding the vast majority of the market in the scale lending sectors, small specialist lenders, like the Group, operating in niches that are sub-scale for the large firms on the other side with no medium-sized firms in the middle ground.

The very tight concentration of UK banking market share in the hands of a small number of 'too big to fail' banks was a key factor in the severity and duration of the last UK recession. It is therefore encouraging to note that the regulators and the new Government recognise that more needs to be done to safeguard and promote competition in UK banking without making the system weaker. As I have noted before, post-Brexit the Government could choose to adopt a much more proportionate approach to the regulation of smaller non-internationally active banks than is possible today. One option could be for the UK to adopt a similar approach to that in the US where there are five tiers of regulation rather than the largely 'one size fits all' Capital Requirements Regulation implementing the Capital Requirements Directive IV, in the UK at present.

In summary, whilst the situations above remain somewhat fluid, I am increasingly optimistic that key stakeholders will take the opportunity arising from the UK's exit from the EU to take action to help improve the competitive positioning of smaller banks in the UK. I expect the need for a level competitive playing field will become very obvious as the UK navigates the economic effects of COVID-19. Clearly any changes in the regulatory regimes that enable non-systemic banks to offer more choice to consumers and SMEs to support economic growth will be a positive development for the UK and for the smaller firms.

Strategic priorities

The Group's medium-term strategy remains unchanged, albeit for obvious reasons our number one priority is to support colleagues, customers and business partners as we navigate the challenges arising from the COVID-19 virus outbreak. The benefits of a diversified business model have been evident over the last two years. Despite a slowing economy and a fierce price war in mortgages, the largest lending market in the UK, we have been able to continue to increase customer lending balances and profit before tax by taking market share in our chosen market segments, without compromising our targeted risk parameters.

Once the virus has passed we plan to refocus the Group on the strategic priorities of:

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

We have been active across all five of these areas during 2019 and will remain disciplined and focused here in the year ahead and beyond.

Current trading and outlook

Notwithstanding the slowing in UK economic activity in the second half of 2019, we delivered a strong set of results for the year. 2020 started well with trading being in line with management expectations.

Management and the Board are very carefully monitoring the ongoing trade negotiations between the UK and EU. Whilst I believe these parties will agree at least a limited agreement before the transitional period expires at the end of the year, there is the potential for an economic shock should this not be the case. We have a range of early warning indicators ('EWIs') and contingency plans in place in the event that the absence of a robust trading agreement with the EU leads to an economic downturn.

As noted earlier in this statement, it is difficult to predict the economic impact of the COVID-19 outbreak, though it will clearly be significant. The imposition of the UK lockdown has materially reduced our new lending volumes. As a result our short duration lending portfolio has started to contract. This contraction is likely to persist and will be influenced by any revival in economic activity and our credit risk appetites which will remain cautious. In light of the rapidly evolving situation the Group has undertaken significant additional stress testing to assess the potential impact of the crisis on capital and liquidity positions which remain healthy. Assessments to date indicate that short duration of loan books help to maintain capital and liquidity levels above regulatory requirements throughout a very severe recession. Plans are in place which seek to limit the operational and economic impact of COVID-19 but, given the highly fluid situation, at this stage it is impossible to quantify potential impacts with certainty.

In summary, the Group's lending portfolio is appropriately positioned for the current conditions and the short duration nature of the asset portfolio means the Group can react quickly to both opportunities and threats.

The Group entered 2020 on the back of successful years in 2018 and 2019. With sufficient capital and liquidity positions, we are now extremely focused on supporting customers, colleagues and business partners as we navigate the COVID-19 induced economic challenges, and are prioritising the safeguard of capital and liquidity resources over balance sheet growth at this time. Once the COVID-19 storm has passed we will look to refocus on the pursuit of our strategic priorities.

Paul Lynam
Chief Executive Officer

6 May 2020

Strategy

The Group's strategy is based on three strategic themes. Over 2019, the strategy has developed as we focus on our near to mid-term objectives.

Grow

To maximise shareholder value through strong lending growth by delivering great customer outcomes in both our existing and new markets.

Objectives

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

Progress made in 2019

New business levels grew for all core products compared with 2018, resulting in strong and profitable lending balance growth. We launched our Fixed Rate ISA in 2019, increasing the inflow of customer deposits to fund this lending.

Following the launch of the V12 Motor Finance dealer stocking product in the first half of the year, the Motor Transformation Programme has brought further product offerings close to fruition.

Sustain

To protect the reputation, integrity and sustainability of the Bank for all of our customers and stakeholders via prudent balance sheet management, investment for growth and robust risk and operational control. Controlled growth is one of the top strategic priorities for the Bank.

Objectives

- Optimising our capital and liquidity strategies
- Delivery of derivatives capability
- Controlled growth within risk appetite
- Improving operational resilience

Progress made in 2019

The balance sheet continued to strengthen, with improving impairment performance leading to a significantly reduced cost of risk.

We put in place a hedging programme towards the end of the year, using swaps to manage interest rate exposures and thereby allowing greater flexibility in balance sheet growth.

Love

To ensure that the fair treatment of customers is central to corporate culture and that the Bank is a highly rewarding environment for all staff and one where they can enjoy progressive careers.

Objectives

- Deliver high levels of customer satisfaction
- Maintain high levels of employee satisfaction
- Operate as a responsible business

Progress made in 2019

We won a number of awards in 2019 that show our commitment to customer service, particularly in respect of Savings as set out on page 39. The Group has also been awarded Feefo Gold Trusted Service Award, their highest accolade, for three years running and the Customer Service Excellence award for seven years running.

Based on employee feedback and external assessment, we were recognised as a UK Best Workplace™ in May 2019, at the Great Place to Work® annual awards.

Lending balances

+20.7%

Profit before tax

+11.5%

Comparisons are to the 31 December 2018 results

Focus for the year ahead

The onset of the COVID-19 crisis in 2020 has seen a significant fall in demand as we enter the second quarter.
While focusing on our existing customers, we are preparing for continued growth in our core products once the crisis lifts.

The Motor Transformation Programme continues and will result in the launch of additional products, both to consumers and motor dealers, once market conditions improve.

Performance measures

The key performance measures, shown on the following page, in relating to this theme, show the growth of the lending book and the margin that we earn on this lending.

Cost of risk

Reduced from

1.8% to 1.4%

CET1 ratio

12.7%

(2018: 13.8%)

Comparisons are to the 31 December 2018 results

Focus for the year ahead

Given the economic conditions associated with the outbreak, much of our focus has moved from new business to managing our existing portfolio, and to maintaining operational resilience.
Support is being offered to customers by way of payment holidays and other government initiatives.

Activity continues to widen the funding base and the digital services available to Savings customers.

Performance measures

Measures in respect of the Sustain theme focus on the control of operational costs, funding costs and impairment losses.
In addition, funding ratios are measured to ensure we are holding sufficient liquidity in relation to our loan books.
Regulatory capital metrics demonstrate our capacity to continue to grow while remaining well above regulatory limits.

Feefo ratings

4.7 stars

(2018: 4.7 stars)

Employee survey score

79%

(2018: 77%)

Comparisons are to the 31 December 2018 results

Focus for the year ahead

Throughout the crisis, our main focus will be on supporting colleagues, customers and business partners. Working practices have adapted significantly and, in this new environment, we will continue to focus on employee engagement, recognition and well-being.

We continue to invest in our Responsible Business Strategy, working with Business in the Community.

See page 54 for further details.

Performance measures

Our non-financial KPIs assess customer and employee satisfaction, as well as impacts on the environment.

Key performance indicators

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

The Remuneration Report, starting on page 82, sets out how executive pay is linked to the assessment of key financial and non-financial performance metrics. Certain KPIs represent alternative performance measures that are not defined or specified under IFRS. Definitions of the financial KPIs, their calculation and an explanation of the reasons for their use can be found in the Appendix to the Annual Report on page 189. In the narrative of this financial review, KPIs are identified by being in bold font. Further explanation of the non-financial KPIs is provided in the Managing our business responsibly section on page 52.

Margin ratios

Net interest margin %

Why we measure this

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

Net revenue margin %

Why we measure this

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

Gross revenue margin %

Why we measure this

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

Cost ratios

Cost of funds %

Why we measure this

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

Cost to income ratio %

Why we measure this

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

Cost of risk %

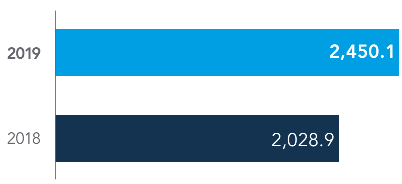
Why we measure this

Measures how effectively the Group manages impairment losses

Delivering

Loans

Loans and advances to customers £m



Why we measure this

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

Loan to deposit ratio %

Why we measure this

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

Total funding ratio %

Why we measure this

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

Adjusted profit

Adjusted profit before tax %

Why we measure this

Adjusts profit to improve comparability of information between reporting periods

Adjusted profit after tax %

Why we measure this

Adjusts profit to improve comparability of information between reporting periods

EPS

Basic earnings per share pence

Why we measure this

Demonstrates the earnings attributable to each shareholder

Adjusted basic earnings per share pence

Why we measure this

Demonstrates the earnings attributable to each shareholder, adjusted to improve comparability of information between reporting periods

Return ratios

Adjusted return on average equity %

Why we measure this

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

Adjusted return on required equity %

Why we measure this

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

Adjusted return on average assets %

Why we measure this

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

Non-financial KPIs

Customer FEEFO ratings Stars

(mark out of 5 based on star rating from 1,754 reviews. 2018: 1,175 reviews)

Why we measure this

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

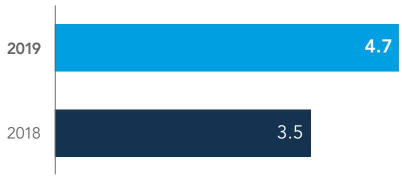
Employee survey trust index score %

(based on 2019 all staff survey)

Why we measure this

Indicator of employee engagement and satisfaction

Environmental intensity indicator



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

Why we measure this

Indicator of the Group's impact on the environment.

Please see page 58 for an explanation of the movement in this indicator, which is due to a change in measurement methodology

Financial review

Continuing to deliver strong profit growth

Adjusted profit reconciliation	2019 Total £million	2018 Total £million
Interest, fee and commission income	212.3	188.6
Interest, fee and commission expense	(46.8)	(37.0)
Operating income	165.5	151.6
Impairment losses	(32.6)	(32.4)
Operating expenses	(94.2)	(84.5)
Profit before tax	**38.7**	34.7
Adjustments to profit before tax (see below)	2.4	2.0
Adjusted profit before tax	**41.1**	36.7
Adjusted tax	(8.1)	(6.8)
Adjusted profit after tax	**33.0**	29.9
Adjusted basic earnings per share (pence)	**178.6**	161.8
Statutory results		
Profit before tax	**38.7**	34.7
Tax	(7.6)	(6.4)
Profit after tax	**31.1**	28.3
Basic earnings per share (pence)	**168.3**	153.2
Adjustments to profit before tax		
Fair value amortisation	0.2	0.3
Transformation costs	1.0	0.4
Bonus payments	0.1	1.3
Revaluation deficit	1.1	–
Adjustments to profit before tax	**2.4**	2.0

Profit and earnings

We have continued to deliver strong profit growth, despite the slowing of economic growth in the second half of the year. Statutory profit before tax rose to £38.7 million (2018: £34.7 million) and **adjusted profit before tax** rose to £41.1 million (2018: £36.7 million). This represents increases of 11.5% and 12.0% respectively.

Consequently, earnings per share rose from 153.2p per share to 168.3p per share. On an **adjusted earnings per share** basis, the increase was from 161.8p per share to 178.6 per share. Detailed disclosures of earnings per ordinary share are shown in Note 9.

Return measures

We measure **adjusted returns on average assets, average equity and required equity** as set out in the KPIs table on page 18.

The increase in profit year-on-year led to an increase in the **adjusted return on average equity**. The small decrease in the **adjusted return on average assets** was primarily due to the significant growth in assets over 2018 (29.2%). In 2019, the growth in profit was slightly higher than the growth of assets over the year (9.2%). As expanded upon below, the increase in **loans and advances to customers** was greater than the increase in profit, which led to a fall in the **adjusted return on required equity**.

The components of our profit are analysed in the following sections.

Interest, fee and commission income

Interest, fee and commission income is made up of interest income, which is predominantly earned on loans and advances to customers, and fee and commission income, which consists principally of fees from the OneBill, Commercial Finance, Retail Finance and Motor Finance products and commissions earned on debt collection activities in DMS.

Interest income was £191.4 million for 2019, increasing by 13.1% (2018: £169.2 million), which was driven by the growth of our loan books over the year. **Loans and advances to customers** increased from £2,028.9 million to £2,450.1 million over the year, a 20.8% increase.

Fee and commission income increased by 7.7% to £20.9 million (2018: £19.4 million).

The **gross revenue margin** reduced from 10.4% to 9.4%. This reflects two factors: the continued shift of our Consumer Finance business to lower risk lower return lending, the impact of which on impairments is noted below, and the change in the overall mix of lending during the year. While growth in higher margin Motor Finance and Retail Finance lending balances exceeded 15% year-on-year, this was lower than the more significant growth in the lower risk Business Finance portfolios.

Interest, fee and commission expense

Interest, fee and commission expenses is made up of interest expense, which is incurred in respect of deposits from customers, subordinated liabilities, TFS and index long-term repo ('ILTR') borrowings, and fee and commission expense, comprising mainly fees and commissions on the Motor product and commissions paid on debt collection activities in DMS.

Interest expense was £46.0 million (2018: £35.5 million for 2018), an increase of 29.6%. The **cost of funds** remained stable at 2.0% (2018: 2.0%). The increase in interest expense arises due to the Bank of England base rate rise during 2018 applying throughout 2019, and interest on the Tier 2 capital issued in 2018 also applying throughout the year.

Fee and commission expense was £0.8 million (2018: £1.5 million). The main reductions were in DMS and OneBill.

The Group's **net interest margin** reduced from 7.4% in 2018 to 6.5%% in 2019, primarily due to the continued shift to lower risk lending and the mix of business referred to above.

Operating income

Operating income increased by 9.2% to £165.5 million (2018: £151.6 million).

The **net revenue margin** for 2019 was 7.3% compared with 8.3% for 2018. The reduction in this margin is due to the factors referred to above.

Impairment losses

Impairment losses during the year were £32.6 million (2018: £32.4 million). The very modest increase in impairment losses, given the 20.8% increase in **loans and advances to customers** over the year, demonstrates the continued improvement of the quality of the loan book. The **cost of risk** reduced significantly from 1.8% in 2018 to 1.4%.

This improvement has arisen despite the fall in used vehicles valuations, noted in the 2019 Interim Report, which had increased credit loss provisions in respect of the Motor Finance portfolio. The impairment charge in respect of Motor Finance increased by 23.9% from £11.3 million to £13.8 million, driven in part by these valuations, on a book which grew by 17.1%. The credit quality of Motor Finance borrowers continued to improve over 2019. The accelerated recognition of losses brought about by the requirements of IFRS 9, particularly for growing books, has also been offset by the improvement in performance.

As in previous years, our impairment losses are focused almost entirely on the Consumer Finance businesses, with negligible losses incurred in the Business Finance portfolio.

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

Financial review continued

Further analysis of the Group's loan book and its credit risk exposures is provided in Notes 12,13,14 and 34.

Operating expenses

Operating expenses increased by 11.5% to £94.2 million (2018: £84.5 million). This growth is proportionately lower than the increase in our lending balances as efficiencies have been derived from increasing scale. Investment in lending businesses to support growth and in the Savings team to widen the product and digital offering have continued. We have also continued to invest in our compliance and risk functions, particularly in respect of the prevention of financial crime, and in IT infrastructure.

The Group's **cost to income ratio** increased from 55.7% in 2018 to 56.9%. However, the ratio for 2019 is impacted by two factors: one-off costs of £1.1 million in respect of the purchase of our Yorke House property in the year; and a change in accounting treatment for DMS which has classified £2.1 million of improvement in credit quality as an impairment gain, whereas in 2018 the equivalent improvement was treated as income. Without these two factors, the **cost to income** ratio would have improved slightly to 55.5%, with the **cost of risk** moving to 1.5%.

Derivatives and hedge accounting

Over 2019 we developed interest rate hedging capability and entered into a portfolio of derivatives, in order to manage interest rate risk. We adopted hedge accounting in order to mitigate the potential profit and loss volatility arising from movements in the fair value of derivatives. The Group's hedge accounting policy is described in Note 1.

Interest income and interest expense arising from the derivatives are disclosed in Note 4.

Taxation

The effective adjusted tax rate rose to 19.7%, which is higher than the currently enacted rate of 19%:

	2019 Effective adjusted tax rate £million	2019 Effective statutory tax rate £million	2018 Effective adjusted tax rate £million	2018 Effective statutory tax rate £million
Tax	**8.1**	**7.6**	6.8	6.4
Profit before tax	**41.1**	**38.7**	36.7	34.7
Effective rate (%)	**19.7%**	**19.6%**	18.5%	18.4%

The tax charge reflects Bank Corporation Tax Surcharge of 8% on taxable profits of Secure Trust Bank PLC in excess of £25.0 million. The effective rate in the year was also increased by a deferred tax debit of £0.2m arising from a reassessment of the rates that the deferred tax asset on the IFRS 9 transition adjustment will reverse out at over the next eight years. Future effective tax rates for the Group will be sensitive to the level of projected profit in the Bank and in other Group companies as well as the level of corporation tax. The tax charge reflects the enacted reduction in the corporation tax rate to 17% on 1 April 2020. The announcement in the Budget to reverse this reduction will cause the deferred tax asset to increase by £0.7 million. Current forecasts show the effective tax rate is expected to increase by up to 5%, given the reversal of the corporation tax rate reduction, over the forecast period as the effect of the banking surcharge becomes more significant.

Distributions to shareholders

Given the uncertainty in UK and global markets arising from the COVID-19 outbreak, the Directors do not recommend the payment of a final dividend for 2019. An interim dividend of 20 pence per share was paid on 27 September 2019. The total dividend for 2018 was 83 pence per share. The Group's dividend policy is set out on page 106.

Balance sheet

Our assets increased by 9.8% to £2,682.8 million. This was driven by the 20.8% growth in our loan portfolios, with levels of cash and debt securities lower than at the end of 2018.

Liabilities increased by 10.0% to £2,428.7 million. Deposits from customers increased by 9.3% and other funding by 17.1%, the latter primarily due to the

Summarised balance sheet

	2019 £million	2018 £million
Assets		
Cash and balances at central banks	**105.8**	169.7
Debt securities	**25.0**	149.7
Loans and advances to banks	**48.4**	44.8
Loans and advances to customers	**2,450.1**	2,028.9
Derivative financial instruments	**0.9**	–
Other assets	**52.6**	51.2
	2,682.8	2,444.3
Liabilities		
Due to banks	**308.5**	263.5
Deposits from customers	**2,020.3**	1,847.7
Tier 2 subordinated liabilities	**50.6**	50.4
Derivative financial instruments	**0.6**	–
Other liabilities	**48.7**	45.6
	2,428.7	2,207.2

raising of ILTR borrowings towards the end of 2019. Further details are provided in respect of this funding in the sections below.

Loans and advances to customers

Loans and advances to customers include secured and unsecured loans and finance lease receivables. The composition of the loan book remains broadly consistent with 2018, with the Consumer Finance book being approximately 49% of total lending (2018: 49% including Consumer Mortgages), and the Business Finance book being approximately 51% (2018: 51%).

Loan originations in the year, being the total of new loans and advances to customers entered into during the year, increased by 12.0% to £1,413.0 million (2018: £1,261.9 million). As in 2018, over half of the new business volume (£716.6 million) was generated by the Retail Finance business.

Further analysis of loans and advances to customers, including a breakdown of the arrears profile of our loan books, is provided in Notes 12,14 and 34.

Debt Securities

Debt Securities consist solely of sterling UK Government treasury bills ('T-bills'). The number of T-bills held reduced significantly over the year, from £149.7 million to £25 million, the higher level no longer being required as collateral against TFS drawings with the Bank of England.

Due to banks

At 31 December 2018, the amount due to banks consisted solely of drawings from the TFS. Towards the end of 2019, we added to this funding with £45 million of ILTR. This serves to provide the Group with an additional inexpensive funding buffer that can be used to fund new business.

Deposits from customers

Customer deposits include term, notice and sight deposits, as well as the OneBill product. A Fixed Term Cash ISA was added to the product set in 2019. Customer deposits grew by 9.3% during the year to close at £2,020.3 million, to fund increasing lending balances. As set out in the Capital and Liquidity section on page 24, we have managed down our funding balances in relation to lending balances. Deposit growth is therefore significantly lower than the growth in lending assets over 2019.

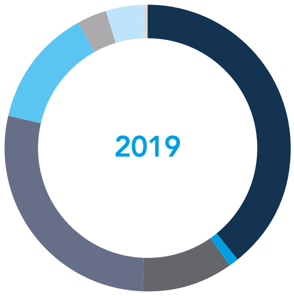
Tier 2 subordinated liabilities

Tier 2 subordinated liabilities represent two £25 million tranches of 6.75% Fixed Rate Callable Subordinated Notes, including interest accrued. Further details of the note issuances are provided in Note 28. The notes qualify as Tier 2 capital.

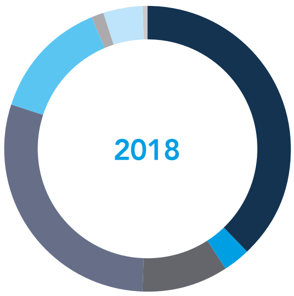
New accounting standards

IFRS 16 'Leases' became effective for the period beginning on 1 January 2019 and was adopted by the Group from that point. The standard replaces IAS 17 'Leases' and related interpretations, and sets out principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract: the lessee and lessor. Adoption of the standard has changed how the Group accounts for a number of its property leases and motor vehicle leases, where the Group is the lessee. The standard requires such leases to be recognised on the balance sheet as 'the lease liability' with the right to use the underlying asset ('the right-of-use asset') also recognised. We have elected to recognise the initial impact of implementing IFRS 16 through the opening balance of retained earnings and have not restated comparatives. Further detail is provided in Note 1.

Loans and advances to customers



Real Estate Finance	£962.2m
Asset Finance	£27.7m
Commercial Finance	£251.7m
Retail Finance	£688.9m
Motor Finance	£323.7m
Debt Management	£82.4m
Consumer Mortgages	£105.9m
Other	£7.6m
Total:	**£2,450.1m**



Real Estate Finance	£769.8m
Asset Finance	£62.8m
Commercial Finance	£194.7m
Retail Finance	£597.0m
Motor Finance	£276.4m
Debt Management	£32.3m
Consumer Mortgages	£84.7m
Other	£11.2m
Total:	**£2,028.9m**

Financial review
continued

Capital and liquidity

	2019 £million	2018 £million
Capital		
CET1 capital	**268.0**	251.8
Total Tier 2 capital	**50.0**	45.7
Total capital	**318.0**	297.5
Proposed dividend	**–**	11.8
Total capital after proposed dividend	**318.0**	285.7
Total Risk Exposure	**2,118.1**	1,824.6

	2019 %	2018 %
CRD IV ratios – excluding proposed dividend		
CET1 capital ratio	**12.7**	13.8
Total capital ratio	**15.0**	16.3
Leverage ratio	**9.8**	10.0
CRD IV ratios – after proposed dividend		
CET1 capital ratio	**12.7**	13.2
Total capital ratio	**15.0**	15.7
Leverage ratio	**9.8**	9.5

Typical risk weighting

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

The CET1 capital ratio is the ratio of CET1 capital divided by the Total Risk Exposure. The total capital ratio is total capital divided by Total Risk Exposure. Figures for 2019 and 2018 comparatives are both presented to reflect IFRS 9 transitional rules, details of which are provided below.

The Basel III leverage ratio is defined by the Capital Requirements Regulation as Tier 1 capital divided by on and off balance sheet asset exposure values, expressed as a percentage. The UK leverage ratio framework sets a minimum ratio of 3.25%. As shown in the table above, our leverage ratio remains comfortably ahead of the minimum requirement.

We have applied the IFRS 9 transitional rules. For 2019, this allows 85% (2018: 95%) of the initial IFRS 9 transition adjustment, net of attributable deferred tax, to be added back to eligible capital. Further information is provided in Note 37.

The Group's regulatory capital is divided into:

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

Capital resources increased over 2019, from £297.5 million to £318.0 million. This was driven by retained earnings growth, with the Group's subordinated notes issued in 2018 also becoming fully eligible as Tier 2 capital. The year-on-year reduction in the IFRS 9 adjustment restricted the increase in capital resources.

The Group has continued to invest capital to support lending growth. This investment, plus the impact of the IFRS 9 adjustment, results in lower CET1 and total capital ratios at the end of 2019 compared with the end of 2018. Ratios remain ahead of regulatory requirements.

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

The Group's Individual Capital Adequacy Assessment Process ('ICAAP') includes a summary of the capital required to mitigate the identified risks in its regulated entities and the amount of capital that the Group has available. All regulated entities within the Group have complied during the year with all of the externally imposed capital requirements to which they are subject.

The Total Capital Requirement, set by the PRA, includes both the calculated requirement derived using the standardised approach and the additional capital derived in conjunction with the ICAAP. In addition, capital is held to cover generic buffers set at a macro-economic level by the PRA. These buffers have risen significantly in recent years, with the requirement at 31 December 2019 being £74.0 million.

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

** A lower risk weighting than 100% is applied to Commercial Finance lending where the customer is a small to medium enterprise due to applying an 'SME factor'.

Capital requirements

	2019 £million	2018 £million
Total Capital Requirement	**212.0**	182.7
Capital conservation buffer	**52.9**	34.2
Countercyclical capital buffer	**21.1**	18.2
Total	**286.0**	235.1

Liquid assets

	2019 £million	2018 £million
Aaa – Aa3	**130.8**	319.4
A1 – A3	**3.8**	39.7
Baa2	**39.5**	–
Unrated	**5.1**	5.1
Liquidity exposures	**179.2**	364.2

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 set by the PRA
- estimated credit losses calculated using IFRS 9 methodology, and the applicable transitional rules
- new business volumes
- the product mix of new business

These last two factors are actively managed by the Group in order to balance growth, profitability and conservation of capital. The variation in the risk weightings applied to our key lending assets, and our willingness and ability to adapt our lending volumes and mix, provide significant flexibility in our management of capital. The recent announcements from the PRA, regarding the level of the countercyclical capital buffer have been factored into our plans.

Liquidity

We continued to hold significant surplus liquidity over the minimum requirements throughout 2019. High Quality Liquid Assets ('HQLA') are held in the Bank of England Reserve Account and UK Treasury Bills. Levels of HQLA reduced over the year, as we introduced more sophisticated analysis of liquidity requirements for new and existing products, allowing funding levels to be set on a more efficient basis. As a consequence, total liquid resources reduced from £364.2 million to £179.2 million.

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

- the Overall Liquidity Adequacy Requirement ('OLAR'), which is the Board's view of the Group's liquidity needs as set out in the Board approved Internal Liquidity Adequacy Assessment Process ('ILAAP')
- the Liquidity Coverage Ratio ('LCR'), which is a regulatory measure that assesses net 30-day cash outflows as a proportion of HQLA
- total funding ratio, as defined in the Appendix to the annual report
- for LCR purposes the HQLA excludes UK Treasury Bills which are encumbered to provide collateral as part of the Group's Term Funding Scheme with the Bank of England. On this basis, the HQLA at 31 December 2019 was £96.4 million (31 December 2018: £240.8 million)

We continue to manage liquidity on a conservative basis by holding HQLA and utilising predominantly retail funding from customer deposits. Details of how our savings product set and digital proposition have developed are provided in the Savings section of the Strategic Report on page 36.

Secure Trust Bank is a participant in the Bank of England's Sterling Money Market Operations under the Sterling Monetary Framework and has drawn £263.0 million under the TFS, this level being unchanged from that reported at 31 December 2018. Towards the end of 2019 we added £45 million of ILTR.

We have no liquid asset exposures outside of the United Kingdom and no amounts that are either past due or impaired.

Business review

Business Finance

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

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

Asset Finance
Funding to purchase commercial assets, currently closed to new business.

2019 Performance
Strong growth, focused on Real Estate Finance and Commercial Finance, has continued to generate increasing revenues with very low impairment losses.

2019 Total Business Finance Lending

£1,241.6m

2018: £1,027.3 million

Increase in Business Finance Lending

20.9%

2018: 24.7%

PAPA's got a brand new bank

The owners of London-based PAPA Architects have realised their ambitions to build an investment portfolio, with a £7million loan from Secure Trust Bank's Real Estate Finance team.

Our development to investment product allowed PAPA to build and retain a 64-unit student accommodation scheme at Chesnut Road, Tottenham.

Andrew Paps, Managing Director at PAPA, said: "As architects most of our work is for third party developers. We have a long-held ambition to develop out our own schemes and build an investment portfolio and it's great to realise this at Chesnut Road."

Matthew-Blaine Young, Relationship Director at STB REF, said: "Our development to investment product is popular with developers who wish to retain assets within their own portfolio. This product gives borrowers term certainty, as they don't have to find another lender once the development is complete and can also benefit from cost savings on fees."

> Your trust has enabled us to save the company, the jobs and protect your position too."

Garry Wilson
Managing Partner, Endless llp, Commercial Finance partner

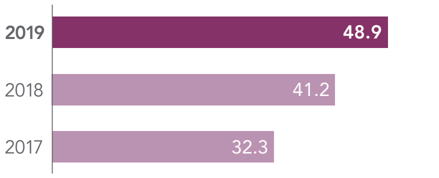
Business review

Business Finance continued

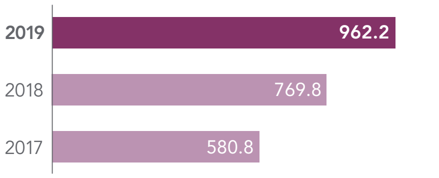
Real Estate Finance

Revenue and lending performance vs prior years

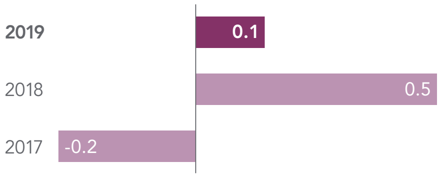
Lending revenue



Lending balance



Impairment charge



What we do: Residential Development

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

Residential Investment

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

Other lending

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

How we do it

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

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

2019 performance

We have continued to grow our Real Estate Finance business, with balances up 25% in 2019, generating a 19% increase in revenue. The rate of growth slowed in 2019 due to an increase in repayments in the year, coupled with the impact of the change in mix of the book, with development lending reducing to 25% of the book during 2019.

The credit quality of the book has however remained strong, with no crystallised impairments. In addition, we have been able to successfully manage two cases with full repayment. The overall LTV of the portfolio has also remained stable, reflecting the cautious approach taken by the business in 2019 due to the uncertain market conditions. The effect of the above has been to see no increase in impairment provisions in the year.

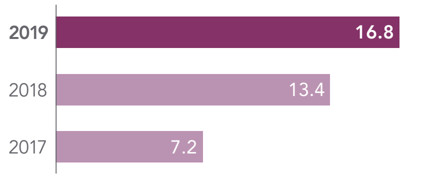
Looking forward

The business remains focused on effective risk management, and ensuring that we continue to support our customers. Our experienced team remains able to manage opportunities and threats in a timely manner. We will manage our appetite in respect of growth opportunities to reflect market conditions.

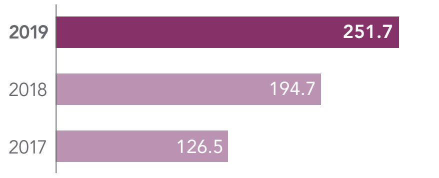
Commercial Finance

Revenue and lending performance vs prior years

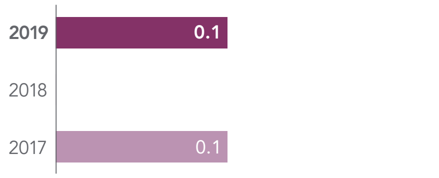
Lending revenue



Lending balance



Impairment charge



> "Secure Trust Bank took the time to understand our business model and was able to take a flexible and common sense approach to the lending criteria."

David Robinson
CFO, The Lakes Distillery

What we do

Commercial Finance specialises in providing a full range of invoice financing solutions to UK businesses including invoice discounting and factoring.

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

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

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

How we do it

Commercial Finance complements the broader SME lending proposition which has been developed by the Group. The business also provides SME commercial owner occupiers with finance to buy the property they trade from in conjunction with other financing facilities.

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

2019 performance

We have continued to grow the Commercial Finance business, with lending balances again increasing significantly by 29% in 2019, generating a 25% increase in revenue. The close management and prudent approach to credit risk has ensured that where client administrations have occurred the related collect out fees have far exceeded any actual impairment losses, which are much lower than industry average, well below 0.1% of lending balances.

Whilst the cost base is proportionally very low, the regional presence of the business was extended in the year with key recruits across its Manchester, Leeds, Birmingham and London offices.

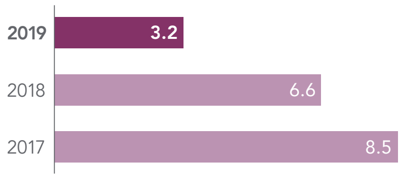
Looking forward

The success of the implementation of the regional model seen in the year will be built on in 2020. Whilst we plan to expand the product base to further penetrate the existing market we operate in, the immediate focus is on the impact of COVID-19. The close management of our existing client base will be key and we are already supporting businesses via Coronavirus Business Interruption Loan Scheme lending.

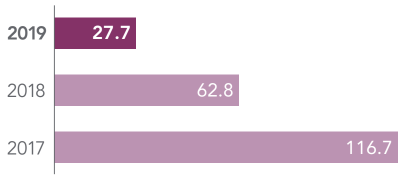
Asset Finance

Revenue and lending performance vs prior years

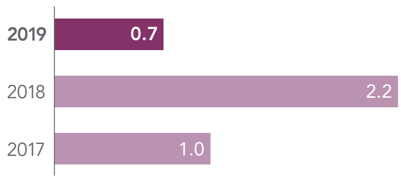
Lending revenue



Lending balance



Impairment charge



What we do

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

How we do it

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

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

2019 performance

Following the decision to cease new business in 2018, the portfolio has continued to run off with lending balances continuing to reduce in 2019, down by 56% against 2018, and 36% in H2 2019. This reduction in balances has then led to the drop-off of income seen in 2019 with income being 52% lower in 2019. The overall contribution from the business has however been aided by lower impairment levels, with the charge reducing by £1.5 million (68%) in 2019, reducing the cost of risk by 55 bps. This reflects the continued robustness of the portfolio and the close management of collections.

Looking forward

We ceased originating Asset Finance business in 2018. We expect the book to continue to reduce in 2020.

Business review

Consumer Finance

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

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

Debt Managers (Services) Limited
Debt collection for the Group and external clients.

Consumer Mortgages
Lending to individuals to purchase a property or remortgage their current property, currently closed to new business.

2019 Performance
Continued growth, driving revenue with well controlled impairments, as the Motor Transformation Programme starts to deliver benefits.

2019 Total Consumer Finance Lending

£1,200.9m

2018: £990.4 million

Increase in Consumer Finance Lending

21.3%

2018: 30.5%

V12 Vehicle Finance
Powered by Secure Trust Bank

Customer Testimonial

"Overall the V12 dealer funding platform has substantially helped me grow my business, with a 25% increase in revenue within the last 6 months of having the facility actioned. During the COVID-19 lockdown, I was quite worried on how V12 as a funding partner would help me through this uneven economic disaster, however they came out great, all capital repayments were placed on hold until further notice with only interest repayments due. In all fairness without the support from V12 and their care package in place, I would have found it very difficult, but they were great. Our account manager was on hand and only a phone call away to help with any issues.

I look forward to continuing to grow my business with V12 once the COVID-19 lockdown has finally come to an end."

Umare Malik
Managing Director, Auto Motion Peterborough Ltd

“

A very fast and very smooth service. I would recommend V12 and I would definitely use them again.”

Customer feedback from Feefo on V12 Retail Finance, 2019

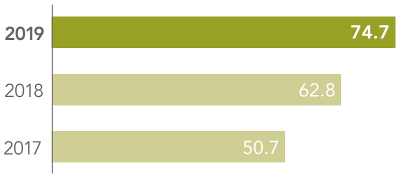
Business review

Consumer Finance continued

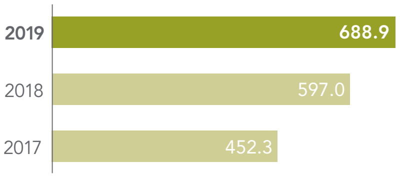
Retail Finance

Revenue and lending performance vs prior years

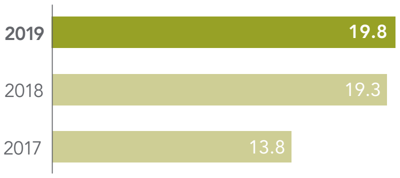
Lending revenue



Lending balance



Impairment charge



"Always brilliant to deal with. Quick and reliable, been using V12 for a few years. 5 stars all day."

Customer feedback from Trustpilot on V12 Retail Finance, 2019

What we do

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

Retail Finance products are unsecured, fixed rate and fixed term loans, to UK residents with a good credit history, of up to 84 months in duration with a standard maximum loan size of £25,000. The average new loan is for £1,100 over a 24-month term.

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

How we do it

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

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

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

2019 performance

Growth across each of the three largest sub-markets for the Retail Finance business (sports and leisure, furniture and jewellery) has resulted in new gross lending volumes increasing to £716.6 million, an increase of 10% on the previous year. This has driven a further significant increase in lending assets, which during the year rose to £688.9 million (December 2018: £597.0 million). Overall growth has been achieved through a combination of gaining increased market share and sector growth.

A combination of continued investment in technology, focus on customer experience and retailer needs has led to us increasing market share from 6.8% in 2018 to 8.0%% in 2019 (based on Finance & Leasing Association new business values within retail store and online credit).

Despite margin pressures from new entrants to the market, the growth in lending assets has increased revenue by 19% to £74.7 million (2018: £62.8 million).

Improvements in credit quality have limited impairment losses to £19.8 million (2018: £19.3 million) despite the significant loan book growth.

Customer feedback, measured by Feefo, provided the business with a consistent score of 4.8 out of 5 for the year, based on 1,000 reviews (2018: 4.8 based on 400 reviews). Customer feedback, measured by Trustpilot, provided the business with a five star rating based on 1,200 reviews.

Looking forward

During 2020 we envisage reduced volumes across the majority of retail sectors impacted by COVID-19 due to social distancing rules which have led to the closure of shops and placed restrictions on some warehouse and manufacturing facilities. Our online e-commerce service to retailers mitigates the impact of COVID-19 in many sectors, especially cycle, outdoor/leisure and electronics.

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

V12 has been awarded the Feefo Platinum Award in the Feefo 2020 Annual Trusted Service Awards. The platinum award recognises businesses that have achieved three consecutive years of Gold Trusted Service ratings of 4.5 or higher.

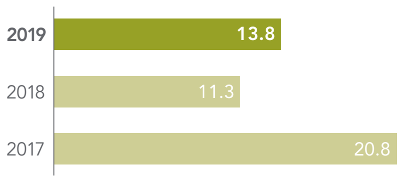
Motor Finance

Lending performance v prior years

Revenue

Lending balance

Impairment charge



"Quick, easy, smooth transaction with excellent customer service and communication. Highly recommend."

Customer feedback from Trustpilot on V12 Motor Finance, 2019

What we do

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

In 2019 the Motor Finance business launched a new brand, V12 Vehicle Finance, and a new Used Vehicle Stocking product in partnership with Aston Barclay Auctions. The product allows dealers to finance vehicles on their forecourt which have been purchased through Aston Barclay Auctions.

Motor Finance agreements are secured against the vehicle being financed.

We ceased writing new business in the subprime market and predominantly lend to finance the purchase of volume franchise used cars in the near-prime market.

How we do it

We distribute our Motor Finance products via UK motor dealers, brokers and internet introducers. New dealer relationships are established and managed by our UK-wide Motor Finance sales team with all introducers subject to a strict vetting policy, which is reviewed on a regular basis.

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

Motor lending is administered in Solihull, however the UK motor dealers and brokers are UK-wide.

2019 performance

Our business has continued to focus on narrowed credit parameters in order to reduce potential future impairment losses. New business volumes in 2019 reflect lower margins but higher credit quality. New business volumes from consumers increased from £141.3 million in 2018 to £178.2 million for 2019. Revenue increased slightly, by 2.5%, reflecting the reduction in margin for higher credit quality business.

The impairment charge for the period has increased from £11.3 million in 2018 to £13.8 million in 2019. The level of charge was impacted by the reduction in used vehicle prices seen in 2019. Overall credit quality has improved as noted above, and the probability of default of the portfolio has reduced significantly since the implementation of IFRS 9 at the beginning of 2018.

Following the launch of the new Used Vehicle Stocking product in July 2019, there were £1.5 million of lending balances in respect of this product at the end of 2019.

Looking forward

Restrictions imposed during the COVID-19 lockdown have resulted in used vehicle sales, and as a result new used vehicle finance, largely halting. The Motor Finance business has therefore taken the decision to cease funding new agreements during this period and to focus on servicing existing customers.

Looking forward we retain the view that a clear opportunity exists to deliver prime and near-prime products and services in the Motor lending market for an innovative and technology-led funding provider. Our Motor Finance business will re-enter the near prime credit market and will also be expanding into the prime credit market. A programme of work is underway to deliver a new platform and business transformation through 2019/2020 with £6.5 million already invested since the programme started in 2018. As part of this programme we are enhancing system capabilities to deliver a broader range of products. Planned product development includes launch of a PCP and Prime Hire Purchase product and technology integrations with a panel of auction partners. We have also integrated with a leading dealer management system provider in the independent dealer space, to make dealing with our Motor Finance business an easy process. Overall, these investments are expected to improve the credit quality of the portfolio, drive business growth and deliver stable earnings. Alongside these initiatives, we will continue to focus on the near-prime market sector through our existing introducer channels.

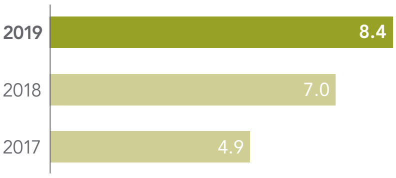
Business review

Consumer Finance continued

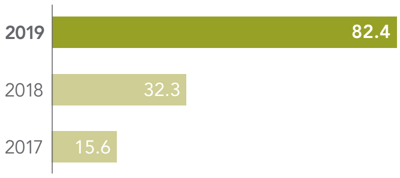
Debt Managers (Services) Limited

Revenue and lending performance vs prior years

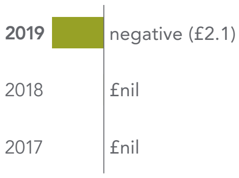
Lending revenue



Lending balance



Impairment charges



"Made me feel completely at ease and feel like a huge weight was lifted."

Customer feedback from DMS customer, 2019

What we do

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

How we do it

Debt Managers (Services) offers three services across credit management and in order to meet the needs of its clients:

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

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

2019 performance

2019 saw significant levels of growth for DMS due to the entering of new target markets assisted by leveraging its commitment to customer service and new technologies. Lending balances more than doubled which delivered strong revenue and profit growth in 2019.

In the year, performance of externally purchased portfolios continued to be very strong, with actual collections far exceeding those forecast at the pricing stage. Consequently an impairment credit of £2.1 million was taken, recognising that outperformance.

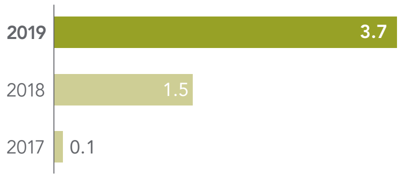
Looking forward

The start of 2020 was very positive as a result of the high lending balance brought forward. This, together with excellent client and customer feedback, will help us to continue to develop the business and support our customers throughout the challenging period ahead.

Consumer Mortgages

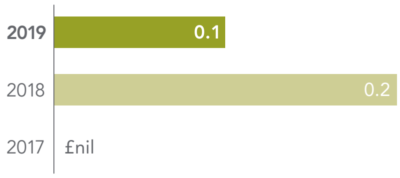
Revenue and lending performance vs prior years

Lending revenue



Lending balance

Impairment charges



Consumer mortgages represents fixed rate mortgages provided to individuals, to purchase a property or remortgage their current property. We ceased originating new consumer mortgages in the first quarter of 2019. The pipeline of new business was fulfilled in the first half of the year and balances at the end of year were £105.9 million (31 December 2018: £84.7 million).

Business review

Savings

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

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

2019 Performance

Strong customer and balance growth within a controlled risk appetite, introducing new products to move to lower long-term cost of funds.

2019 Total customer deposits

£2,020.3m

2018: £1,847.7 million

Increase in total customer deposits

9.3%

2018: 24.6%

“Offered an excellent service, top rate for my money and keep me regularly informed of my investment.”

Customer feedback from Feefo on Deposits, 2019

Savings customer balances top £2 billion

The Group achieved £2 billion deposited in Savings balances in 2019, a substantial achievement post the launch of its new IT platform only three years ago to introduce new digital services and enhance operational efficiency and controls.

The achievement comes alongside the launch of new products, including shorter dated notice accounts, Fixed Rate Cash ISAs and soon, Access Accounts. This ensures the Group has access to some of the largest liquidity pools in the UK and significantly diversifies its addressable UK savings market.

Director of Banking and Marketing, James Paterson, said: “Savings deposited with our organisation reached an all-time high this year. This is a significant milestone for STB Group because the growth of our Savings business is also a reflection on the success of our lending businesses.

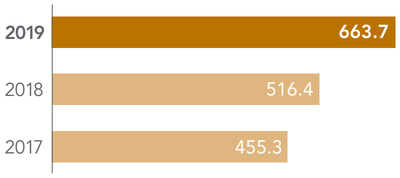
“The news follows the launch of our new products, including Fixed Rate Cash ISAs, as well as numerous customer award wins, so this is continued evidence that the efforts of the savings team are reaping success. These are achievements the whole team can be proud of!“

Business review

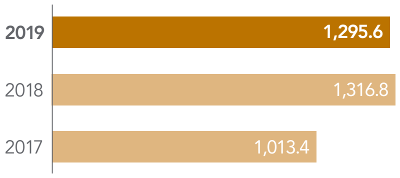
Savings continued

Savings balances vs prior years

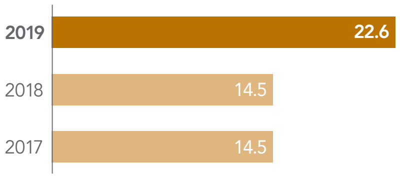
Notice deposits



Fixed term savings



Sight/Instant access



Individual savings accounts

Easy to set up, excellent rates and website easy to navigate."

Customer feedback from Feefo on Deposits, 2019

What we do

We offer a range of savings, including simple and straightforward Notice and Fixed Bond accounts. We extended our product offering in 2019, launching our first Fixed Term Cash ISA in April and developing an Access Account for launch in 2020. These products are all available to UK-based individuals saving with a minimum deposit of £1,000. We have also historically offered business accounts priced to reflect the associated costs and risks.

All products offered by the Group are covered under the UK Financial Services Compensation Scheme, up to the specified limit of £85,000. The full suite of accounts are made consistently available and are priced in line with our ongoing funding needs, allowing individuals to hold a maximum balance of £1 million, and £2 million for joint and business accounts.

In addition to savings, we continue to service OneBill for existing customers; this has been closed to new customers since 2009. This service is designed to help customers with household budgeting. For a monthly fee, details of annual bills are aggregated and calculated into a fixed weekly or monthly schedule. This enables customers to spread the cost of their bills throughout the year, accessing direct debit discounts as well as support in liaising with providers.

How we do it

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

We aim to maintain a full suite of savings products at all times, covering Access, 14 to 180 day Notice, 1 to 7 year Fixed Bonds and Fixed Rate ISAs. This enables us to access most of the UK personal savings market and compete for significant liquidity pools, achieving a lower marginal cost with the volume, mix and the rates offered optimised to the demand of our funding needs.

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

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

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

2019 performance

Following the implementation of the core banking platform in late 2017, and positive results in 2018, 100% of our new customers now apply for a savings product online and all register for Internet Banking as part of the process, demonstrating an important shift in operational efficiency. Indeed, over 38,000 customers are now registered for Internet Banking, representing 81% of the total customer base.

Savings balances are growing at a strong pace. In 2019, we grew our retail savings by £172.6 million, an increase of 9% – equivalent to nearly £5.50 every second. Over 58% of our customers chose to reinvest their savings into Secure Trust Bank retention product offerings, equating to almost £280 million. At year-end, the total balance of savings customer deposits was over £2 billion, £560 million of which was received during the year across over 40,000 deposit transactions.

Following the launch of short-dated Notice Accounts in 2018, balances increased throughout 2019 whilst we also launched our Fixed Term Cash ISA and developed our Access Account. The ISA contributed to the largest monthly inflow of new funds on record, with over £122 million deposited in Savings accounts during June 2019.

We once again won a number of independent awards, including Best Savings Provider, Best Fixed Rate Bond Provider and Best Notice Account Provider from Savings Champion, as well as Best Notice Account Provider from Moneyfacts.

Customer experience is of great importance, which is why the Savings team was delighted to have achieved a rating of 4.5 out of 5 on Feefo and 4.3 out of 5 on Trustpilot, making the Group one of the best providers amongst savings brands.

Looking forward

In 2020, we are focused on continuing to improve all aspects of our digital services for both new and existing Savings customers. Key areas of focus will be streamlining the application journey for both new and existing customers, making it easier for customers to stay with us when their bond matures, and introducing new functionality for customers servicing their accounts online.

This move, as well as the digitisation of large scale customer communications, should continue to improve customer experience leading to cost efficiency.

Our recently developed Access Account is now ready to offer to both existing and new customers and we plan to continue to investigate how to help more people access our products and broaden our product range to support those customers who want to drawdown their savings in retirement. These offerings will help to deliver our aim of increasing product holdings to improve the stability of funds through deeper customer relationships.

Secure Trust Bank has already been recognised by customers through its strong levels of online review scores as well as in the Savings Champion Awards 2020, winning the Best Notice Account Provider category and also being highly commended in the Best Savings Provider category. We look to continue this recognition through the ongoing delivery of simple, competitive products and great customer experience throughout 2020.

Principal risks and uncertainties

Risk overview

On an ongoing basis, the Directors carry out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity. The following were considered to be the principal risks facing the Group in 2019:

Principal Risk	Movement in 2019
Credit Risk The risk that a counterparty will be unable to pay amounts in full when due.	↑
Liquidity and Funding Risk The risk that the Group is unable to meet its obligations as they fall due or can only do so at excessive cost.	↑
Operational Risk The risk of direct or indirect loss arising from a wide variety of causes associated with the Group's processes, personnel, technology and infrastructure, and from external factors other than the risks identified above.	→
Capital Risk The risk that the Group will have insufficient capital resources to support the business.	→
Market Risk The risk that the value of, or revenue generated from, the Group's assets and liabilities is impacted as a result of market movements, predominantly interest rates.	↑
Conduct Risk The potential for customers (and the business) to suffer financial loss or other detriment through the actions and decisions made by the business and its staff.	→
Regulatory Risk The risk that the Group fails to be compliant with all relevant regulatory requirements.	→

Notes 34 to 37 to the financial statements provide further analysis of certain financial risks.

Further details of the principal risks, the changes in risk profile during the 2019 financial year and the Group's risk management framework are set out in the following section. There is also analysis of the key strategic and emerging risks which impact the Group. As for the previous year, these risks also include the UK's withdrawal from the European Union, the direct impacts of which are considered to be limited given the Group's UK operation and focus. Consideration is also given to risks arising from climate change. **Emerging risks include the impact of COVID-19, which as a matter emerging post year-end, is not reflected in the risk status movements shown above.**

Key to symbols

↑ Improved

→ Stable

↓ Worsened

Credit Risk – IMPROVED

Description

Credit Risk is the risk that a counterparty will be unable to satisfy their debt servicing commitments when due. Counterparties include the consumers to whom we lend on a secured and unsecured basis and the SMEs to whom we lend on a secured basis as well as the market counterparties with whom we deal.

Mitigation

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

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

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

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

Forbearance

Throughout 2019, our policy was not to routinely reschedule contractual arrangements where customers defaulted on their repayments. In cases where customers were offered the option to reduce or defer payments for a short period, the loan retained the normal contractual payment due dates and would be treated the same as any other defaulting cases for impairment purposes. Forbearance arrangements in respect of Consumer Mortgages customers are described in Note 34.2.

Change

Consumer Finance Credit Risk

Application trends, arrears and loss trends for the Retail Finance Portfolio are monitored monthly by the Credit Risk Team. The portfolio quality has been improving throughout 2019, leading to a reduction in cost of risk from 1.8% to 1.4%, and we implemented a new artificial intelligence scorecard in the third quarter of 2019 which is expected to reduce impairments even further. Recent changes to the mix of retail market segments served by Retail Finance are expected to improve portfolio quality over time.

Our Motor Finance business has continued to grow despite a very competitive landscape. We have continued our strategy of repositioning the Motor Finance business away from those customers that are most susceptible to an economic downturn. We have expanded the Motor Finance product range to include a unit stocking product, to provide short-term finance to motor dealers so that they can buy stock. In 2020, the Group expects to launch a prime Hire Purchase ('HP') and Personal Contract Purchase ('PCP') product offering. The PCP offering will introduce a new risk for the Group, with potential for losses should the residual value of the vehicles at the end of the agreement be less than expected at inception of the contract. We have recruited specialists, introduced additional governance over acceptance criteria and specified appropriate levels of buffer within residual value calculations, to mitigate this risk.

In the first quarter of 2019 due to the difficult economic climate, increased competition and continued uncertainties we announced the decision to cease new mortgage originations until market conditions improve.

Business Finance Credit Risk

Lending balances in both the Real Estate Finance and Commercial Finance portfolios have continued to grow, with both portfolios remaining well within all key risk appetite measures. The ongoing focus on high quality, secured lending has continued to serve the Group well.

Following the change in ownership of Haydock, in January 2018, the Asset Finance portfolio has continued to run-off over the course of the year in line with expectations. We continue to assess its options with regards to future opportunities within the Asset Finance market.

We have not relaxed any of our key risk appetite parameters during the year and thanks to the continued adherence to our robust lending policies, alongside the significant experience within the lending teams, impairments within the Business Finance portfolios have remained minimal in the period. Management continues to monitor each of the portfolios closely and regularly reviews the external events and changes to the wider environment that could have a material impact on any of them.

Concentration Risk

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

Principal risks and uncertainties continued

Liquidity and Funding Risk – IMPROVED

Description

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

We manage our liquidity in line with internal and regulatory requirements, and at least annually assess the robustness of the liquidity requirements as part of the Group's Internal Liquidity Adequacy Assessment Process ('ILAAP').

Mitigation

Risk tolerance

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

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

To meet our liquidity requirements we maintain a buffer of unencumbered High Quality Liquid Assets ('HQLA').

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

- Liquidity Risk Appetite: to maintain a sufficient pool of high quality liquid resources at all times to survive a combined stress event for a minimum survival horizon of at least 90 days, including any peak requirement over the 90-day stress period; and meet the higher of the internal stress test (OLAR) and the regulatory requirement (LCR) plus any applicable Pillar 2 add-ons
- Funding Risk Appetite: STB's Funding Risk Appetite is to ensure that the Group has access to stable funding markets and is not reliant on any single source of funding. STB places no material reliance on wholesale funding markets. The Group's primary source of funding is retail deposits from individuals and SMEs

We assess and formally demonstrate the adequacy of our liquidity through the ILAAP. As part of the ILAAP, we conduct regular and comprehensive liquidity stress testing to ensure compliance with internal and regulatory requirements.

Structure and responsibilities for Liquidity Risk management

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

Internal liquidity reporting

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

The Liquidity Working Group ('LWG'), a working group of ALCO, embeds the identification, monitoring, measurement and management of Liquidity and Funding Risks in the day-to-day activities of the Bank.

The aim is not to measure liquidity and funding with a single metric but rather a range of principles and metrics which, when taken together, helps ensure that our Liquidity and Funding Risk is maintained at an acceptable level.

The primary measure used by management to assess the adequacy of liquidity is the OLAR which, in line with the PRA's self-sufficiency rule described above, is the Board's own view of the Group's liquidity needs as set out in the Board approved ILAAP.

Communication of Liquidity Risk strategy, policies and practices across business lines and with the Board

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

Liquidity and Funding Risk management framework

We maintain a comprehensive internal reporting framework which seeks to mitigate Liquidity and Funding Risk:

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

Liquidity and Funding Risk continued

Stress testing
A comprehensive stress testing framework is used to support Liquidity and Funding Risk measurement and takes into account all known sources of liquidity and funding risks as documented within the ILAAP (and as updated upon changes in material risks). The stress testing covers Idiosyncratic, Marketwide and Combined stress scenarios, with additional stress scenarios including reverse stresses, tailored to our business model and operating environment.

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

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

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

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

Change

We have maintained our liquidity ratios in excess of regulatory requirements throughout the year and continue to hold significant levels of HQLA.

We made a number of enhancements to the liquidity and funding risk governance framework in 2019. These include approval of a revised policy framework by the Board and additional analysis of liquidity requirements for new and existing products.

The stress tests performed as part of the ILAAP confirmed that the Group has sufficient funds to satisfy the OLAR requirement and there is no significant risk that liabilities cannot be met as they fall due. Our LCR at 31 December 2019 was significantly higher than the regulatory requirement.

Principal risks and uncertainties continued

Operational Risk – STABLE

Description

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

The scope of Operational Risk is broad and includes Business process, Business Continuity, Third party, Financial Crime, Change, Human Resources, Information Security and IT risk, including Cyber Risk.

Mitigation

We have adopted an Operational Risk Policy and Framework designed in accordance with the 'Principles for the Sound Management of Operational Risk' issued by the Basel Committee on Banking Supervision.

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

We have a defined set of qualitative and quantitative Operational Risk appetite measures. Quantitative measures cover operational losses, complaints, key operational risks, systems availability and information security. The appetite measures are reported and monitored on a monthly basis.

Change

In 2018 the Group successfully transitioned to 'The Standardised Approach' for assessing its Operational Risk capital, in recognition of the enhancements made to its framework and embedding this across the Group. In 2019 we have continued to enhance these standards and have introduced a number of improvements to the control frameworks in place across our principal operational risks.

Key risk themes of Operational Risk focus in 2019 include:

- **Supplier Management** – The Group uses a number of third parties to support its IT and operational processes. We recognise that it is important to effectively manage these suppliers and have embedded a suite of standard controls for all our material suppliers to reduce the risk of operational impacts on these critical services. Further tools have been developed, and are being rolled out, to help understand the quality of the resilience controls in operation at our critical suppliers. We have also enhanced our assurance capability with the recruitment of a dedicated resource in this area. This will continue to be an area of focus for 2020
- **Operational and IT Resilience** – Many elements of the Operational Risk Framework support the ongoing resilience of our operational and IT services, including Business Continuity Management, Disaster Recovery, Incident Management, Process Management and the Cyber Strategy. We have defined a formal plan to respond to the new requirements of the Consultation Papers issued on this subject by the FCA and PRA. Compliance with these requirements and continuing to enhance the resilience of our services will be a key priority in 2020
- **Information Security and Cyber Risk** – We have paid considerable attention to ensuring the effective management of risks arising from a failure or breach of our information technology systems that could result in customer exposure, business disruption, financial losses, or reputational damage
- **Change Management** – The effective delivery of Change Management programmes plays an important role in meeting our regulatory requirements, improving services and implementing strategic decisions. Ineffective change management processes could lead to poor customer outcomes, business disruption, financial loss and regulatory breaches. Change Management processes and governance are defined and embedded within the Group. Significant changes are planned in 2020, including delivery of dealer stocking and the prime proposition as part of the Motor Finance transformation, and these will be a key area of focus to ensure we maintain our customer and operational service standards and deliver our strategic objectives

Capital Risk – STABLE

Description

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

Mitigation

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

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

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

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

A complete assessment of the Group's capital requirement is contained in its Pillar 3 disclosures. Pillar 3 disclosures for the Group for the year ended 31 December 2019 are published as a separate document on our website.

Change

We maintained our capital ratios in excess of regulatory requirements throughout the year. At 31 December 2019, the CET1 ratio was 12.7% (2018: 13.8%), the total capital ratio was 15.0% (2018: 16.3%) and the leverage ratio was 9.8% (2018: 10.0%) on a Group consolidated basis. We have continued to invest capital to support lending growth.

Capital resources increased during the year to £318.0 million as at 31 December 2019 (31 December 2018: £297.5 million) on a Group consolidated basis. The increase was due to retained earnings.

We have continued to explore options available to raise alternative forms of capital as and when such is required. The recent announcements from the PRA regarding the countercyclical capital buffer, which has now been reduced to 0% as part of the COVID-19 response, have been considered and factored into our plans.

The 2019 ICAAP demonstrated the Group's continued ability to meet its minimum capital requirements, even in severe stress scenarios. Our forecasting capability covers a five-year time horizon, with modelling of capital resources and requirements provided over that period. The relatively short duration of our lending portfolios allows us to flex balance sheet growth if required in times of stress, thereby conserving capital.

We adopted transitional provisions in respect of the implementation of IFRS 9, as set out by the European Banking Authority. These provisions allow the capital impact of the standard to be phased in over a five-year period. Further details are provided in Note 37.

Principal risks and uncertainties continued

Market Risk – IMPROVED

Description

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

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

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

Mitigation

We maintain a comprehensive internal reporting framework which seeks to mitigate interest rate risk:

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

Market Risk is managed by the Group's Treasury function and is overseen by the ALCO. We do not take significant unmatched positions and do not operate a trading book.

Our risk management framework, policies and procedures are regularly reviewed and updated to ensure that they accurately identify the risks that we face in our business activities and are appropriate for the nature, scale and complexity of our business.

The Group uses an Interest Rate Sensitivity Gap analysis to identify mismatched interest rate risk positions that require hedging. The Group reports the interest rate mismatch to ALCO and the Board on a monthly basis in the form of a Market Value Sensitivity and Economic Value of Equity to a parallel 200 basis point rise and fall in the yield curve. Risk appetite for Market Value Sensitivity is calibrated against the amount of capital resource available to the Group. The Group's Earnings at Risk is also calculated monthly against a 100 basis point parallel stress and reported to ALCO and the Board.

All such exposures are maintained within the risk appetite set by the Board and are monitored by ALCO. The Group also monitors its exposure to optionality and basis risk.

Change

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

The increasing size of our balance sheet increases the inherent level of interest rate risk, and we have responded by enhancing our Treasury capabilities and risk framework. The Group has developed its capability to use interest rate swaps to further mitigate interest rate risk in 2019.

The Group is embedding new regulatory guidance on Interest Rate Risk in the Banking Book, as prescribed by the European Banking Authority.

We consider the enhanced framework, and particularly the introduction of derivatives capability, to have led to a reduction in the Group's market risk position.

Conduct Risk – STABLE

Description

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

Mitigation

We take a principles-based approach and include retail and commercial customers in our definition of 'customer', which covers all business units and both regulated and unregulated activities.

Across the Group, Conduct Risk exposure is managed via monthly review of key risk indicators ('KRIs') at business units' executive committee meetings and aggregated reporting to the Group Executive Committee. Oversight is provided by the Customer Focus Committee, which considers complaints, Feefo and Customer Service Excellence as well as Conduct Risk.

The KRIs vary across the business units to reflect the relevant conduct risks; the business units' key risk indicators are aggregated for measurement against our risk appetite, which is also reported to the Risk Committee and the Board.

Change – STABLE

Review of Conduct Risk and controls within the business units is managed through the regular cycle of risk and control self-assessments, in line with other operational risk categories.

Members of the Customer Focus Committee review key risk indicators across all business units, and meet on a quarterly basis for oversight and challenge of the first line activities to assure senior management that the first line is identifying conduct risks when they arise and taking appropriate actions to mitigate them.

Training on Conduct Risk continues to be delivered to new starters, with an eLearning module completed by all staff during the year.

Regulatory Risk – STABLE

Description

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

Mitigation

We seek to manage regulatory risks through the Group-wide risk management framework. The Group Compliance and Regulatory Risk Committee is responsible for reviewing and monitoring regulatory changes, and ensuring that appropriate actions are taken, and also reviewing and approving the Compliance universe and risk management framework.

Further details can be found on the Group's website:

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

Change

In the year ended 31 December 2019, we have delivered changes to address new and revised regulations and legislation that have come into force including extending the Senior Managers and Certification Regime to the Group's regulated subsidiaries; European Banking Authority guidelines on security measures for operational and security risks and fraud reporting under PSD2; Buy Now Pay Later and Financial Promotions changes in consumer credit; widening access to the Financial Ombudsman for small businesses; supporting the Group through the management of the PPI deadline in August 2019.

Projects and initiatives are in place for changes required in 2020 including disclosures of commission models in consumer credit, breathing space, regulatory returns, the FCA directory and operational resilience.

Principal risks and uncertainties continued

Strategic and emerging risks

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

COVID-19

The impact of the outbreak on the economy and on the Group's operations is subject to close monitoring by the Group's Crisis Management Team ('CMT') and Group and business unit Executive Committees. Contingency plans have been established for each business unit and are overseen by the CMT. Where process changes have been required in order to maintain services, these have been subject to formal risk review with the CEO, under authority delegated from the Board, accountable for risk acceptance.

It is now clear that the COVID-19 outbreak will have a significant impact on economic activity. The main impacts on the Group are expected to be in relation to reduced demand for new business, particularly for Consumer Finance products, and to increase impairment losses. Stress testing has been undertaken to assess the potential impact of future economic conditions, brought about by COVID-19, on the Group's financial performance and position, including consideration of capital and liquidity. Details of the stress testing and conclusions drawn are set out in the Viability and Going Concern Statement on page 50.

From an operational perspective, the Group has focused on the following potential impacts arising from COVID-19:

- Supply chain failure
- Restricted distribution channels
- Restricted ability to operate due to public policy changes and requirement to respond to regulatory and government measures
- Geographical impacts on markets and key operating locations
- Employee absence or home working

The restricted distribution channels refers to introducers and intermediaries used by the Group to source new business, as well as retailers and motor dealers which are integral to the Consumer Finance business. The resultant reduction in new business activity is considered in the stress testing referred to above, and has allowed business areas to redeploy resource to support existing customers and collections activity.

In respect of the other items listed above, the CMT has assessed the actions undertaken both centrally and in individual business areas and considers them to be working well in mitigating the operational risks brought by COVID-19. These actions include: the rollout of technology solutions which have enabled a significant number of employees to work from home; introduction of social distancing policies for employees who are currently required to work from an STB office; review of key supplier business continuity arrangements and identification of alternative suppliers; and implementation of payment holiday processes.

The Board has considered these potential impacts and the actions undertaken in response and has taken them into account when making its assessment of Viability and Going Concern. Frequent reports have been provided to the Board on the operational impacts of COVID-19 and the Group's responses to mitigate. In addition the CEO provides regular updates on progress to Board members.

Macroeconomic environment and market conditions

Political and economic uncertainty continued throughout 2019. UK economic fundamentals demonstrably weakened in the second half of the year, as businesses and consumers became more cautious and less active whilst they awaited the impact of the planned Brexit date of 31 October, and when this did not happen, the outcome of the General Election. Growth of GDP flat-lined in the autumn and turned negative in November which dampened demand for consumer and house building finance. Some degree of recovery followed the decisive result of the election.

UK withdrawal from European Union

Following the passing of the UK Withdrawal Agreement and the withdrawal itself on 31 January 2020, the UK remains in a transitional arrangement with the European Union. Uncertainty remains as to whether a new trade deal between the UK and the European Union can be struck before the transitional arrangement ends on 31 December 2020. The UK Government has indicated that it will not extend the deadline, and indeed passed legislation to that effect. The risk of leaving without a robust new trade deal with the EU therefore remains.

Our core business planning assumption is that the transitional arrangement will conclude in an orderly basis and that the direct impact of a disorderly scenario is limited. All continuing trade is within the UK and the lending sectors that the Group operates in are not significantly reliant on cross border arrangements. The indirect impact however could be material. Details of the indirect consequences of a no deal scenario were set out in the Principal risks and uncertainties section of the 2018 Annual Report. Our view of these indirect impacts has not materially changed, and the potential impact on our most significant business units is set out on page 49.

We consider the most significant potential impact of a failure to agree a robust trading agreement to be that on credit risk. The Principal risks and uncertainties section of the 2018 Annual Report sets out details of how the Group worked with external consultants to assess the likely impact of a no deal scenario on its Consumer Finance portfolios. The stress test modelling undertaken showed higher impairment provisions than those set out in our central plan, but not at a level that was considered to compromise the Group's viability. It was concluded at that time that the Group did not need to change strategy in the anticipation of a potential no deal exit from the EU. This continues to be the case, and our view of the impact of a disorderly scenario remains unchanged from that set out in the 2018 analysis.

Additional early warning indicators, that could indicate the need to change strategy, were set up following the work undertaken in 2018 and these have been monitored throughout 2019.
Continuing stress test modelling, including that undertaken in respect of our ICAAP, has continued to demonstrate that the Group can withstand significant macroeconomic shocks, including those significantly more adverse than that expected to arise from a disorderly exit from the European Union. The short duration of our balance sheet provides significant flexibility, should we need to reduce our lending activity in the event of such a stress.

Model risk and the impact of IFRS 9

We enhanced our controls around Model Risk and Model Governance in 2019. Improvements have been made in all aspects of Model Governance including the Model Governance Policy through to Model Standards and Model Inventories. Material or high risk models are reviewed by the Model Governance Committee on an annual basis. The Group Chief Risk Officer chairs the Model Governance Committee, with the Committee reporting to the Risk Committee.

We continue to derive the probability of default ('PD'), loss given default ('LGD') and exposure at default ('EAD') of the Group's lending portfolios, and therefore impairment provisions, through a suite of IFRS 9 models. The models have been monitored throughout the year and found to be working effectively.
Minor enhancements have been made where appropriate. The Group uses a weighted view comprising a number of macro-economic scenarios including benign, base, stress and ICAAP cases to provide the aggregated impairment provision each month.

Climate change

Climate change presents financial risks for the banking industry and whilst it is difficult to assess how climate change will unfold, we are assessing our risk exposure in relation to both the potential 'Physical' effects and the 'Transition' risks from the adjustment towards a carbon neutral economy.

The risk assessment process has been integrated into existing Risk Frameworks and will be governed through existing risk governance structures, including reporting to the Board Risk Committee.

In accordance with the requirements of the PRA's Supervisory Statement 'Enhancing banks' and insurers' approaches to managing the financial risks from climate change', we have allocated responsibility for identifying and managing the risks from climate change to the relevant existing Senior Management Function. In addition, we are evaluating the requirements of the 'Taskforce on Climate-related Financial Disclosures' and will continue to enhance our reporting and disclosures in line with these standards.

Risk management

Details of the Group's risk management framework, including risk appetite, governance arrangements and key committees, can be found on the Group's website:
www.securetrustbank.com/our-corporate-information/risk-management

Business unit	Potential indirect impact of no deal exit, assessed in 2018
Real Estate Finance	Direct consequences on the procedures for the transfer, renting and mortgaging of property are considered unlikely. If there is a reduction in UK finance providers, then contraction of supply could affect the choice and terms of funding available for investment or development projects. The timing or cost of development projects could be affected by price increases and/or shipping delays. Developers on some, particularly larger projects may be more cautious about committing to dates and costs without scope for adjustment for the effect of a no deal withdrawal. An increase in the cost of borrowing and weaker demand could push UK property prices lower. These factors could reduce demand for the Group's products whilst increasing credit risk.
Commercial Finance	No direct consequence is expected due to this division's UK customer base. Invoice financing has some countercyclical characteristics, though its medium-term performance is directly linked to macroeconomic conditions, given lending balances are secured against the customer's sales ledger.
Retail Finance	The key market sectors funded by Retail Finance could be impacted by rising raw material or finished goods input prices. Retailers would need to decide whether to pass on costs or absorb them into margins. Rising consumer prices would likely lead to reduced consumer confidence and demand and reduced retailer margins would likely lead to retailers halting or slowing UK expansion. These factors could reduce demand for the Group's products. Consumer affordability issues could also impact on the Group's profitability through increased impairment provisions.
Motor Finance	This division serves the UK used car market, which unlike the supply of new vehicles (often originating from other EU markets and attracting increased tariffs), is largely self-contained. However, subdued economic conditions and lower consumer confidence or spending power may have a potential adverse impact on used car demand, and associated demand for the Group's financing. Affordability issues may also adversely impact the Group's profitability through increased bad debts.

Viability and going concern year-end 2019

Going concern

In assessing the Group as a going concern, the Directors have given consideration to the factors likely to affect its future performance and development, the Group's financial position and the principal risks and uncertainties facing the Group, as set out in the Strategic Report. The Group uses various short- and medium-term forecasts to monitor future capital and liquidity requirements and these include stress testing assumptions to identify the headroom on regulatory compliance measures. As set out in the assessment of business viability, for the 2019 Annual Report and Accounts the stress testing assumptions have included specific scenarios relating to the COVID-19 outbreak.

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

Business viability

In accordance with provision 31 of the UK Corporate Governance Code, the Directors confirm that there is a reasonable expectation that the Company and the Group will be able to continue in operation and meet their liabilities as they fall due, for the period up to 31 December 2022. The assessment of ongoing viability covers this period as it falls within the Group's five-year planning horizon and the period covered by the Group's stress testing.

Given the Group's continuing long-term growth potential, further improvements in credit quality over 2019 and the Group's flexible business model, the directors are confident of the Group's viability over the longer term. However, the continuing uncertainties regarding the economic, regulatory and market environment that the Group operates in, particularly those related to COVID-19, may compromise the reliability of longer range forecasts. The Board has therefore decided to continue to use a three-year period for its assessment of viability rather than extending this over the full planning horizon.

The Directors have based the assessment on:

- the latest annual budget (approved before the outbreak started), which contains information on the expected financial position and performance for the period to 31 December 2024 and by considering the potential impact of the principal risks facing the Group, as set out on pages 40 to 49
- the analysis of key sensitivities, undertaken as part of the budget process, which could impact on profitability over the period covered by the budget. Assumptions made to calculate risk weighted assets and capital requirements are clearly stated and additional scenarios are modelled to demonstrate the potential impact of risks and uncertainties on capital
- the Group's ILAAP, which uses stress scenarios to assess the adequacy of liquidity resources. The results of this scenario analysis are used to set the Group's OLAR and are also the basis of the liquidity requirements set by the PRA. The Group has maintained liquidity levels in excess of regulatory requirements throughout the year and is forecast to continue to do so
- the Group's ICAAP, which considers macroeconomic stress and severe shock scenarios in order to assess the adequacy of capital resources. The results of the scenario analysis are used to set the Group's internal and regulatory capital requirements. The Group has maintained capital levels in excess of regulatory requirements throughout the year and is forecast to continue to do so. The macroeconomic stress scenarios were based on the 'rates up' and 'rates down' scenarios set out in the H1 2019 Bank of England stress test scenario, with the severe shock scenario assuming key economic variables to be either worsened or accelerated compared to the rates up scenario
- consideration of the other principal risks as set out on pages 40 to 49, to identify any other severe but plausible scenarios that could threaten the Group's business model, future performance, solvency or liquidity
- analysis of further scenarios related to the UK's withdrawal from the European Union. Further details of this analysis are provided on page 48
- analysis of the operational impact of the COVID-19 outbreak on the Group. Further details are provided on page 48
- consideration of the potential impact of COVID-19 on future earnings, capital and liquidity requirements.

COVID-19 stress testing

Although the Group regularly undertakes capital and liquidity stress testing, particularly to inform the ICAAP and ILAAP, the nature of the economic impact of COVID-19 is likely to be different to the scenarios that are normally considered. Most commentators are suggesting a sharp and deep decline in economic activity, brought about by Government measures to restrict movement and hence reduce contagion, followed by recovery as measures are lifted. In addition, unlike in the scenarios generally considered in stress testing, operational restrictions introduced by those Government measures also have an impact on the Group's performance and position.

The Group has therefore undertaken bespoke stress testing, covering capital and liquidity, to consider such scenarios. A range of market and idiosyncratic variables were used as scenario inputs, with unemployment levels being the variable to which the Group's impairment losses are most sensitive. Two plausible but severe core scenarios were considered:

- medium stress, whereby unemployment rises to more than 7%, new business levels decrease significantly due to falling demand, collection performance is degraded, and the value of the Group's security against bad debt losses reduces due to house and used car prices falling
- hard stress, whereby unemployment rises to more than 10%, accompanied by more severe falls in demand, collection performance and asset values.

Given the uncertainty over the true impact of the outbreak, a range of sensitivities was then applied, to provide comfort that the Group could withstand even more adverse conditions than those set out in the Hard stress scenario. These included raising the unemployment rate to even higher levels, further degrading collection performance, changing the assessment of the effectiveness of Government interventions on impairment rates, and prolonging the period of unemployment. The sensitivities also served as a reverse stress test, to identify the circumstances that could cause the Group to fail.

Analysis of the stress testing results showed that the Group did not breach capital or liquidity requirements, or need to utilise buffers, in either the Medium or Hard stress scenario. Strategic management actions such as formal cost reduction programmes were also not required. The liquidity position remained robust, indicating the Group's ability to withstand contagion should another financial institution fail.

The most extreme sensitivities applied would either require the Group to implement strategic management actions or to temporarily utilise capital buffers. The PRA has notified financial institutions that it expects them to utilise buffers if required, in order to continue lending, and so this is not considered to compromise the Group's Viability or Going Concern status. The Board considers that the circumstances required to cause the Group to fail, as demonstrated by the reverse stress testing, are considered sufficiently remote.

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

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

Managing our business responsibly
Engaging with our stakeholders

Straightforward transparent banking

Our customers and consumers

Why it's important

We exist to serve our customers. We therefore seek customer insight and feedback to better understand how to help customers and make it easy for them to do business with us.

How we engage

- Our independent review partners, Feefo and Trustpilot, seek customer feedback, providing valuable insight into our customer relationships
- Independent customer insight modelling helps make our products and services more effective for customers
- We undertake direct customer engagement through customer surveys, consumer panels and forums
- Formal horizon scanning is used to gather, analyse and disseminate information to support decision making

What's important and how we have responded

- We seek to enhance our product offering to customers – for example, in 2019, we expanded our notice account offering and introduced new ISA savings accounts
- We strive to improve the quality and timeliness of our customer services and, for example, have recently enhanced our online application processes, extended opening hours and improved call routing
- We aim to improve the accuracy, utility and clarity of the information that we hold to help customers, providing further training to improve customer communication

Our employees

Why it's important

Our employees are our primary asset. They deliver services to our customers, are the source of innovation and their actions strive to keep the Group safe and resilient.

How we engage

- Employee Councils, consisting of department representatives elected by their colleagues
- Annual survey conducted by the Great Place to Work® ('GPTW®') Institute
- Participation in Learning at Work week
- Partnership with the Employer Network for Equality and Inclusion
- Employee induction programme for new employees
- Nominated Non-Executive Director for workplace engagement

What's important and how we have responded

- We have established a two-way process of communication between employees and senior managers, enabling colleagues to provide insight, feedback and suggestions to make the Group a great place to work
- We have a strong level of trust and employee satisfaction
- We continue to fund a wide range of employee development opportunities, including specialist professional qualifications
- Increased focus on mental health and well-being

Regulators and government

Why it's important

In collaboration with our regulators, we act at all times to keep our Group safe and secure, maintaining strong capital and funding positions, building operational resilience and treating customers fairly.

How we engage

- We engage directly and maintain good relations with regulators and the government through our Board and senior management
- We monitor regulatory developments and liaise with regulatory experts to gauge opinion
- We participate directly and indirectly in regulatory consultation exercises and regulatory workshops
- We are members of UK Finance, the leading industry body for financial services in the UK and our CEO is Chair of UK Finance's Challenger Bank panel

What's important and how we have responded

- We always act responsibly by complying with the wide range of laws and regulations which are applied to financial services in the UK
- We proactively respond to changes in regulations and make the necessary investments to meet information requests in an efficient manner
- We are open and honest in our interactions with our regulatory supervisors and always strive to meet their requests in a timely fashion

Our communities

Why it's important

We have long pursued an ethos to act responsibly in the interests of all stakeholders and the environment in which they operate; this is reflected in our products, processes, systems and culture.

How we engage

- We are members of Business in the Community ('BiTC')
- A series of established community focused schemes are in place with a particular focus on mentoring of young people and developing local skills
- Our charity committees continue to empower colleagues to drive forward charitable activities
- A governance framework and range of policies are in place to ensure we meet our responsibilities in society and adhere to the highest professional and ethical standards

What's important and how we have responded

- In 2019 we have worked with BiTC to develop a Group-wide Responsible Business Strategy
- In 2019 we supported 262 charities, initiated a pilot mentoring scheme with a local academy and through our Employability Skills programme delivered employment training via a number of community partners
- The STBG Volunteers Scheme, which entitles all colleagues to use one paid day to make a difference in their local area, resulted in nearly 700 work hours donated to help create positive change in local communities

Managing our business responsibly continued

Behaving responsibly for all stakeholders

Our strategic commitment is to "make this a great Bank for customers and colleagues" by pursuing our promise of delivering straightforward and transparent banking. This is underpinned by our core values which drive behaviours central to developing a responsible business.

Responsible business strategy

Acting responsibly in the interests of all our stakeholders is an ethos that we have long followed. It is reflected in our products, processes and systems and is reinforced through our culture. In 2019, we continued the process of building on existing activity and bringing greater focus to the issues that are really important to our stakeholders by working on a Group-wide Responsible Business Strategy. In order to facilitate the process of developing the strategy, we became members of Business in the Community ('BiTC'), the Responsible Business Network set up by HRH The Prince of Wales. BiTC exists to create healthy communities with responsible businesses at their heart and through BiTC, we are able to ensure that our strategy is aligned with industry best practice.

We have been commended by BiTC for the swift progress that we are making in this area and the commitment shown to creating a robust strategy and framework, aligned to the BiTC Responsible Business Framework. As part of the Responsible Business Strategy development process, we have undertaken, in partnership with BiTC, an audit of existing responsible business activities and initiatives, identifying more than 40 active initiatives. We are continuing to invest in and build on these activities as the strategy continues to take shape.

Acting responsibly to our customers

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

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

Our internal culture is also centred on customers. For example, the Group's customer charter sets out the values that we strive for in customer interactions:

"We have a strong set of values that we aim to live every day. These values along with our Grow, Sustain and Love strategy continue to help us in building a great business for our Customers, Colleagues and Shareholders. We are passionate about being fair, friendly, polite and helpful in every interaction we make."

All staff are required to be able to describe their own responsibilities to deliver value to customers and the customer focused value is integrated into the annual performance management process to ensure continuing attention from all management and staff.

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

Customers are also at the heart of the Group's daily interactions. The Lean Six Sigma methodology is used to support continuous improvement activities, to advance the skills of colleagues so that they are better at listening to customers and to improve processes following customer feedback. During 2019, more than 20% of the workforce received training and development in this area.

Customer feedback

Listening to our customers is paramount. We continue to use Feefo as an independent source of customer feedback, providing valuable insight into our customer relationships.

In 2019 Trustpilot was introduced as an additional independent platform for customers to share their views. As Peter Holten Mühlmann, founder and CEO of Trustpilot, says, "More than just a rating, Trustpilot stars signify that a company has nothing to hide, loves its customers and shares our mission to create ever-improving experiences for everyone."

Our average Feefo rating for 2019, based on 1,754 reviews was 4.7 out of 5. The average Trustpilot rating for 2019, based on 2011 reviews was 4.6 out of 5. When poor feedback is received we treat each case individually and attempt to resolve the issue with the customer. This feedback is monitored alongside complaints data and where emerging trends are noted we seek to design and implement solutions to fix the problem.

Customer service awards

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

The final written report was very positive as demonstrated by this short excerpt:

"STB remains the only bank in the UK to achieve the Customer Service Excellence Standard ('CSE'). STB continues to demonstrate a high level of commitment to staff development, staff insight is used to develop new products to a cutting edge standard and this was confirmed by staff who met with the assessor. Customer satisfaction is measured regularly with industry-recognised methods such as Feefo and Trustpilot feedback and surveys. Targets for customer satisfaction are very high and satisfaction is continuing to increase. Ongoing certification to the CSE Standard continues to be fully justified and well-deserved."

Feefo Trusted Awards

For the fourth year running we have been recognised through the Feefo Trusted Awards. In February it was announced that the Group had won the following awards from Feefo:

- STB Savings – Gold Trusted Award
- Moneyway – Platinum Award
- V12 Retail Finance – Platinum Award

This independent seal of excellence recognises that our businesses are delivering exceptional experiences, rated by real customers. As Steph Heasman, Director of Customer Success at Feefo, says, "The Trusted Service award has always been about recognising companies that truly excel."

Employees

Employee voice

We are wholly committed to our strategic objective of making Secure Trust Bank a great bank for both customers and colleagues. We firmly believe that effective two-way communication contributes towards innovation and the achievement of organisational goals resulting in increased job satisfaction, greater influence and better opportunities for the development of teams and individuals.

We continue to operate Employee Councils in each of our businesses, consisting of department representatives elected by their colleagues. The Councils meet on a regular basis and encourage a two-way process of communication between employees and senior managers. In 2018 we introduced a Group Employee Council that meets with the Chief Executive Officer, HR Director and a Board nominated independent Non-Executive Director; and this has been continued in 2019. The aim of the Employee Councils is to promote further employee engagement and provide a structured forum for teams to share their views, enabling colleagues to provide insight, feedback and suggestions to make Secure Trust Bank Group a great place to work.

Platinum Trusted Service Award 2020 feefo

Gold Trusted Service Award 2020 feefo

Feefo rating

4.7 stars

Average Feefo rating for 2019

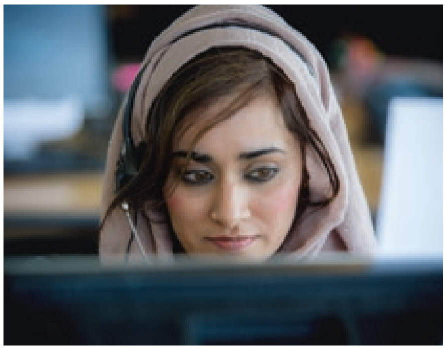
2018: 4.7 stars

Feefo ratings and comments can be found on our websites:

www.securetrustbank.com

www.moneyway.co.uk

www.v12retailfinance.com



Customer Service Excellence

7th year

Managing our business responsibly continued

Trust Index score

79%

From 2019 all staff survey
2018: 77%

Great Place To Work® | Best Workplaces™ Large Category | UK 2019

29th in the UK Best Workplaces Large Category

Great Place To Work® | Best Workplaces For Women | UK 2019

14th in the UK Best Workplaces for Women Category

In 2013 we became an accredited Investors in People Employer, progressing to the highly coveted Gold Standard in November 2016. Whilst being incredibly proud of this achievement, feedback through the Employee Councils suggested that the Group should consider an alternative accreditation that is more reflective of its strategy and one that is completed on an annual basis alongside the annual employee opinion survey.

To deliver this, for the first time at the end of 2018 the Group completed the survey conducted by the Great Place to Work® ('GPTW®') Institute. This comprehensive survey explored the levels of trust and employee engagement across the Group. As a specialist in workplace culture, partnering with over 10,000 organisations annually, GPTW® enabled benchmarking of Secure Trust Bank's employee experience against many of the most progressive workplaces in the UK.

In November 2019 the Group completed the survey for the second time and we were extremely proud to achieve an increase in the Trust Index from 77% in 2018 to 79%. This was based on a response rate of 85%, with 82% of respondents stating that 'Secure Trust Bank is a Great Place to Work' compared to 77% previously. The Trust Index is the average of the core survey statements and used as the Group's key performance indicator in respect of employee satisfaction.

We were delighted to be recognised at the Best Workplace awards in May 2019, being ranked 29th in the UK Best Workplaces Large category and 14th in the UK Best Workplaces for Women category.

As part of our commitment to continuous improvement, we had previously focused on three specific areas which we considered would further enhance employees' workplace experience at Secure Trust Bank. We were therefore pleased that two of these focus areas, Wellbeing and Reward, were amongst the most improved areas within the survey.

As part of the ongoing focus on Reward, in October 2018 we launched a transparent pay and grading framework, working in partnership with independent consultants, the remuneration practice of Aon plc, and throughout 2019 we have continued to develop and embed this into the organisation. In addition, it was announced that all employees could take an additional day's holiday on their birthday and we have further enhanced our family friendly policies that had already gone significantly beyond statutory requirements.

Employee development

Employee development remains a priority and we have a comprehensive induction programme for new employees that achieves consistently high satisfaction scores from attendees.

In addition, we continue to fund a wide range of specialist professional qualifications and provide all employees with the opportunity to study towards an external Banking Qualification as part of their career development. The Banking Qualifications are delivered by the London Institute of Banking & Finance.

In addition to these professional qualifications, we offer numerous other development opportunities. These include a comprehensive four level leadership academy and 'Connect and Learn' that enables colleagues to spend time in other parts of the business and learn more about their roles.

In 2019 we once again took part in National Learning at Work week to provide a focused platform to further engage colleagues in their personal development. During the week a wide variety of development tools were available and interactive sessions were delivered both by the internal training team and also by employees on both business related and wider topics.

An area of increased focus during 2019 has been the mental health and well-being of employees. During the year we launched our Mental Health First Aider Programme and were delighted that more than 10% of the workforce volunteered for this programme with more than 5% of the workforce accredited. In addition, all line managers completed mandatory training on this subject to ensure that they are able to spot early warning signs of stress in their teams and have increased capability to provide support.

Employee engagement and recognition

Research has consistently shown a clear link between enhanced levels of performance and teams that are fully engaged and share the values of the organisation that they work for. The positive performance of Secure Trust Bank Group is a result of the efforts of employees, and to ensure that colleagues are recognised for this contribution, there are a number of schemes in place to celebrate exceptional performance and behaviours.

These schemes together with our annual incentive programme continue to help embed excellence within the culture.

These schemes include:

e thank you cards and Be valued awards: colleagues can nominate their peers whenever and as often as they like and, in 2019, over 2,500 e cards were sent. Where the behaviour has been exceptional, line managers have the opportunity to reward team members with a Be Valued award which includes a gift and certificate.

Customer Service Excellence Awards: colleagues who go the extra mile when it comes to exceptional internal and external customer service are recognised at monthly Customer Service Excellence Awards.

Outstanding achievers: these are given to colleagues who stand out for their fantastic contribution to the business. Winners are nominated by their peers and then selected by a panel of judges. In 2019, 30 colleagues were recognised with an incentive trip hosted by members of the Group Executive Committee.

Incentive programme: our incentive scheme links tangible performance targets, which are based on our strategy and values, to the outcomes of the scheme.

Long service awards: to recognise loyalty and commitment to the Group, long service is awarded at key milestones from five years of service, with a range of awards provided.

Gender diversity

In 2019, we published our second Gender Pay Report and supporting commentary. We are committed to diversity in the workplace at all levels and the actions outlined in the report will continue to develop this further, particularly to improve the position at senior manager level.

We continue to work closely with Everywoman in progressing our Inclusion Agenda with the CEO being an Everywoman Advocate and the HR Director and Commercial Director V12 having been previously appointed as Everywoman Ambassadors. In 2019, the Sales Director in the Vehicle Finance Division was also appointed as an additional Ambassador.

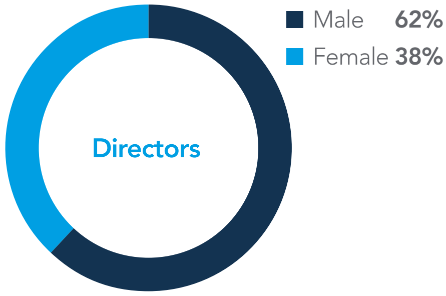
To further inform the Diversity and Inclusion steering group we have entered into a new partnership with the Employer Network for Equality and Inclusion ('ENEI'). This has been pivotal in progressing plans through the completion of its TIDE diversity benchmarking tool to identify areas of focus. In addition, ENEI has independently facilitated focus groups to gain feedback on potential barriers to female progression at STBG. The outputs are being used to inform existing and future development programmes as well as the Group's wider strategy.

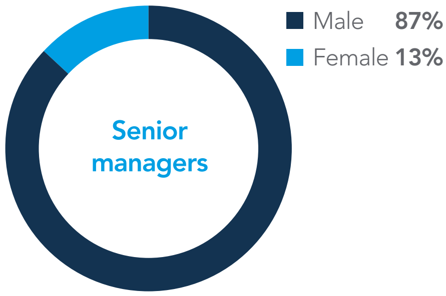
We have deployed technology to remove any potential bias in the language used in job adverts and role profiles. Furthermore, we continue to train all recruiting managers to ensure that all hiring adheres to equality and inclusion principles and that all talented individuals have the chance to progress within the organisation. We have also delivered mandatory unconscious bias training for all line managers.

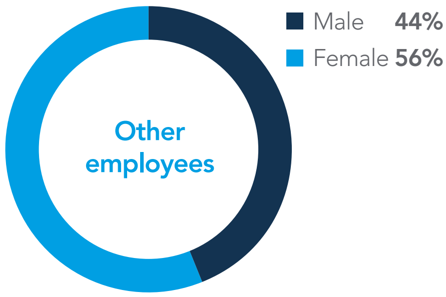
Given the diverse nature of the Group, which includes a high number of unique roles with specialist skills, the Board was delighted that 84 employees secured a new role within the Group in 2019 with 52% being filled by female employees.

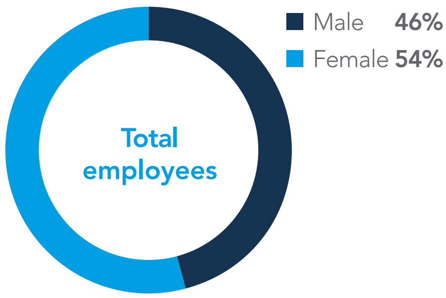
To further support its teams we have also introduced an updated workwise policy with a more progressive approach to flexible and agile working.

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









Managing our business responsibly continued

Responsibility to the environment

We recognise the importance of acting responsibly in relation to the environment and our Responsible Business Strategy will include a new policy, an assessment of our impact on the environment and set goals and objectives for managing this. Steps are already being taken in this regard, for example:

- All major office refurbishments include the installation of energy efficient lighting
- Yorke House, the building in Solihull that we acquired in 2019 has been designed around flexible/agile working practices. The design principles included targets to improve space use efficiency, to be met by deploying tactics such as reducing bookable meeting rooms and replacing with collaborative areas and allocating areas to teams rather than fixed desks to individuals. Early indications are positive measured by occupancy rates and feedback from colleagues
- The flexible working policy has been revised in line with evolving workplace design principles
- Following a successful 'Go Green' initiative in the Retail Finance business, this is being emulated in other areas of the Group

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

Scope 1 emissions resulting from the combustion of natural gas for heating buildings and fuel for business mileage, and Scope 2 and 3 emissions associated with the consumption of purchased electricity are included within the GHG report. Scope 1 emissions resulting from the private use of company owned/leased vehicles have been included for the first time in 2019, as the data is now available. This inclusion has led to an increase in the overall environmental intensity indicator; excluding these emissions would leave the indicator unchanged at 3.5. All Scope 3 sources, except for purchased electricity transmission, distribution emissions and grey fleet have been excluded from this report. We set 2017 as the GHG baseline year and subsequent reports show emissions for the current year and for each subsequent year following the baseline year.

In compiling this GHG report, we have used the GHG Protocol Corporate Accounting and Reporting Standard (revised edition) and energy supplier invoice data. Greenhouse gas emissions are reported as a single total, by converting them to the equivalent amount of CO_2 using emission factors from the UK Government's GHG Conversion Factors for Company Reporting 2017.

The Group's greenhouse gas emissions are shown below.

Greenhouse gas emissions

	2019 Carbon dioxide (tonnes)	2018 Carbon dioxide (tonnes)
Scope 1 – direct emissions from combustion of fuel	**223.7**	25.9
Scope 2 – indirect emissions from electricity purchased	**421.5**	403.9
Scope 3 – other indirect emissions from purchased electricity transmission and distribution	**124.5**	135.2
Total scope 1 to 3 emissions	**769.7**	565.0
Environmental intensity indicator (tonnes carbon dioxide per £1 million Group income)	**4.7**	3.5

Scope 1 emissions for 2019 include the private use of company vehicles, whereas this data was not available in 2018. On a like-for-like basis, the environmental intensity indicator for 2019 would be 3.5.

Social responsibility

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

- Anti-bribery and corruption
- Anti-money laundering
- Employment Health and Safety
- Whistleblowing
- Human rights and tackling modern slavery

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

We also strive to go well beyond our legal and regulatory commitments when it comes to social responsibility. We believe that our customer centric culture helps to drive a positive approach to social and community issues and we already have a range of responsible initiatives incorporated within business as usual activities which impact positively on local communities.

A series of established community focused schemes are in place and our charity committees continue to empower colleagues from different business areas to drive forward charitable activities. In 2019, we supported 262 charities and the enthusiasm of colleagues helped to generate over £68,000 for good causes. In addition, the STBG Volunteers Scheme, which entitles all colleagues to use one paid day to make a difference in their local area, resulted in over 700 work hours being donated to help create positive change in the Group's local communities.

We also initiated a pilot mentoring scheme with a local academy that supports young people excluded from mainstream school with a view to rolling it out across the entire Group. Our Employability Skills programme also delivered employment training via a number of community partners, including St Basils which supports young people at risk of homelessness.

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

Non-financial information statement

The Group complies with the non-financial information reporting requirements contained in sections 414CA and 414CB of the Companies Act 2006, with the exception of the requirement to have an environmental policy. This is intended to help stakeholders understand the Group's position on key non-financial information. An environmental policy will be developed in 2020.

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

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

Reporting Requirement	Section	Page
Policy embedding, due diligence and outcomes	Principal risks and uncertainties	40
Description of principal risks and impact of business activity	Principal risks and uncertainties	40
Description of the business model	Our business model	4
Non-financial key performance indicators	Key performance indicators	18

Managing our business responsibly
Our Section 172 Statement continued

Our Section 172 Statement

This section of the Strategic Report describes how the Directors perform their duty under S172 of the Companies Act 2006 to act in a way that they consider would be most likely to promote the success of the Company for the benefit of its members as a whole, having regard to a range of stakeholders. In performing this duty the Directors must have regard to specified matters and this section of the Strategic Report describes ways in which this is done. The Board discharges this duty through its decision making at meetings and by other means detailed in the table below. Further details of how the Directors' duties are discharged are included in the Governance section on pages 62 to 119.

Long-term

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

Our key stakeholders

Consideration is given by the Board and by management acting under authority delegated from the Board to impacts on our customers, workforce, wider society and the environment. In many ways the requirements of our regulators also support the need to address the matters required to be taken into account in performing the S172 duty, for example the way in which the requirements of the Senior Managers and Certification Regime support the maintenance of high standards of business conduct.

The table below identifies key stakeholders and how we engage with them. That engagement may be shaped by the Board and is taken into account by the Board in the performance of its role.

Who?	How?	Where?
Customers Relevant to every decision we make, not exclusively by the Board but throughout the Group, our customers are at the heart of everything we do. We focus on understanding how our products and services can meet their needs and are delivered in a straightforward and transparent way.	We seek engagement from customers via the Feefo scoring system. The CEO reports to the Board on the results and the performance of the Group in terms of Feefo scores forms part of the CEO's objectives. The Risk Committee receives updates regarding complaints monitoring on behalf of the Board. This feedback helps shape and inform our products and services.	Further details in respect of Feefo scoring are set out on pages 54 to 55.
	We have a culture of ensuring the right outcomes are obtained for customers. The right outcome for customers is more important than simple adherence to policy and process. This is an example where our regulatory obligations further support our approach to this.	Further information is set out on page 54.
	Particular attention is given to vulnerable customers. The Board receives reports on the treatment of vulnerable customers, including in our debt collection business.	
Our people Having a talented, diverse family of individuals who are engaged in their roles is essential to bringing the STB vision of straightforward transparent banking to life and fundamental to the long-term success of the Group. It is crucial that our people apply STB's values and reflect our values in the way they operate.	The Group Employee Council was set up in 2018, augmenting and enhancing the existing work councils by providing a more formalised reporting mechanism to the Non-Executive Directors. Paul Marrow was appointed as the Non-Executive Director designated for workforce engagement and Chairman of the Group Employee Council. His role, supported by the CEO, is to ensure that the employee voice is heard by the Board. Paul has attended and chaired each of the meetings of the Group Employee Council since inception and his reports to the Board following these meetings are now a standing Board agenda item.	Further information on employee engagement can be on pages 55 to 56.
	Following his retirement as a Director this role will be undertaken be Lucy Neville-Rolfe who will continue to act as a conduit between the Group Employee Council and the Board.	
	Paul Marrow is also appointed as the Whistleblowers' Champion and any issues raised through the whistleblowing disclosure facility were highlighted by him and considered by the Risk Committee in 2019. This responsibility will be adopted by Ann Berresford following his departure.	
	Each year the Group conducts a Your Voice staff opinion survey with Great Place to Work®. The Board welcomes the result of the Group being ranked 29th best place to work in the Large Company category and 14th best place to work for Women.	
	Following feedback received from our people, we have implemented and provided access to a wide range of training, relevant to developing individuals both as STB employees and to ensure they are satisfied with their development as people. All staff are able to undertake an externally recognised qualification offered by the London Institute of Banking and Finance Banking Certification. In 2019 we have provided additional facilities following the purchase of new offices in Solihull which incorporates a more agile working environment.	Further information on this can be found in the Employee Development disclosure on page 56.
	The Board receives regular briefings from the CEO on employee engagement and the Remuneration Committee conducts an annual review of workforce benefits and remuneration.	

Who?	How?	Where?
Regulators We have a duty to ensure that we engage transparently and proactively with our regulators.	The Board interacts with the regulator through meetings with Directors and senior management. Engagement is also conducted through thematic reviews in which the Group participates.	The Board gives regular consideration to correspondence and publications from the regulatory sphere. Engagement is often conducted through UK Finance, the relevant trade body.
Shareholders The views of the funds and individuals that back us are important to us as they provide the capital which we use in our business.	The Chairman and CEO engage with our principal shareholders in order to understand their views. The Committee chairmen seek views of shareholders on significant matters related to their areas of responsibility, for example in relation to the Directors' Remuneration Policy. The Chairmen of each Committee, as well as the Senior Independent Director, are available to meet with shareholders on request and both seek engagement and are available for questions at the AGM. The Executive Directors additionally provide investor presentations following the interim and full year results.	Further information on shareholder engagement can be found on page 67 and within the Committee reports on pages 70 to 105.
Wider Society We acknowledge the need to set a good example by the way in which we operate. We give due consideration to the effect we have in the communities in which we operate.	Presentations to the Board are encouraged to address wider impacts of the proposal, including stakeholder considerations. We seek to engage with the communities in which we work and live and the Board receives regular updates on that interaction, ranging from mentoring children in local schools to raising money for charity.	Further information on this subject can be found on page 59.
Environment Acting as a good corporate citizen and reducing the impact of our actions on the environment is necessary to ensure the long-term sustainable future of the business.	Given the nature of the business of the Group, we have limited environmental impact through emissions. We monitor the emissions we do create. With a view to heading towards carbon neutrality, the Group has implemented technological solutions to minimise requirements to travel and to facilitate inter-office engagement. Additionally, flexible working including remote working are encouraged throughout the organisation resulting in reduced travel and consequential environmental impacts.	Further information on this subject can be found on page 58.

Principal decisions/case study

Pension changes

In advance of the proposed changes arising from auto enrolment pension contributions, the CEO and HR Director submitted a proposal to the Remuneration Committee to address the impact of the changes on the lowest paid staff. The proposal was to increase the employer's contribution by an additional 1% to match the employees' contribution of 4%. The alternative would have been to leave the employee to find a further 2% to meet the required contribution or to opt out of the pension arrangements entirely. The Remuneration Committee agreed that requiring the employee to meet the additional cost entirely would encourage individuals to opt out of the auto enrolment scheme and might cause the individual to be disadvantaged in the future. The Committee, having regard to the employee population, shareholders views and the wider implications, agreed with the proposal to increase the pension payment to a matched 4% for staff in grades 1–4.

Mergers and acquisition

Conscious that for any acquisition to be successful, it would need to be in the interests of our stakeholders as a whole, the Board considered a strategic acquisition during the course of 2019.

When reviewing the potential target the Board gave consideration not only to the financial impact but also the impact on shareholders and wider stakeholders including the views of regulators, our people and customers.

Having conducted the review of the target, taking in to consideration all the elements and impacts on stakeholders, the Board concluded that it would not be appropriate to proceed with the acquisition at this time.

Approved by the Board and signed on its behalf.

Paul Lynam
Chief Executive Officer

6 May 2020

Board leadership
Chairman's introduction

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

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

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

The Board confirms that from 1 January 2019 to the date of this report the Group has complied with the principles of the Code.

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

Applying the principles of good governance

On behalf of the Board I am pleased to introduce our report on Corporate Governance. This explains the Group's governance arrangements, how the Group has applied the principles of the 2018 UK Corporate Governance Code (the 'Code') during 2019 and adapted to the introduction of the new Code.

2019 saw further changes and developments in the Corporate Governance of the Group as the Group has continued to grow and to meet evolving expectations.

Particular developments during 2019 include:

- **Composition of Board:** There have been changes to the composition of the Board during 2019 including the recruitment of an additional independent Non-Executive Director and changes to the composition of Board Committees. In 2020 we face the retirement of Paul Marrow as a Non-Executive Director, Chairman of the Risk Committee and Senior Independent Director. Paul's experience has been greatly valued and I am most grateful for the role that he has performed at the Group over the past nine years. It is a matter of regret that the Code is clear that Paul would be unable to perform his current roles following the expiry of nine years from his appointment. I welcome David McCreadie as an independent Non-Executive Director who brings considerable banking experience and who will be a great addition to the Board. At the end of 2019 Neeraj Kapur, our Chief Financial Officer, notified the Group that he intended to take up a new position. I would like to thank

Neeraj for his contribution during his time at the Group and wish him every success in his new role. The Board has embarked on the search for a replacement, further details of which can be found in the Nomination Committee report. The Board continues to keep its composition under review so that there is an appropriate and diverse mix of skills and experience. There is a Board Diversity Policy, information about which can be found in the Nomination Committee report

- **Culture:** Our strategy is supported by our culture. We are delighted to have been ranked 29th Best Place to Work in the Great Place to Work® Large Company category and 14th Best Place to Work for Women. This recognition is welcome but does not detract from the need to do better including in our Gender Pay Gap. I am pleased that Lucy Neville-Rolfe has agreed to take over from Paul Marrow as Chairman of our Group Employee Council and as the nominated Non-Executive Director who engages with the workforce. In the course of the year the Board approved a statement of culture. The Board agreed that the Group's culture should be one where there is a caring environment for all colleagues and customers; diversity, integrity, personal development and team working are central to the way in which the Group operates; doing the right thing outweighs short-term profit goals; change is openly embraced; and individuals share in the success of the Group
- **Strategy:** Further changes were made to the approach to the strategy of the Group. The strategy was approved at the Board Strategy Away Days in September 2019
- **Remuneration:** Remuneration-related arrangements have continued to be the subject of considerable focus building on the work carried out in 2018. Once again I am most grateful for the work performed by the Chairman of the Remuneration Committee and the other members of the Remuneration Committee in 2019
- **Oversight:** We have reviewed and adapted the oversight exercised by the Board including in relation to the information provided to the Board and its Committees. The Risk Committee has continued to spend a considerable amount of time on oversight of management actions involving Information Security (including Cyber Security) and Operational Resilience which has been an area of focus of our regulator and the Group.

In the Corporate Governance Report

Board leadership
Board of Directors

Strong leadership

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

Appointed to the Board on 1 March 2014 as an independent Non-Executive Director and appointed Chairman of the Company on 19 October 2016. Member of the Remuneration and Nomination Committees.

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

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

Paul Lynam ACIB, AMCT, Fifs
Chief Executive Officer

Appointed to the Board on 13 September 2010. Chairman of the Assets and Liabilities Committee.

Skills and experience
Paul Lynam joined Secure Trust Bank as Chief Executive Officer, having spent 22 years working for NatWest and RBS. Prior to leaving RBS, Paul was the Managing Director, Banking, for RBS/NatWest's SME banking business across the UK. Before that Paul spent four years as the Managing Director of Lombard North Central PLC. During his career Paul has undertaken roles in branch banking, business banking, corporate and commercial banking, asset finance, invoice finance, strategy, performance management, lending and central head office functions. Paul is a non-executive director of UK Finance, the recognised trade body for the finance industry, leading on Specialist Banks and SME customer interests. He also chairs the Specialist Bank Strategic Advisory Committee. He is a Fellow of the IFS University College and an Associate of the Chartered Institute of Bankers and the Association of Corporate Treasurers.

Other appointments include:
Paul is a non-executive director of UK Finance, as well as a member of the faculty of the School for CEOs.

Mr David McCreadie FCBI
Independent Non-Executive Director

Appointed to the Board on 17 December 2019 and appointed as a member of the Risk Committee on 1 January 2020 and Nomination Committee on 29 January 2020.

Skills and experience
David McCreadie has many years of banking experience and is a Fellow of the Chartered Banking Institute. He spent 22 years at RBS Group holding leadership roles in a number of RBS Group's retail banking businesses as well as spending time in the retail branch network and central head office functions. From 2004 to 2008 David was appointed the Chief Executive Officer of Kroger Personal Finance based in Cincinnati, USA. David joined Tesco Bank in 2008 and became Managing Director with responsibility for the banking and insurance businesses and was also appointed to the Board as an executive director.

His experience includes banking, risk management, governance, consumer-facing businesses and retailing.

Ann Berresford ACA

Independent Non-Executive Director

Appointed to the Board on 22 November 2016 and appointed Chairman of the Audit Committee on 23 September 2017. Member of the Risk and Nomination Committees.

Ann will be appointed as the Senior Independent Director and Whistleblowers' Champion following the close of the 2020 Annual General Meeting.

Skills and experience

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

Other appointments include:

Ann is a non-executive director of Albion Venture Capital Trust PLC.

Paul Marrow ACIB

Independent Non-Executive Director (Senior Independent Director)

Appointed to the Board 3 March 2011. Appointed Chairman of the Risk Committee and Chairman of the Group Employee Council. Member of the Audit Committee, Nomination Committee and Remuneration Committee. Non-Executive Director designated for workforce engagement.

Skills and experience

Paul Marrow has over 40 years of banking experience and has, in the past, been responsible for the Commercial Banking and Specialist Corporate Banking business divisions of RBS Group in the UK and been the chair of JCB Finance Limited. Paul holds banking qualifications, gained by examination.

Other appointments include:

Paul is also an independent non-executive director of Arbuthnot Latham & Co. Limited, a wholly owned subsidiary of Arbuthnot Banking Group and provides consultancy services to Arbuthnot Latham & Co., Limited.

Victoria Stewart

Independent Non-Executive Director

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

Skills and experience

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

Other appointments include:

Member of the ICAEW
Corporate Governance Committee and Investment Committee.

Victoria is a non-executive director of Artemis Alpha Trust PLC and JP Morgan Claverhouse Investment Trust PLC.

Board leadership and Company purpose
Board of Directors continued

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

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

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

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

Lucy is the Chairman of the UK-ASEAN Business Council and Chairman of Assured Food Standards (Red Tractor).

Paul Myers ACIB
Independent Non-Executive Director

Appointed to the Board on 28 November 2018. Member of the Nomination Committee.

Appointed interim Chairman of the Risk Committee with effect from 31 March 2020. Appointed to the Remuneration Committee on 1 January 2020.

Skills and experience
Paul Myers has many years of banking experience, gained initially in Barclays where he spent 24 years in a variety of retail banking roles. He was part of the small team that founded and built Aldermore Bank, where he served as Chief Operating Officer, Corporate Development Director and on the board as an executive director. Paul had a wide range of responsibilities at Aldermore, including IT, operations, transformation, marketing and digital as well as building and developing the retail and SME savings operations. After leaving Aldermore, Paul was CEO of GKBK Limited, leading a team that created and developed a digital banking proposition, utilising data and AI to offer lending solutions to under-served customers.

Other appointments include:
Paul is now acting as an advisor to Ashman Finance, a prospective bank SME property lender and is due to be appointed to Ashman's board as an independent non-executive director. Paul is an Associate of the Chartered Institute of Bankers.

Neeraj Kapur
Former Director

Appointed to the Board on 31 May 2011. Resigned on 6 December 2019.

Skills and experience
Neeraj Kapur has over 25 years' financial services experience spent in both the accounting and banking industries. He holds a degree in Aeronautical Engineering from Imperial College, London, is a fellow of the Chartered Institute of Bankers in Scotland, a fellow of the Institute of Directors, a fellow and a member of the Council of the Institute of Chartered Accountants in England & Wales ('ICAEW'), and Chair of the ICAEW Financial Services Faculty. Neeraj qualified as a Chartered Accountant in 1993 at Arthur Andersen and spent 11 years working in professional practice. He joined Royal Bank of Scotland ('RBS') in 2001 where he performed a number of roles which included Chief Financial Officer of Lombard North Central PLC. His background has given Neeraj experience in accounting, finance, professional services, governance, operations, marketing and risk.

Other appointments include:
Member of the Council of the ICAEW.

Corporate Governance Report

Board leadership and Company purpose

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

In addition, each year, STB conducts an all employee staff opinion survey to measure our culture and to understand our workforce's cultural alignment to our purpose, values and strategy. Following the receipt of the conclusions of the survey, conducted by Great Place to Work® in 2019, together with other routine assessments on culture, the Board is confident that the practices and policies in place to promote the culture in the organisation are aligned with the STB purpose, values and strategy.

The Board acknowledges the importance of our employees and the wider workforce to be able to raise concerns in confidence and, if they wish, anonymously. Further detail on our Whistleblowing arrangements and how our Group Employee Council operates can be found on page 81 and 55 respectively.

The Company, through the Chairman, SID, the Non-Executive Director designated for workforce engagement and each of the Committee Chairmen ensure that there is regular interaction with our key stakeholders, designed to ensure that stakeholder impact is fully embedded as a cornerstone of Board discussions on proposals. Further information on this can be found in our Section 172 Statement on page 60 and elsewhere in this report.

The Chairman of the Board and CEO regularly meet with investors to understand their views on strategy and corporate governance and this is reported back to the Board. The Committee chairmen each seek engagement with shareholders on significant matters relating to their areas of responsibility. Further detail on this can be found in each of the Committee reports and in our S172 Statement.

The Board has delegated authority to executive management to run the business and to implement the strategy set by the Board. A brief description of the responsibilities of the Executive Committee and a description of the governance framework can be found on the Company's website. Until 6 December 2019, two members of executive management, the CEO and the CFO, were members of the Board. The CFO, Mr Neeraj Kapur resigned from the Board on 6 December 2019. The search for a new CFO is underway. Further detail regarding the search can be found in the Nomination Committee report on page 70.

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

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

Division of responsibilities

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

The 2018 Code recommends that the Board should appoint one of the independent Non-Executive Directors as Senior Independent Director. The Senior Independent Director should be available to shareholders if they have concerns which contact through the normal channels of Chairman, Chief Executive Officer or other Executive Directors has failed to resolve or for which such contact is inappropriate. During 2018, Paul Marrow was appointed as the Senior Independent Director. Paul Marrow is proposing to step down from his roles at the Secure Trust Bank Board at the 2020 AGM, including as Senior Independent Director. It is proposed that Ann Berresford will be appointed as the Senior Independent Director, in line with the succession plan, following Paul's retirement.

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

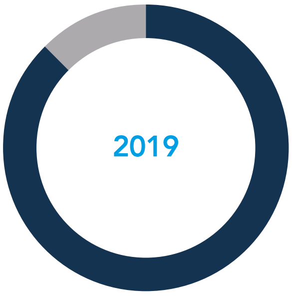
Internal processes are in place to enable the Board to have access to necessary information and resources to function effectively, including the maintenance of online portals of up to date company policies, timely dissemination of information and access to independent professional advice at the expense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

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

Corporate Governance Report
continued

Board membership and meetings

Composition as at 31 December 2019



iNED	7
NED	0
ED	1

Board attendance

Number of scheduled meetings during 2019	10
Lord Forsyth (Chairman)	10/10
Baroness Neville-Rolfe	10/10
Ann Berresford	10/10
Neeraj Kapur[1]	9/10
Paul Lynam	10/10
Paul Marrow (Senior Independent Director)[2]	9/10
David McCreadie[3]	0/0
Paul Myers	10/10
Victoria Stewart	10/10

1 Resigned 6 December 2019.

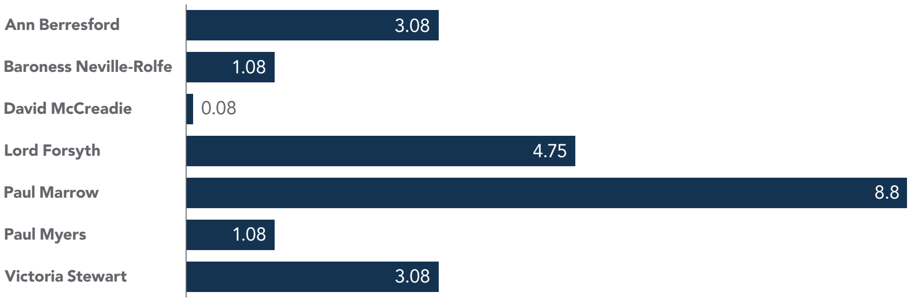
2 Mr Marrow was unable to attend the meeting held in July 2019 due to illness.

3 Appointed 18 December 2019.

Composition, succession and evaluation

Information on Board and Committee Succession Planning can be found within the reports of the Nomination Committee.

Years tenure (to 31 December 2019)



The length of service for each Non-Executive Director is outlined above. The Nomination Committee gave consideration to the membership and tenure of the Board as a whole and considered proposals for refreshing membership when evaluating the Board composition. Further information about the role of the Nomination Committee is available on pages 70 to 72.

Audit, Risk and Internal Control

Information on our Audit, Risk and Internal Control practices and how we have complied with the Code can be found in the reports of the Audit Committee and Risk Committee on pages 73 (audit) and 78 (risk).

Conflicts of interest

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

Financial reporting

A description of the responsibilities of the Directors in relation to the preparation of the Annual Report and Accounts is set out on page 109.

The approach taken by the Board to ensuring that the Annual Report and Accounts are fair, balanced and understandable is set out on page 108 and the information necessary for shareholders to assess the Company's position and performance is set out in the Strategic Report starting on page 02. An explanation of the business model and the strategy for delivering the objectives of the Company are set out on pages 04 and 16 respectively.

A statement of the responsibility of the external auditors in relation to the report and accounts is set out on page 116.

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

Internal control

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

The Board, through the Risk Committee, confirms that in reviewing the annual report it has completed a robust assessment of the Group's emerging and principal risks and has included a description of its principal risks as set out on pages 40 to 49.

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

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

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

The Board regularly reviews actual and forecast performance compared with annual plans as well as other key performance indicators as described on page 18.

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

Remuneration

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

Statement by the Chairman of the Nomination Committee

Lord Forsyth
Chairman of the
Nomination Committee

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

I am pleased to present the report of the Nomination Committee in respect of 2019 in what has been a busy year for the Committee.

In February 2019 the Committee assessed the effectiveness and composition of the Board and its Committees and the balance between independent Non-Executive Directors and Executive Directors in line with the 2018 UK Corporate Governance Code. The Committee recommended to the Board that it consider a search for a further independent Non-Executive Director, culminating in the appointment of David McCreadie in December 2019 and his appointment to the Nomination and Risk Committees in January 2020. David's appointment will further enhance the collective skill and experience of the Board and I look forward to working with David in 2020. David has received a thorough induction to his role and has had the opportunity to meet senior members of the leadership team, the Board and other employees. His induction will continue throughout the first half of 2020 and it is expected to have completed by the AGM in 2020. Having been appointed to the Board in 2018, both Lucy Neville-Rolfe and Paul Myers are now embedded into their roles on the Board and the Committees to which they are appointed following successful completion of their induction.

With the anticipated and regretted departure of the Senior Independent Director at the 2020 AGM, following nine years of service on the Board, the Committee has led the implementation of the succession plan. Ann Berresford is assuming the additional role of Senior Independent Director as well as absorbing the Whistleblowers' Champion responsibilities into her remit as Chair of the Audit Committee, and Paul Myers will be succeeding Paul Marrow as Chairman of the Risk Committee, both subject to regulatory approval at the date of this report.

In December 2019, following the resignation of Neeraj Kapur, the Committee, with the assistance of the Company Secretary, led a competitive search tender to appoint an external search consultancy to handle the external recruitment search for a new Executive Director and Chief Financial Officer to be run in parallel with open advertising. Following a tendering process, Ridgeway Partners were selected to assist in the search. None of the Directors or the Company had an existing relationship with Ridgeway Partners.

The Committee worked with Ridgeway Partners towards the end of 2019 to determine the search criteria for the recruitment process, having regard to both the Board's Diversity Policy, the Board and Committee effectiveness evaluations conducted in 2019 and the skills and experience of the Board. The search is ongoing.

The Board underwent a questionnaire based performance evaluation in October 2019 which was conducted by the Company Secretary under my direction. In addition, I have conducted individual evaluations with each of the Non-Executive Directors; and Paul Marrow, as Senior Independent Director, has undertaken an evaluation of me as Chairman, seeking feedback from both the Executive and Non-Executive Directors.

The outcomes of those various evaluations are consistent with a Board continuing to evolve a new dynamic. I am pleased to report, however, that the Board has concluded it is both performing well and is effective. Further information on the evaluations can be found on page 71, together with information on the activities of the Committee throughout 2019.

Lord Forsyth
Chairman of the Nomination Committee

Nomination Committee report

Nomination Committee membership and meetings

Composition

iNED	6
NED	0
ED	0

Meeting attendance

The number of planned meetings held during 2019 and the attending members are shown in the table below:

	Nomination Committee	Eligible to attend
Number of meetings during 2019	**5**	**5**
Lord Forsyth	5	5
Ann Berresford	5	5
Paul Marrow	5	5
Paul Myers	5	5
Baroness Neville-Rolfe	5	5
Victoria Stewart	5	5
David McCreadie[1]	0	0

[1] Appointed 18 December 2019.

As at 31 December 2019 the Nomination Committee comprised six members and was compliant with the Code provision regarding the composition of the Nomination Committee throughout 2019. The Chairman of the Committee is Lord Forsyth.

The Nomination Committee meets as frequently as its Chairman may require and also at regular intervals to deal with routine matters and in any event not less than twice in each financial year. The Committee held three routine meetings during 2019 and two ad hoc meetings.

The attending Directors are shown in the table to the left.

The Company Secretary or their alternate acts as Secretary to the Nomination Committee. Other individuals attend at the request of the Nomination Committee Chairman. When appropriate during the year the Chief Executive Officer and the Chief Financial Officer attended meetings.

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

Role and activities of the Nomination Committee

The Nomination Committee assists the Board in discharging its responsibilities relating to the structure, size and composition of the Board. The Nomination Committee is responsible for, amongst other matters, evaluating the balance of diversity, skills, knowledge, independence and experience of the Board, and makes recommendations to the Board on such matters. The Nomination Committee also leads the process for appointments, checking that plans are in place for orderly succession and considers succession planning, both for the Executive and Non-Executive Directors, taking into account the skills and expertise that will be needed on the Board in the future and how this can support developing diverse talent within the Company.

Board effectiveness and Non-Executive Director evaluation

During 2019 the Board conducted an internally facilitated review of the effectiveness of the Board, its Committees and individual Directors using a combination of questionnaires and face-to-face meetings. The Committee reviewed the results of the effectiveness reviews and the individual Directors' performance evaluations when assessing the composition of the Board Committees and the contribution made by the individual Directors. The Committee noted that the conclusion to the Board effectiveness review was that the Board was performing well and exercising the right level of judgement with due regard to the duties placed on Directors under company law, including section 172 of the Companies Act 2006. The Committee noted that the Directors had been mindful of the provisions of the Code and their responsibilities as Directors and, where applicable, as senior managers under the Senior Managers Regime when reaching their assessment of Board effectiveness and individual Director contributions.

The 2019 Board effectiveness review highlighted that there could be improvement in the quality, and a reduction of the quantity, of information provided to the Board and its Committees which would assist the Board in effectively overseeing the performance of the business and in assisting and advising executive management in driving performance forwards. The Board further acknowledged that demarcation between Executive and Board responsibility should be further articulated and steps have been taken to address this.

The Committee reviewed the independence of each Non-Executive Director. The Committee, following a rigorous review and evaluation, considers that Paul Marrow remains independent in both character and judgement, and his judgement unaffected by his tenure at Secure Trust Bank or appointments at other companies. The Committee acknowledged that the Code outlines that a tenure of nine years from first appointment could impair a non-executive director's independence and note that Paul has decided not to stand for re-election at the 2020 Annual General Meeting.

Nomination Committee report continued

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

Board training and development

The Board receives detailed reports from executive management on the performance of the Group at its meetings. Updates are provided on relevant legal, corporate governance and financial reporting developments. In addition, the Board, upon the recommendation of the Committee, adopted a training programme during 2019 and received formal training from both internal and external experts on topics including corporate governance, information security risk, anti-money laundering and counter terrorist financing, opportunities in harnessing FinTech and on 'culture and values'.

Directors are also encouraged to attend external seminars on areas of relevance to their role and to keep a record of their external training. A training plan for 2020 has been developed with a focus on strategic, regulatory and technology matters, with a session on Financial Crime and the responsibilities of the Board delivered in January 2020.

Succession planning and recruitment

The Nomination Committee has considered the Company's succession plans and focused on Board (executive and non-executive) and Senior Manager succession. Consideration has been given to potential internal candidates, short-term solutions in the event of unanticipated changes in circumstances and external recruitment as well as reallocating responsibilities on a short-term or longer basis. The need for regulatory approval of the persons performing Senior Manager functions under the Senior Managers Regime is incorporated into the suggestions of proposed individuals outlined in the succession plan.

The Committee, when considering the written succession plan for the Board and Senior Management, reviews the contingency (immediate) medium (1–2 years) and longer-term (2–3 years) proposals and gives consideration to developing internal talent and capability in the medium to long term and external hires, as well as internal candidates, in a contingency scenario. The Committee also receives updates on the mentoring programmes and more information on developing a diverse talent pipeline can be found on page 60.

The recruitment process which culminated in the appointment of David McCreadie was conducted with the assistance of an external recruitment consultant, Korn Ferry LLP. None of the Directors or the Company had an existing relationship with Korn Ferry LLP. The selection of candidates for interview was made in accordance with the Board's policy on diversity as set out below and against objective criteria. The Committee had also reviewed the Board's effectiveness and skills, having regard to the strategy of the Group and the tenure of the remaining Board, and used the resulting analysis to help determine a candidate profile.

With the upcoming retirement of Paul Marrow, the Committee reviewed the composition of each of the Risk and Audit Committees and noted that the opportunity could be taken to increase the diversity of the Audit Committee. The appointment of Victoria Stewart was subsequently recommended to the Board and her appointment confirmed with effect from 1 January 2020. Additionally, following his appointment to the Board in December 2019, David McCreadie was recommended to join the Risk Committee and the Nomination Committee. Following these appointments, the Nomination Committee believes that the composition of the Committees will be appropriate with each committee having the right balance of skills and experience and, in the case of the Audit Committee, with improved diversity.

The succession plan for Paul Marrow is being implemented with Paul Myers proposed to succeed him as Chairman of the Risk Committee and Ann Berresford stepping into the role of Senior Independent Director, subject to regulatory confirmation. Both individuals have significant relevant experience for their new roles and were considered natural candidates to succeed Paul Marrow.

Following the resignation of Neeraj Kapur, the succession plan for his role is being implemented with internal individuals fulfilling some aspects of his role to provide continuity in anticipation of his departure at the end of March 2020. Ridgeway Partners have simultaneously assisted, at the Committee's behest, in developing the role description to ensure that a diverse range of candidates are encouraged to apply and to ensure that the most suitable short list of candidates is able to be considered.

Board policy on diversity

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

Any appointments made to the Board are made on merit, against objective criteria and with due regard for the benefits of Diversity on the Board. Appointments to the Board are made having regard to the balance of knowledge, skills, Diversity and experience of the Board at the time of the appointment and having regard to long-term planning in relation to Board composition and strategy. The Board has not, however, set any measurable targets for Diversity on the Board. Further information on the gender balance of those in senior management and their direct reports is found on page 57.

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

Statement by the Chairman of the Audit Committee

Ann Berresford,
Chairman of the Audit Committee

"The review enabled the Committee to recommend to the Board that it approves the going concern and viability statements."

I am pleased to present the report of the Audit Committee for the financial year ended 31 December 2019. As well as routine 'business as usual items', we have reviewed and monitored the adoption of a hedging strategy and the subsequent technical accounting relating to the derivatives programme, received a series of internal audit reviews in respect of the ongoing Motor Transformation Programme ('MTP'), which continues into 2020, and have reviewed our going concern and viability statements in detail following the letter issued by the FCA on 21 March 2020 to all companies scheduled to report in March 2020.

In response to guidance from the FCA and FRC in late March 2020, the Committee has conducted a further review of the going concern and viability statements prior to the delayed publication of the Annual Report and Accounts for 2019. This review considered specific stress testing, details of which are provided in the statements on page 50, which assisted the Committee in understanding the implications of severe but plausible scenarios on the Group's performance and position.

The review enabled the Committee to recommend to the Board that it approves the going concern and viability statements.

In response to enhancing the Group's risk management capabilities in interest rate risk ('IRR') the Group implemented an interest rate hedging strategy using bi-lateral derivative trades ('swaps'), which was subject to a review by Internal Audit before derivatives activity fully commenced. We reviewed both the internal audit on the related risk management and infrastructure and the technical accounting arising from the use of swaps before the first series of swaps was contracted and then once again after the first series of swaps had commenced. More detailed information on swaps is contained in Note 5 on page 142. We were satisfied that the correct approach had been taken in this area, supported by appropriate management controls and infrastructure, and that the accounting for the swaps was being recorded correctly.

The MTP was launched towards the end of 2018 and, given the significance of the project to STB, we asked Internal Audit to design and execute an ongoing assurance programme with the objective of assessing whether the MTP was delivering against programme objectives and risk metrics. This work was co-sourced and conducted with support from an independent firm expert in programme delivery and the output from the reviews is addressed within the MTP. The assurance took place throughout 2019 and will continue into 2020 as the MTP continues.

I met with the Chief Internal Auditor every month to discuss past and planned internal audit activity and I have also met regularly with the Chief Risk Officer. Internal audit activity continues to address all categories of risk across the business.

I have also met regularly with the external audit partner to discuss the ongoing audit work and the Committee will be carrying out a formal assessment of the effectiveness of the external audit process in Q2 2020. Based on progress to date we have recommended to the Board the reappointment of Deloitte as auditors for 2020 at the 2020 AGM.

We welcomed Victoria Stewart as a member of the Audit Committee with effect from 1 January 2020 and Victoria brings a wealth of business experience and analytical capability which will complement the existing skills of members. Paul Marrow will be retiring at the 2020 AGM, and I would like to thank Paul, on behalf of the Committee and myself, for his sage counsel during his tenure as a member of the Committee.

Looking to the future we will monitor the outcomes of the Kingman and Brydon reports and the recommendations arising, and their likely impact on the Group.

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

Ann Berresford
Chairman of the Audit Committee

Audit Committee report

Audit Committee membership and meetings

Composition

iNED	3
NED	0
ED	0

Meeting attendance

The number of planned meetings held during 2019 and the attending members are shown in the table below:

	Audit Committee	Eligible to attend
Number of meetings during 2019	**4**	**4**
Ann Berresford	4	4
Paul Marrow	2	4
Baroness Neville-Rolfe	4	4

[1] Paul Marrow wa unable to attend the Meeting on 31 July 2019 as he was unwell.

As at 31 December 2019 the Audit Committee comprised three members with Ann Berresford as the Chairman of the Committee. Ann is considered by the Board to have recent and relevant financial experience and the Audit Committee as a whole has competence relevant to the sector in which the Group operates.

The Code provides that for smaller companies, such as the Company, the Board should establish an Audit Committee of at least two independent Non-Executive Directors. The Chairman of the Company may not be a member of the Committee. Lord Forsyth retired from the Committee on 30 January 2019 and Baroness Neville-Rolfe joined the Committee with effect from the same date, prior to the first meeting of the Committee being held in 2019. The Company considers that it has complied with this provision throughout 2019.

The Audit Committee meets formally at least four times a year and otherwise as required. The number of planned meetings held during 2019 and the attending members are shown in the table to the left.

The Company Secretary or their alternate acts as Secretary to the Audit Committee. Other individuals attend at the request of the Audit Committee Chairman and during the year the external auditor lead partner, Chief Executive Officer, Chief Financial Officer and Chief Internal Auditor and a number of senior members of the Finance department attended meetings to report to the Audit Committee. The Chairman of the Audit Committee reports to the Board on the outcome of Committee meetings and any recommendations arising from the Committee.

Role of the Audit Committee

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

A full copy of the terms of reference for the Audit Committee can be obtained by request to the Company Secretary or via the Group's website at **https://www.securetrustbank.com/investors/corporate-information**

Matters discussed at Audit Committee meetings since 1 January 2019

The Audit Committee has a schedule of meetings with standing agenda items. Meetings are planned to coincide with key dates in the Group's financial reporting cycle, enabling the Committee to deal with matters on a timely basis over the course of the year. In addition to standing agenda items the Committee also deals with other matters as they arise including, in 2019, reviewing the technical accounting arising from the hedging strategy adopted by the Board in 2019, and significant judgements required following the adopting of the hedging strategy and the application of IFRS 16.

The Audit Committee reviewed and approved its Terms of Reference, the schedule of standing agenda items, the Internal Audit Charter and the engagement contract with the external auditors. Other principal matters considered are set out overleaf.

Financial reporting

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

Subject area	Matters considered
Accounting policies, key judgements and assumptions used in preparing interim and annual financial statements	The Audit Committee reviewed the key accounting judgements made by management in preparing the financial statements for the year ended 31 December 2019, the interim financial statements for the six months ended 30 June 2019, and the press releases and investor presentations that were prepared when the financial statements were released. In particular the Committee considered at its meeting in March 2019 a paper on the key accounting judgements relating to the 2018 Annual Report and Accounts. These included effective interest rate accounting, impairments and expected value of share option schemes. In relation to impairment provisions the Committee considered the adequacy of provision cover for different products, factors relevant to the probability of default and loss given default assumptions used for Consumer Finance products, and the level of overlay to the modelled impairment provision. The Committee considered key accounting judgements in respect of the 2019 Interim Report at its meeting in July 2019. In particular, it considered the accounting treatment adopted following IFRS 16 becoming effective and confirmed the treatment approved by the Committee in November 2018. The Committee reviewed and challenged key assumptions used in the calculation of provisions under IFRS 9, including in respect of a fall in used car values, which had the impact of increasing provisions in respect of the Motor portfolio for the first half of the year. The Committee also considered the accounting policy in respect of the hedging strategy, following on from a technical training session delivered to the Committee and wider Board in June 2019. The policy is contained in Note 1.10 on page 135. In its meeting in November 2019, the Committee considered the key judgements and assumptions that were expected to be applied in respect of the 2019 Annual Report and Accounts. This focused on loan loss provisions including an update to the assumptions used in the IFRS 9 provision modelling. It also considered the treatment of a specific VAT reclaim in respect of hire purchase costs following discussions and correspondence with HMRC and a worked example of the treatment of hedge accounting. Income recognition and the assumptions used in effective interest rate calculations were also considered. Following discussion with management and taking account of feedback from the external auditor in respect of these items, the Committee approved the key judgements and assumptions. The Committee considered updates to these judgements and assumptions at its meeting in March 2020. In making its recommendations to the Board to approve the annual and interim financial statements the Committee has taken into account matters raised by the external auditor on matters of judgement.
Use of the going concern basis in preparing the financial statements and long-term viability of the Group	The financial statements are prepared on the basis that the Group and Company are each a going concern. The Audit Committee has reviewed management's explanations as to the appropriateness of the going concern basis in preparing the Group and Company financial statements and has not identified any material uncertainties as to the Company's ability to continue as a going concern for the period of 12 months from the approval of the accounts. The financial statements for 2019 also include statements that provide shareholders with the Board's views on the long-term viability of the Group. The Audit Committee has reviewed and challenged the basis for assessing long-term viability, including the period by reference to which viability is assessed, the principal risks to long-term viability and actions taken or planned to manage those risks. This included consideration of specific stress tests related to the COVID-19 outbreak.
Presentation of a 'fair, balanced and understandable' Annual Report and Accounts	The Audit Committee, having reviewed the content of the Annual Report and considering relevant matters including the presentation of material sensitive items, the representation of significant issues, the consistency of the narrative disclosures in the 'front half' with the financial statements, the overall structure of the Annual Report and the steps taken to ensure the completeness and accuracy of the matters included, has advised the Board that the 2019 Annual Report and Accounts include a 'fair, balanced and understandable' assessment of the Group and Company's businesses.

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

Audit Committee report continued

External audit

The Committee reviewed and approved the external audit terms of engagement, the scope of the external audit, timetable, materiality, audit strategy and fees. The Committee maintains a close dialogue with the external auditor and meets with them without management at every Committee meeting.

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

The Audit Committee has monitored Deloitte in their approach to their audit of the Group and has considered the effectiveness of the work of the external auditors, the quality of the team, the scope of the work and communications and fees following the completion of the Interim Review. The Committee also met with management, including without Deloitte present, to hear their views on the effectiveness of the external auditors. The Committee will conduct a formal assessment of the 2019 audit completed by Deloitte during 2020 and has so far informally concluded that the external auditors are performing well.

The Audit Committee was satisfied that the level of audit fees payable in respect of the audit services provided, being £355,000 (2018: £270,000) was appropriate and that an effective audit could be conducted for such a fee. The existing authority for the Audit Committee to determine the current remuneration of the external auditors is derived from shareholder approval granted at the AGM held in May 2019.

Independence of the external auditor

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

The Group has agreed a policy on the provision of non-audit services by its external auditor. The policy ensures that the engagement of the external auditor for such services requires pre-approval by appropriate levels of management or the Audit Committee and does not impair the independence of the external auditor, and that such engagements are reported to the Audit Committee on a regular basis. The external auditor will only be selected for such services when they are best suited to undertake the work and there is no conflict of interest.

The provision of any non-audit services provided by the external auditors requires prior approval, as set out in the table below.

The total of audit and non-audit fees paid to Deloitte during the period is set out in Note 6 on page 144. The non-audit services fee of £69,000 (2018: £235,000) was in respect of, but not limited to, the review of the half-year accounts and other ad hoc advice. In the case of each engagement, management considered it appropriate to engage Deloitte for the work because of their existing knowledge and experience or the organisation. Non-audit fees were 19.4% of audit fees in 2019.

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

Deloitte were appointed as auditors at the AGM held in May 2018, following a competitive tender conducted during 2017. Information on the tender and the appointment process can be found in the 218 Annual Report and Accounts.

Matthew Perkins is the audit partner from Deloitte and can continue in this role until the completion of the 2022 audit at the latest.

Internal audit

The Group has an independent Internal Audit function led by the Chief Internal Auditor. The Chief Internal Auditor reports to the Chairman of the Audit Committee and they meet each month.

The Audit Committee reviewed and approved the internal audit plan for the year and monitored the activity of the Internal Audit function throughout the year. It also:

- reviewed other matters which are not currently contemplated in the audit plan but which may be appropriate for inclusion in the future
- reviewed the frequency and coverage of audits contained in the audit plan, aligning these with the wider control environment and the (emerging) risks to the Group
- considered the risk and control matters identified in internal audit reports issued since the previous meeting along with management's responses to those points and progress in taking action to resolve control weaknesses
- approved the Internal Audit budget and resource plan for the year
- reviewed and approved the Internal Audit Charter
- reviewed the annual assessment of the overall effectiveness of the governance and risk and control framework provided by the Internal Audit function

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

- reviewed the outputs and management response to Internal Audit's ongoing assurance activity on the Motor Transformation Programme
- reviewed the outputs of internal audit reviews on aspects of regulatory reporting, which continues as an important focus area in 2020
- reviewed Internal Audit's conclusions on staff behaviours in the context to the Group's framework of values and culture

In addition, the Audit Committee assesses the effectiveness and independence of the Internal Audit function each year. During 2019 the Committee reviewed the performance of the Internal Audit function taking into account an updated assessment carried out by the Chief Internal Auditor and the progress made addressing areas for enhancement identified in the 2016 external review, and was satisfied as to the effectiveness, quality, experience, expertise and independence of the Internal Audit function. The next external effectiveness review is scheduled for 2021 and the Committee will be reviewing recommendations for this review during the course of 2020.

The Committee was satisfied that Internal Audit has the appropriate resources to deliver the 2020 and 2021 internal audit plan. In addition to the internal resource it is also able to draw on a panel of external subject matter experts.

Internal controls and risk management

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

During 2019 the Committee reviewed the procedures for detecting fraud affecting financial reporting, and a report from the Chief Compliance Officer on the systems and controls for the prevention of bribery.

Whistleblowing

The Chairman of the Risk Committee is the Whistleblowers' Champion for the Group. Reporting on the effectiveness of whistleblowing arrangements in place within the Group, and adherence to the Financial Conduct Authority Rules on Whistleblowing, is presented to the Board, forming part of the wider reporting of concerns raised by the workforce. The Chairman of the Audit Committee will become the Whistleblowers' Champion for the Group upon the conclusion of the 2020 AGM.

Audit Committee effectiveness

During the year the Committee considered and evaluated its performance. It did this by means of a questionnaire which members of the Committee completed and by taking soundings from other attendees, including the external auditor and internal auditor. The Chairman of the Committee then collected the responses and produced a report to the Committee. The result of the evaluation was that the Committee considered that it was performing effectively.

Statement by the outgoing Chairman of the Risk Committee

Paul Marrow
Chairman of the Risk Committee

"I am pleased to present the report of the Risk Committee for the financial year ended 31 December 2019. This will be my final report as Secure Trust Bank's Risk Committee Chairman as I stand down from my roles at the 2020 AGM."

I would like to thank Paul Lynam, Kevin Hayes our CRO and all the Risk team for their support during my tenure. As we implement the succession plan in place, I wish Paul Myers well as he takes up the mantle of the Committee Chairmanship and, having worked with him on the Risk Committee for the last year, have every confidence in the Committee's continued success under his leadership.

I would like to welcome David McCreadie as a new member of the Risk Committee. David was appointed to the Board in December 2019 and joined the Risk Committee on 1 January 2020. With significant experience in banking including risk management and governance, David is expected to be a valued contributor to the Risk Committee and his appointment enhances the collective experience and skill of the Committee.

The Group has had separate Audit and Risk Committees since 2011 and both Committees have continued to oversee the development and evolution of the risk management and internal control frameworks in 2019 as they have done since 2011 and to date.

Management of risk is a key part of what the Group does. As a Committee, we have been involved both with assessing the principal risks that impact the Group at a macro-economic and strategic level; and also in assessing risk at a business level when the Group seeks to develop new business opportunities or products. As a Committee, we had a continued focus on the Motor Transformation Programme throughout 2019 as various aspects were launched.

Throughout 2019 we have also considered the risks and opportunities arising from Brexit and the actions the Group may choose to take and have taken, noting the limited direct impact Brexit will have on a largely UK focused business. We have continued to review and monitor the risk to the Group as the UK progresses through the transition period and will continue to do so once more detail is known.

As a Committee we have monitored both the impact COVID-19 has had on our operational resilience and business continuity plans, and the risks arising from the pandemic evolving into an economic crisis. We have discussed the impact on capital and the assumptions in our models to enable the Board, upon the recommendation of the Audit Committee, to assess the going concern and viability statements and to agree the principal risks to our business.

After becoming standing agenda items in 2018, we have continued our close scrutiny of operational resilience, including cyber and information data security. STB continues to proactively evolve its practices and protections in these areas as well as building on lessons learned both internally and from the external market. The position continues to be developed, building on the progress already made to improve the position through 2018. The Committee continues to review STB's current practices and policies to ensure that we are abreast of challenges in a radically changing threat landscape, scrutinising publicised external incidents to ensure that the Group is protected against similar threats and ensure that potential weaknesses are exposed and addressed.

As well as receiving updates from the Committee, the Board participated in specific Information Security Risk training as well as a FinTech and Disruptive Technologies Update during the course of 2019, building upon their focus on these areas in 2018 and ensuring attention continues to be focused on this key and rapidly evolving area of risk and opportunity.

During the year we also reviewed significant changes to our now separate Recovery Plan as required under the new regulation. Assumptions in our Recovery Plan were also reviewed for correlation with our ICAAP and ILAAP documents, ensuring that the scenarios aligned both for the modelled 'event' and the expected outcome. The ICAAP continued to be a key focus for the Committee in 2019, following close scrutiny in 2018.

We also reviewed the Group's risk management capabilities in interest rate risk ('IRR') as the Group implemented an interest rate hedging strategy using bi-lateral derivative trades ('swaps'). The Committee received a training session on the hedging strategy which was attended by other members of the Board and reviewed the impact that the changes in IRR management will bring to the operations of the Company and in turn to our regulatory submissions. More detailed information on IRR and our swaps is contained in Note 5 on page 142.

The Risk and Compliance teams continue to meet the challenge of developing regulation and have provided the Committee with effective oversight of the risk landscape within the Group. We have also considered regulatory updates through regular reporting which includes the outputs of the Compliance monitoring programme and emerging regulatory requirements, and in early 2020 received a training and update session on Anti-Money Laundering and counter-terrorist financing.

Further information on the activities of the Committee during the year is provided in the following report and further information about risk-related matters can be found in the sections of the report and accounts on pages 40 to 49.

Paul Marrow
Chairman of the Risk Committee

Risk Committee report

Risk Committee membership and meetings

iNED	3
NED	0
ED	0

Meeting attendance

The number of planned meetings held during 2019 and the attending members are shown in the table below:

	Risk Committee	Eligible to attend
Number of meetings during 2019	**4**	**4**
Paul Marrow	4	4
Ann Berresford	4	4
Paul Myers	4	4

Composition

The Risk Committee comprises three members and Paul Marrow is the Chairman of the Committee. Paul Marrow was succeeded by Paul Myers as Chairman of the Committee from 31 March 2020.

The Code provides that where a company has a separate risk committee it should be comprised of independent non-executive directors. Paul Lynam retired from the Committee on 30 January 2019 and Paul Myers joined the Committee with effect from the same date, prior to the first meeting of the Committee being held in 2019. The Company considers that it has complied with this provision during 2019.

The Risk Committee meets formally at least four times a year and otherwise as required. The number of planned meetings held during 2019 and the attending Directors are shown in the table to the left. The Committee met a further two times on an ad hoc basis.

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

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

Role of the Risk Committee

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

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

Other matters within the remit of the Committee are the risk profile of the Group, risk appetite, frameworks and limits, the risk management operating model, risk architecture, the technology infrastructure supporting the risk management framework, operational risk, conduct risk, credit risk, financial risk and regulatory and compliance matters.

Matters discussed at Risk Committee meetings since 1 January 2019

The Risk Committee has a schedule of meetings with standing agenda items so that all relevant matters are dealt with over the course of the year. The standing agenda is regularly reviewed and updated to include issues pertinent to Secure Trust Bank in a rapidly evolving landscape. Items included on the 2019 standing agenda include Operational Resilience and the Motor Transformation Programme. In addition to standing agenda items the Committee also deals with other matters that arise during the year. In 2019 this included, for example, oversight of a related party transaction, key regulatory developments such as the extension of the Senior Manager Regime, the oversight of the risks arising from the implementation and execution of the Motor Transformation Programme and the appropriateness of adjusting proposed remuneration for 2020.

During the year the Risk Committee reviewed its Terms of Reference, the ICAAP and ILAAP and approved the schedule of standing agenda items, the Compliance monitoring plan for 2020, the business continuity plan, including the business's response to a pandemic, and the operational risk management policy.

Risk Committee report
continued

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

Subject area	Matters considered
Group risk appetite statement and key risk indicators	The Group's key risk appetite metrics, which are reviewed and approved on an annual basis. The Committee reviews exceptions to the last quarter's performance by reference to the key risk indicator metrics provided to each meeting.
Strategic risks	Strategic risks (those arising from the internal environment and the external environment that could have an effect on management's ability to deliver on the Group strategic plan) are discussed and challenged on an annual basis as well as in each meeting as they pertain to the items raised on the agenda.
COVID-19	Review and approval of the assumptions and methodology adopted in specific stress testing. This has enabled the Board, on the recommendation of the Audit Committee, to assess and conclude on the going concern and viability statements in the light of the virus outbreak.
Credit risk	Credit risk performance for all businesses and 'deep dive' reviews on status and plans for individual account balances or portfolios that warrant specific focus. The Committee has a mandate to approve some Group-wide mandates and policies including single counterparty limits and credit risk policies set for individual business areas.
Operational Resilience and risk, including Cyber, Information Security Resilience risk and Business Continuity	Oversight of the operational risk policy including metrics and KPI reporting and business unit management risk and control self-assessment. Complaints data, governance, including review of the Group Governance Manual. Oversight of the business continuity plan, including the Company's response to a pandemic, flooding and other natural events, and other operational resilience reporting/KPIs. Oversight of the annual Operational Risk and Control Assessments. The strategies undertaken within the Group to understand, identify, monitor and respond to cyber threats including the current state and planned activity. Development of the reporting profile for risks under the Motor Transformation Programme. Year one of the programme has now been completed and close monitoring will be maintained over future phases. Development of the Operational Resilience Plan and frameworks.
Capital and liquidity risk	The Committee has primary responsibility for reviewing and making a recommendation to the Board on the Group's ICAAP and ILAAP and the Resolution and Recovery Plans. Specific matters such as the Pillar 2A and Pillar 2B capital requirement, Pillar 3 disclosures and the results of stress testing were reviewed and debated.
Regulatory and conduct risk	The Committee receives regular reports on the key risk indicators for regulatory, reputational and conduct risk. The Committee reviews the regulatory risk assessment on an annual basis and approves the annual compliance monitoring programme.
Whistleblowing	The Chair of the Committee had the role of Whistleblowers' Champion during 2019; this will be transferred to the Chair of the Audit Committee in 2020. During 2019, the Committee has validated through oversight and regular reporting that the arrangements for whistleblowing remain effective.

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

Regulatory, compliance and conduct risk monitoring

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

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

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

The Group has an externally managed whistleblowing 'hotline' and quarterly reports were provided to the Committee and the Whistleblowers' Champion. Tests have been completed validating the adequacy of the framework, service provider and internal procedures. Responsibility for whistleblowing will be transferred to the Audit Committee in 2020 with the Whistleblowers' Champion role being absorbed into the remit of the Audit Committee Chairman and reports provided to the Board.

During 2019, regulatory changes have included improvements to the management information provided to the Committee, in response to feedback from the FCA in relation to bereavement services, and implementation of the extension of the Senior Managers and Certification Regime to the regulated subsidiaries (Debt Managers (Services) Ltd, V12 Retail Finance Ltd and STB Leasing Ltd).

Conduct risk and culture remain a key focus within the Group and are managed through the Customer Focus Committee which reports to the Board through the Executive Committee.

Strategic and operational risk

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

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

The Committee conducts an annual review of the Group risk appetite statement and the supporting metrics and recommends the Group risk appetite statement to the Board for approval.

In assessing strategic risk the Committee has regard to the identified strategic risks, which the Committee reviews annually. When reviewing the strategic and operational risks the Committee also gives consideration to emerging risks, including the likelihood and impact upon the Group. Where appropriate these emerging risks are identified through our Operational Risk Management Framework and our Risk and Controls Self Assessment and reported to the Committee. More information on this process can be found on page 48 and in the Internal Control section on page 69. In assessing strategic risks, the Committee has due regard to the existing process and internal controls in operation and reviews the recommendations from the Risk and Compliance functions on how to adapt the controls to mitigate those risks.

Credit risk

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

Risk committee effectiveness

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

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

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

Victoria Stewart
Chairman of the Remuneration Committee

"We have given consideration to wider workforce remuneration and employee benefits at most Committee meetings held throughout the year."

On behalf of the Committee I am pleased to present the Remuneration Committee report, including the Directors' Remuneration Report, for the 2019 financial year.

This has been a busy year for the Committee in which we have continued to strengthen our oversight of remuneration practice across the Group in a number of areas. As set out on page 85, the Committee has engaged in a number of activities which encompass both executive and wider workforce remuneration.

Executive remuneration

During the last months of 2018 the Committee, with the assistance of the Company Secretary, worked through the timetable and key milestones to be completed in order to draft, agree and consult on a new Directors' Remuneration Policy, which will be put to shareholders for approval at the 2020 AGM. This involved the appointment of a Remuneration Consultant, discussions with the Executive Directors and a period of consultation with the top 15 shareholders of the Company, who own approximately 91% of the shares in issue. Following a successful consultation and discussions with the CEO, the Committee is pleased to present the 2020–2022 Directors' Remuneration Policy ('2020 DRP') which is set on pages 96 to 105 of this report.

In designing the 2020 DRP, we listened carefully to feedback we have received from shareholders, considered the recommendations with regard to Executive Remuneration in the latest Corporate Governance Code and sought input from our Remuneration Consultants. Feedback was not sought from the Group Employee Council, but the remuneration of the Executive Directors has been discussed in that forum.

Remuneration proposals

The proposals are designed to achieve the following:

- Close alignment with shareholders through the introduction of a post-employment Minimum Shareholding Requirement policy
- A better balance between fixed and variable pay by reducing fixed pay and increasing the emphasis on long-term performance through variable pay
- Strengthening the existing malus and clawback provisions

The main changes proposed to the policy and the CEO package, with further detail in the 2020 DRP, are as follows:

1. Base salary

The Committee is mindful that the current CEO's base salary was above market norms and places too much emphasis on fixed pay. The Chairman, on behalf of the Committee, engaged in discussions with the CEO regarding his base salary and if the 2020 DRP is approved by shareholders, the CEO has agreed to a 25% reduction in his current salary of £1.2 million to £900,000 effective from 1 April 2020. We are undertaking a process to search for a new CFO. The 2020 DRP includes a statement that for any new executive appointed going forward, base salary will be set at a level appropriate to the role and the experience of the Executive Director being appointed. Historic Executive Director salaries will not act as a reference point.

2. Pension

No change has been proposed since employer pension contributions at 5% of base salary are low in relation to market norms for Executive Directors and are aligned to the rate for the Company's employees who receive between 4–8% of base salary depending upon grade and pre-existing arrangements.

3. Variable pay

There are no changes proposed to the current Policy maxima, as set out on pages 97 and 98 and which allow for an Annual Bonus of up to 100% of salary and up to a further 100% of salary in exceptional circumstances; and a LTIP of up to 100% of salary.

However, the Committee proposes a change to the LTIP grant level for the CEO for 2020 compared to 2019. Under the Policy the Remuneration Committee may grant up to 100% of salary under the LTIP. In 2019 the CEO was granted an LTIP award of 50% of base salary. Recognising that the CEO has agreed to a substantial reduction in base salary and to rebalance his fixed pay in relation to variable pay, the Committee proposes an LTIP grant of 100% of base salary for 2020, which is within the existing Policy limit.

This represents a shift from fixed pay toward long-term variable pay and will further demonstrate the link between CEO remuneration and the delivery of shareholder value.

4. Minimum Shareholding Requirement ('MSR') policy

In addition to an in-post MSR of 100% of base salary built up over five years from appointment from vested share awards, the Committee proposes to introduce a post-cessation MSR policy. Leavers will have a requirement to hold the in-office MSR or, if lower, 100% of their pre-cessation shareholding for 12 months from ceasing to be an officer or employee. Any period of garden leave will reduce the post-employment holding period.

It is also important to note that good leavers are permitted to retain LTIP (pro-rated) which vests at the normal vesting date and is then subject to a further two-year post-vesting holding period delivering shareholder alignment for up to five years. Similarly, where a good leaver is permitted to retain deferred bonus this vests at the normal vesting dates rather than being accelerated.

In setting the MSR, post-cessation MSR levels and the holding period we took into consideration a number of factors, including the salary level for current incumbents and historic and potential variable pay opportunities and outcomes. The Committee concluded that, at this time, the proposed levels are appropriate both in the current circumstances and for a company of Secure Trust Bank's size. The in-post level is a minimum requirement and executives are encouraged to build up a holding in excess of this level. The Committee will keep this under review.

5. CEO notice period

As part of the transition from the current to the new base salary the Committee proposes that if notice is served before the end of 2020, base salary for the purposes of determining the CEO's notice payment shall remain at the pre 1 April 2020 level for 2020. Given the substantial reduction in base salary this is an important part of the transition in the Committee's view.

6. Discretions, clawback and malus review

The 2020 DRP updates Remuneration Committee discretions to include a discretion to override annual bonus and LTIP formulaic outcomes. We have also strengthened the triggers of our malus and clawback policy to include broader provisions on corporate failure, failure of risk management, regulatory non-compliance and other events resulting in substantial reputational damage for which the Executive Director made a material contribution. Further details can be found on page 99.

Our existing Directors' Remuneration Policy was approved overwhelmingly by our shareholders at the Annual General Meeting in 2017, with 96% of votes in favour. We hope that shareholders will be as supportive of this updated 2020 DRP. We encourage an active interest from our investors in our Remuneration Policy and practices, we welcome dialogue with shareholders on remuneration, and seek to engage regularly with shareholders on this important subject.

Performance and variable pay outcomes for the year ended 31 December 2019

For the financial year ended 31 December 2019, Executive Directors were eligible for an annual bonus award of up to 100% of salary, subject to stretching performance metrics based on a balanced business scorecard of financial, risk, strategic, customer, operational and staff metrics.

The Board agreed the 2019 financial year budget at its meeting in November 2018, which included targets relating to the Financial KPIs set out in the Strategic Report on page 18. The performance objectives set for the Executive Directors for the 2019 financial year reflected elements of those KPIs. Additional strategic targets were set, specifically relating to the non-financial performance metrics, for each of the Executive Directors. Performance against those objectives is set out on page 89.

With this in mind, and taking into account performance in the year against the annual bonus performance metrics, the CEO will receive a bonus of £540,000 (2018: £600,000) equivalent to 45% of his maximum opportunity. Half of the bonus is deferred into shares over a three-year period. Upon his resignation on 9 December 2019 the CFO was no longer entitled to a bonus in respect of the 2019 financial year and his unvested share awards lapsed.

The 2017 LTIP award, assessed over the financial years ending 31 December 2017, 2018 and 2019 becomes eligible to vest in April 2020 and further details on the assessment of the award can be found on page 90.

We are satisfied that the variable remuneration for the 2019 financial year for the Executive Directors is in line with business performance.

Wider workforce remuneration

In addition to the 'deep dive' on employee remuneration and the other reviews set out on page 85, we have given consideration to wider workforce remuneration and employee benefits at most Committee meetings held throughout the year. This had ranged from a review of benefits which would enable diversity in the workplace, including enhanced maternity and paternity leave, through to the review of employee pensions, which is set out as a case study in our S172 Statement on page 60, and reviewing the pay and grading structure which was implemented in 2018 and which provides staff with clarity for their future career path.

As set out in Nomination Committee report and the Chairman's Statement, Paul Marrow will be stepping down from his role on the Committee at the 2020 AGM. I would like to thank Paul for his advice and counsel to the Committee during his tenure. Paul Myers joined the Committee on 1 January 2020 and I look forward to working with Paul as the remuneration practices of STB continue to evolve.

Victoria Stewart
Chairman of the
Remuneration Committee

Directors' Remuneration Report
continued

Remuneration Committee membership and meetings

Composition

iNED	3
NED	0
ED	0

Meeting attendance

The number of planned meetings held during 2019 and the attending members are shown in the table below:

	Remuneration Committee
Number of meetings during 2019	**5**
Victoria Stewart	5/5
Lord Forsyth	5/5
Paul Marrow[1]	4/5

[1] Paul Marrow was unable to attend the Meeting on 30 July 2019 as he was unwell.

As at 31 December 2019 the Remuneration Committee comprised three members and was compliant with the Code provision regarding the composition of the Remuneration Committee throughout 2019. The Code contemplates that, in relation to the Company, the Board should establish a Remuneration Committee of at least two independent Non-Executive Directors. The Company Chairman may also be a member of the Committee where, as is the case with STB, he was considered independent on appointment as Chairman.

The Remuneration Committee meets at least twice and ordinarily four times a year and when required to address non-routine matters. The number of planned meetings held during 2019 and the attending Directors are shown in the table to the left.

The Company Secretary or their alternate acts as Secretary to the Remuneration Committee. Other individuals attend at the request of the Remuneration Committee Chairman and during the year the Chief Executive Officer, HR Director, Chief Internal Auditor, other senior managers and the Remuneration Consultant attended meetings to report to or advise the Committee.

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

During the year the Committee reviewed and approved its terms of reference. A full copy of the terms of reference of the Remuneration Committee can be obtained by request to the Company Secretary or via the Group's website at **www.securetrustbank.com**

Role of the Remuneration Committee

The Remuneration Committee assists the Board in fulfilling its responsibilities in relation to remuneration including, amongst other matters, determining the policy for individual remuneration and benefits package of the Executive Directors and the senior management below Board level. The Committee reviews workforce remuneration, related policies and how executive and wider workforce pay are aligned and with regard to the culture of STB.

Key matters considered by the Committee from 1 January 2019 to 31 December 2019

Item	Comment
Wider workforce remuneration and policies	The Remuneration Committee conducted a 'deep dive' on wider workforce remuneration, which included understanding the age, gender and ethnicity profile of our workforce, how remuneration applied to each segment and how our policies encourage diversity within our business. The Committee reviewed how the Group Bonus pool was determined and allocated amongst the workforce and how that aligned with regulatory expectations and determined behaviours. With 82% of employees viewing STB as a 'great place to work', the Committee received a presentation on the culture of STB and the policies which encourage employee satisfaction, diversity and retention, ranging from parental leave to flexible working.
All Employee Group Remuneration Policy ('Policy')	The Committee conducted the annual review of the All Employee Group Remuneration Policy, aligning this with the review conducted on wider workforce remuneration. The Policy was approved for recommendation to the Board, having received advice on the Policy from the HR Director, the Head of Compliance, the Company Secretary and the Remuneration Consultant. The implementation of the All Employee Remuneration Policy was also the subject of an Internal Audit review, which was received by the Committee.
Grading structure	A new grading structure was implemented in Q3 2018. The Committee received an update on the implementation of the grading structure within the Group, and whether the new structure allowed individuals to map how their career could develop within the Group. The Committee received a report on how the structure would be developed further to allow greater flexibility in assessing roles and greater granularity when benchmarking roles internally and externally.
Appointment of Remuneration Consultant	The Committee conducted a competitive tender to appoint a Remuneration Consultant as set out below and engaged with the consultant in designing the Directors' Remuneration Policy and other executive remuneration matters and reviewing the All Employee Group Remuneration Policy.
Directors' Remuneration Policy ('DRP') 2020–2022	The Committee started the triennial review process of the existing DRP, taking into account changes to the Code and current market practice, culminating in the drafting of a new DRP and discussions with the Executive Directors on their remuneration.
Executive Directors' Remuneration arrangements	The Committee considered the bonus arrangements for the Executive Directors for 2018 and 2019 in accordance with the Directors' Remuneration Policy and the targets set as part of a balanced business scorecard. In doing so the Remuneration Committee took into account the financial performance of the Group and personal performance. The Committee reviewed the 2019 award and performance conditions for LTIPs. Details of the 2019 bonus earned by Directors during the year can be found on page 88.
Material Risk Takers ('MRTs')	The Committee reviewed the processes for the classification and identification of MRTs and the remuneration and bonus arrangements for this cohort, with the subsequent strengthening of reporting to the Committee on the review process.
Directors' Remuneration Report ('DRR') and other disclosures in the Annual Report and Accounts	The Committee considered the disclosures required in the Annual Report and Accounts. The Committee received advice from the Company Secretary, HR Director and Aon when compiling the DRR and the additional disclosures in the Notes. The Committee undertook a review of the total remuneration packages of the Executive Directors and via the Board Chairman negotiated the proposed change to the composition of the CEO's package. For more details see page 82.
CEO Pay Ratio	The Committee discussed the methodology for calculating the CEO to staff pay ratio and determined that it would follow best practice and guidance by adopting Option A. The Committee discussed the ratio and that of peers. Further information on the CEO pay ratio can be found on page 93.
Gender Pay Gap Reporting ('GPG')	The Committee reviewed the GPG between staff and discussed disclosure of the figures and the differences between Equal Pay and GPG. The Committee reviewed the action plan to encourage and develop a diverse talent pipeline.
Annual review of terms of reference, Committee Effectiveness Review, forward calendar and items for 2020	The Committee reviewed its terms of reference and approved these for recommendation to the Board. The Committee considered and evaluated its performance by way of a questionnaire of the Committee members and other key participants in meetings. The result of the evaluation was that the Committee considered it was performing effectively. The Committee agreed a standing agenda and calendar of meetings for 2020. Four meetings are planned to be held in 2020 to address routine matters.

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

Directors' Remuneration Report continued

Remuneration Consultant and Committee advice

In late 2018 the Committee commenced a competitive tender process to seek to appoint a Remuneration Consultant, culminating in the appointment of the Executive Compensation practice of Aon plc ('Aon'). A tender was issued to four parties, who each provided documentation and references in response to the tender, of which two parties were selected to present to the Committee, ultimately resulting in the appointment of Aon in January 2019.

Aon has no other significant connection with the Group or its Directors other than the provision of advice on executive and employee remuneration, and related matters. Aon is a member of the Remuneration Consultants' Group, and abides by its code of conduct that requires remuneration advice to be given objectively and independently. The total fees paid to Aon for the provision of advice to the Committee during the year were £90,286 (excluding VAT). Aon has also provided support to the HR and Legal teams on remuneration implementation. The Committee is satisfied that the advice provided by Aon on remuneration matters is objective and independent.

The Committee received advice on specific matters from internal advisers and management, including the Group HR Director and the Company Secretary. The Committee is satisfied that the Committee has exercised independent judgement when evaluating the advice received from all its advisors.

Directors' Remuneration Report

The information contained in the Directors' Remuneration Report is subject to audit, where indicated in the Report, in accordance with The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended).

On behalf of the Board, as Chairman of the Remuneration Committee, I am pleased to present our Directors' Remuneration Report.

The Directors' Remuneration Report contains the Annual Remuneration Report which explains the operation of remuneration-related arrangements for 2019. The Directors' Remuneration Policy for Executive and Non-Executive Directors 2020–2022, which is subject to shareholder approval at the 2020 Annual General Meeting and an illustration of the application of that Remuneration Policy in 2020 are included at the end of this Report.

A full copy of the 2017–2019 Remuneration Policy, which was approved by shareholders at the 2017 Annual General Meeting, can be found on the Company's website at **www.securetrustbank.com**.

How we link executive remuneration to our strategy

The key principles behind the Group's Remuneration Policy are:

- to be simple and transparent in order to reflect the Group's mission statement of straightforward, transparent banking
- to promote the long-term success of the Group, with transparent and demanding performance conditions
- to provide alignment between executive reward and the Group's values, risk appetite and shareholder returns
- to have a competitive mix of base salary and short- and long-term incentives, with an appropriate proportion of the package linked to the delivery of sustainable long-term growth

In developing and implementing the Remuneration Policy we have also had regard to regulatory requirements for senior managers under the Senior Manager Regime. The Group is currently a Level 3 firm within the classifications applied by the financial regulators for regulated entities. That means that the Group is not required to satisfy in full all elements of the remuneration codes. Notwithstanding this, in formulating and applying the Remuneration Policy the Committee has had regard to the remuneration codes when looking at existing and proposed remuneration. The Committee has been compliant with the Directors' Remuneration Policy approved by shareholders at the 2017 Annual General Meeting and Principles P, Q and R of the Code. With the adoption of the 2020–2022 Directors' Remuneration Policy at the 2020 AGM, the Committee takes account of compliance with remuneration provisions 32–41.

Single figure table (audited information)

The following table sets out total remuneration earned for each Director in respect of the year ended 31 December 2019 and the prior year.

	Salary and fees		Benefits		Annual bonus		Pension		Shares[1]		Total remuneration	
	2019 £'000	2018 £'000	**2019 £'000**	2018 £'000	**2019 £'000**	2018 £'000	**2019 £'000**	2018 £'000	**2019 £'000**	2018 £'000	**2019 £'000**	2018 £'000
Executive Directors												
P Lynam	1,200	1,200	29	22	540[4]	600[4]	35	35	–	–	1,804	1,857
Non-Executive Directors												
M Forsyth	205	200	1	1	–	–	–	–	–	–	206	201
A Berresford	92	88	1	1	–	–	–	–	–	–	93	89
P Marrow	116	115	–	–	–	–	–	–	–	–	116	115
D McCreadie[2]	3	–	–	–	–	–	–	–	–	–	3	–
P Myers	71	6	–	–	–	–	–	–	–	–	71	6
L Neville-Rolfe	71	6	–	–	–	–	–	–	–	–	71	6
V Stewart	77	75	1	1	–	–	–	–	–	–	78	76
Former Directors												
N Kapur[3]	425	410	29	29	–	300[4]	31	25	21	–	506	764
	2,260	**2,100**	**61**	**54**	**540**	**900**	**66**	**60**	**21**	**–**	**2,948**	**3,114**

1 Further details of awards made under the LTIP and DBP can be found on page 90.

2 David McCreadie was appointed to the Board on 17 December 2019 and a member of the Risk Committee on 1 January 2020.

3 Neeraj Kapur resigned on 6 December 2019.

4 The bonus amount for Paul Lynam and Neeraj Kapur is the total bonus earned in respect of the year, of which 50% was deferred into shares under the 2017 Deferred Bonus Plan. Further details are disclosed on page 88.

The figures in the single figure tables above are derived from the following:

Salary and fees	The amount of salary/fees received in the year.
Benefits	The taxable value of benefits received in the year. These are principally private medical health insurance, car allowances and the value of Sharesave Scheme options granted during the year. Sharesave Scheme options are valued based on the difference between the market value of the shares at grant and the exercise price and were granted for the first time in 2017.
Annual bonus	The value of the bonus earned in respect of the financial year (including the proportion of the amount earned which is subject to deferral).
Pension	The amount of payments in lieu of Company pension contributions received in the year.

Additional disclosures in respect of the single figure table (audited information)

Base salary and fees

Base salaries for the Executive Directors in respect of the year ended 31 December 2018 and 31 December 2019 are as follows:

	2018 base salary £'000	**2019 base salary £'000**
P Lynam	1,200	1,200
Former Directors		
N Kapur	410	425

The Committee considered it appropriate to increase Neeraj Kapur's base salary for 2019 by 3.6% to £425,000 in line with the basic salary increases for broader staff and to reflect the position of his salary compared to peers.

Corporate Governance Report

Directors' Remuneration Report continued

Bonus arrangements

For the financial year ended 31 December 2019, Executive Directors were eligible for an annual bonus award of up to 100% of salary, subject to stretching performance metrics based on a balanced business scorecard of financial, strategic, customer, operational and staff metrics. At least 60% of the bonus was subject to financial metrics and a maximum of 100% of the bonus subject to financial and risk performance ('Financial') metrics. Up to 25% of the bonus was subject to a mixture of strategic, customer, operational and staff performance ('Non-financial') metrics. Details of the annual bonus outturn are shown below.

	Financial % of salary opportunity	Financial % of salary outturn	Non-financial % of salary opportunity	Non-financial % of salary outturn	Total % of salary outturn	£'000
Paul Lynam	67.5	30.4	32.5	14.6	45	540
Former Directors						
Neeraj Kapur	75	N/A	25	N/A	N/A	N/A

50% of the bonus earned is deferred into shares under the Deferred Bonus Plan. Deferred shares will vest in equal tranches after one, two and three years following deferral.

Set out below are the high level financial and non-financial performance metrics applied in respect of the financial year ended 31 December 2019.

Financial and risk performance metrics

The financial and risk performance metrics were based on the delivery of Board agreed KPIs in accordance with the schedule below.

					CEO	
Objective	Threshold (0% payable)	On-target (50% payable)	Stretch (100% payable)	Achieved	Weight	Bonus payable
Grow						
Underlying Profit Before Tax	£37m	£41.9m	£46.1m	£41.1m	20%	8.1%
Adjusted Return on Average Equity	12.8%	14.2%	15.6%	13.5%	15%	3.8%
Sustain						
Underlying Cost Income Ratio as determined by the Board	63.8%	58.0%	52.2%	56.9%	10%	5.9%
Maintain strong compliance with risk appetite to meet the strategic plan:						
Cost of risk	1.7%	1.3%	0.9%	1.4%		
Impairment charge	£35.8m	£32.9m	£30.0m	£32.6m		
					7.5%	3.5%
Deliver other key financial objectives	Range of capital required set at the minimum capital requirement through to a level, which included a capital buffer, as determined by the Board. Regulatory capital as assessed by the Board is above the agreed target as detailed on page 24. This objective was assessed at between 'On Plan' and 'Stretch'.				15%	9.1%
Total					**67.5%**	**30.4%**

Non-financial performance metrics

The high-level objectives and targets (together with commentary on their achievement) for the Chief Executive Director are set out on the following page.

Objective	Targets	Achievement	CEO Weight	CEO Bonus payable
Grow				
Oversight of the delivery of the Motor Transformation Programme 2019	Measured by reference to key 2019 project milestones delivered to the agreed timescale as reported to the Board in line with the strategic plan.	The Board was satisfied that the Programme delivered in terms of quality, vision and the final product. Project milestones, whilst delivered, have been achieved outside of the original plan articulated to the Board.	10%	2%
Sustain				
Maintain strong risk culture within organisation, setting the tone from the top on risk matters and cascading this through the organisation	No material negative risk issues identified by Board, Risk or Audit Committee during the year. 100% of senior staff completing mandatory regulatory training.	A report from the Risk Committee has concluded that no material risk issues have been identified. The Internal Audit Assessment of Risk Culture for 2019 is above the level expected. An on-target rating of 3.75% is deemed appropriate.	7.5%	3.75%
Love				
Stakeholder engagement, including building and maintaining effective and constructive relationships with customers, regulators and shareholders	Measured by reference to the Feefo and overall customer rating for STB. Assessed by feedback direct to Chairman from shareholders and the post shareholder roadshow feedback provided by Stifel and Canaccord on various matters including shareholder communication, roadshows and consensus.	Placing the customer at the heart of what we do is one of our key metrics. Feefo scoring and customer scoring remains high; shareholder feedback provided to the Chairman has been positive, as has the continuing relationship with the PRA. An on target rating is appropriate in the circumstances.	7.5%	3.75%
Being an employer of choice	Expanding plans to address staff engagement at all levels including increase employee retention, decrease employee attrition and promote employee development.	Achieved Great Place to Work® accreditation (for the second consecutive year) meaning STB is in top 3% of all firms surveyed. Engagement plans were delivered outside of the original plan articulated to the Board. An above target rating is appropriate in the circumstances.	7.5%	5.1%
Total			**32.5%**	**14.6%**

Vesting of the non-financial performance element of the annual bonus was based on the Committee's view of the relative importance and impact of each of the objectives during the year.

Awards exercised during the financial year (audited information)

2017 Deferred Bonus Plan ('DBP')

On 24 April 2019, Neeraj Kapur exercised 1,399 Deferred Bonus Plan ('DBP') share options at an exercise price of 40 pence. The shares were retained by Mr Kapur.

Directors' Remuneration Report
continued

Awards granted during the financial year (audited information)

2017 Long Term Incentive Plan ('LTIP')

Nominal-cost share options were granted to Executive Directors on 25 April 2019 in accordance with the rules of the LTIP as follows:

Recipient	Date of grant	Basis of award	Number of shares	Face value of award £'000[1]	Performance period
Paul Lynam	25 April 2019	50% of salary	38,338	600	1 January 2019 to 31 December 2021
Former Directors					
Neeraj Kapur	25 April 2019	61% of salary	15,974	250	1 January 2019 to 31 December 2021

[1] Based on a share price of 1565 pence per share which was the average closing share price on the prior five working days.

Neeraj Kapur's LTIP options lapsed on 6 December 2019 following his resignation as a Director and employee. Vesting of the share options is subject to EPS, Relative TSR and risk management performance metrics, assessed over a three-year performance period. The EPS and relative TSR performance targets are set out in the table below:

Vesting (% of maximum)	EPS growth (40% of award)	Relative TSR[1] (40% of award)
0%	Less than 10% per annum	Below Median
25%	10% per annum	Median
100%	30% per annum	Upper quartile
Straight-line vesting between points		

[1] As at the grant date, the TSR comparator group consisted of the following constituents: Arbuthnot Banking Group, Charter Court Financial Services Group plc, Close Brothers, OneSavings Bank, Metro Bank, Paragon Banking Group, Provident Financial and S&U.

The remaining 20% of the award will be assessed on risk management performance objectives during the Performance Period aligned with the Company's risk management framework, including but not limited to:

- the number of customer complaints received
- the number and nature of material risk events within the Group
- credit losses compared to the Board's assessment of the Group's risk appetite
- management of regulatory capital limits

Vesting will be determined based on the Committee's view of the relative importance and impact of each of the objectives over the performance period. Awards vest to the extent that the performance metrics are achieved, and are subject to a further two-year holding period.

2017 Deferred Bonus Plan ('DBP')

Nominal-cost share options were granted to Executive Directors on 25 April 2019 in accordance with the rules of the DBP as follows:

Recipient	Date of grant	Number of shares	Tranche 1	Tranche 2	Tranche 3	Face value of award £'000[1]
Paul Lynam	25 April 2019	19,169	6,389	6,389	6,391	300
Former Directors						
Neeraj Kapur	25 April 2019	9,606	3,202	3,202	3,202	150

[1] Based on a share price of 1565 pence per share which was the average closing share price over the prior five working days.

Neeraj Kapur's DBP options lapsed on 6 December 2019. Each award has been granted in the form of an option with an exercise price per share equal to the nominal value of a share and, subject to the rules of the Plan, will vest on:

- 25 April 2020 as regards one third of the shares subject to it (Tranche 1)
- 25 April 2021 as regards one third of the shares subject to it (Tranche 2)
- 25 April 2022 as regards one third of the shares subject to it (Tranche 3)

Each option once vested remains capable of exercise until 20 April 2029. The awards are subject to malus and clawback provisions as detailed in the rules of the DBP but not subject to further performance conditions.

Statement of Directors' shareholding and share interests (audited information)

No formal shareholding guidelines are currently in place. However, Paul Lynam has committed to building up and maintaining a shareholding of at least 100% of base salary, over time, by retaining all awards under the LTIP that vest (net of income tax and National Insurance).

The interests of the Directors and their connected persons in the Company's ordinary shares as at 31 December 2019 were as set out below. Any changes to a Director's shareholding are set out in the notes below the table.

Directors' shareholding and share interests

Director	Type	Total as at 1 January 2019	Shares purchased during the year	Options granted/ (exercised) during the year	Options lapsed during the year	Total as at 31 December 2019	Owned outright	Vested but unexercised	Unvested, not subject to performance conditions	Unvested, subject to performance conditions
P Lynam	Shares	19,012	–	–	–	19,012	19,012	–	–	–
	2011 Share Options	141,667	–	–	–	141,667[1]	–	141,667	–	–
	2017 LTIP[2]	47,321	–	38,338	–	85,659	–	–	–	85,659
	2017 DBP[2]	10,493	–	19,169	–	29,662	–	3,497	26,165	–
	2017 SAYE[3]	1,364	–	–	–	1,364	–	–	1,364	–
	Phantom share options[4]	187,500	–	–	–	187,500	–	187,500	–	–
		407,357[5]	–	57,507	–	464,864[5]	19,012	332,664	27,529	85,659
M Forsyth	Shares	3,000	500[6]	–	–	3,500	3,500	–	–	–
A Berresford	Shares	–	–	–	–	–	–	–	–	–
P Marrow	Shares	5,440	–	–	–	5,440	5,440	–	–	–
P Myers	Shares	–	3,500[7]	–	–	3,500	3,500	–	–	–
L Neville-Rolfe	Shares	–	1,271[8]	–	–	1,271	1,271	–	–	–
V Stewart	Shares	–	–	–	–	–	–	–	–	–
D McCreadie	Shares	–	–	–	–	–	–	–	–	–
		415,797	**5,271**	**57,507**	**–**	**478,575**	**32,723**	**332,664**	**27,529**	**85,659**
Former Directors										
N Kapur	Shares	1,000	1,399[9]	–	–	2,399[10]	2,399	–	–	–
	2011 Share Options	35,417	–	–	(35,417)[11]	–	–	–	–	–
	2017 LTIP[2]	16,575	–	15,974	(32,549)[11]	–	–	–	–	–
	2017 DBP[2]	4,197	–	8,210[9]	(12,407)[11]	–	–	–	–	–
	2017 SAYE[3]	1,364	–	–	(1,364)[11]	–	–	–	–	–
	Phantom share options[4]	31,250	–	–	(31,250)[11]	–	–	–	–	–
		89,803	**1,399**	**24,184**	**(112,987)**	**2,399**	**2,399**	**–**	**–**	**–**

1 On 24 January 2020 Paul Lynam exercised 141,667 2011 share options at an exercise price of 720 pence and 3,497 Deferred Bonus Plan ('DBP') share options at an exercise price of 40 pence over a total of 145,164 ordinary shares of 40 pence each ('Ordinary Shares'). He used 103,680 Ordinary Shares at a price of 1,550 pence to fund the acquisition of the shares and to cover the tax and national insurance arising from the exercise, with the remaining 41,484 Ordinary Shares from the exercise being retained. Mr Lynam's shareholding in the Group increased from 19,012 shares to 60,496 shares as a result of this transaction, which is consistent with his commitment to build up his shareholding in the Company over time.

2 Awards were granted under LTIP and DBP rules on 25 April 2019 as set out on pages 167 and 168.

3 Each of Paul Lynam and Neeraj Kapur participated in the 2017 SAYE scheme to the maximum monthly saving amount and did not participate in the 2019 SAYE scheme.

4 Each Phantom Share Option was granted on 23 March 2015 and was subject to the satisfaction of a performance condition. That performance condition had been met by the end of the performance period; the option price was below the market price, however, and a £nil value has been attributed to the awards.

5 Assuming a full vesting of awards as disclosed in the table above (excluding Phantom Share Options, see 4 above) and a market value as at 31 December 2019 of 1600 pence, the value of Paul Lynam's total interest in shares is £4.47 million.

6 Lord Forsyth purchased 500 shares on 8 August 2019.

7 Paul Myers purchased 3,500 shares on 3 April 2019.

8 Baroness Neville-Rolfe purchased 1,271 shares on 9 January 2019.

9 On 24 April 2019 Neeraj Kapur exercised 1,399 Deferred Bonus Plan ('DBP') share options at an exercise price of 40 pence.

10 On 24 January 2020 Neeraj Kapur sold 1,000 ordinary shares of 40 pence each ('Ordinary Shares') at a price of 1,556 pence. The Company was also notified by Mr Kapur that a person closely associated to him has sold 1,300 Ordinary Shares at a price of 1,564.5 pence also on 24 January 2020. Mr Kapur's shareholding in the Group decreased from 2,399 to 1,399 as a result of this transaction.

11 Neeraj Kapur's share options as detailed in the table above lapsed on his resignation as a Director on 6 December 2019.

Directors' Remuneration Report
continued

Payments made to former Directors during the year (audited information)

No payments were made in the year to any former Director of the Company.

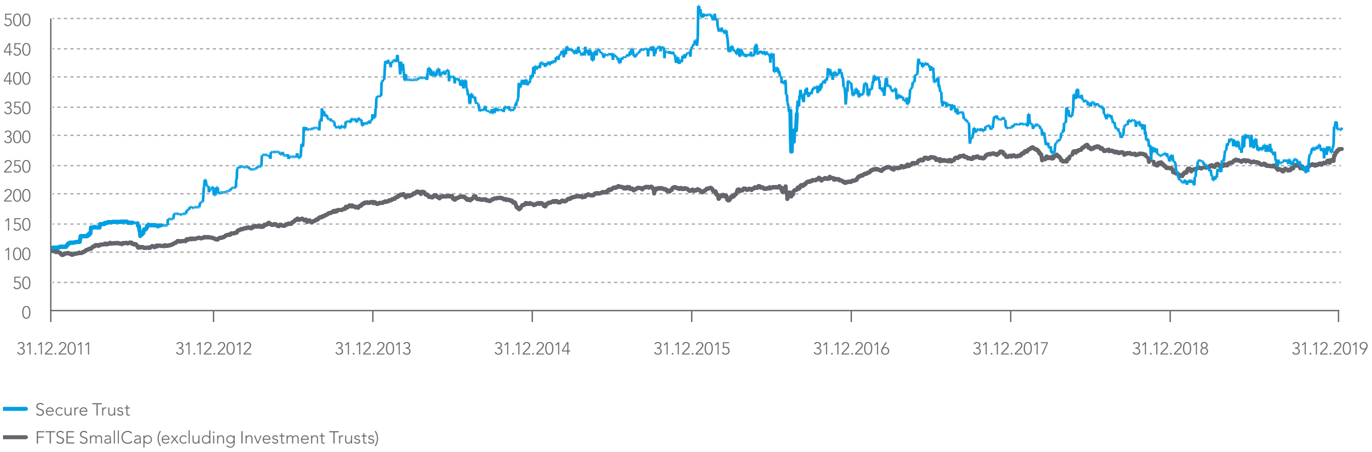
Payments for loss of office made during the year (audited information)

No payments for loss of office were made in the year to any Director of the Company.

Performance graph and historical CEO remuneration outcomes

Total shareholder return

The graph above shows the total shareholder return ('TSR') performance for the Company's shares in comparison to the FTSE SmallCap Index (excluding Investment Trusts) for the period from 2 November 2011 to 31 December 2019. For the purposes of the graph, TSR has been calculated as the percentage change during the period in the market price of the shares, assuming that dividends are reinvested. The graph shows the value, by 31 December 2019, of £100 invested in the Group over the period compared with £100 invested in the FTSE SmallCap Index (excluding Investment Trusts). The FTSE SmallCap Index (excluding Investment Trusts) has been chosen as a comparator as this is the most appropriate reference point given the capitalisation of the Company.



The table below shows details of the total remuneration, bonus and share options vesting (as a percentage of the maximum opportunity) for the CEO over the last eight financial years.

	Total remuneration £'000	Bonus as a % of maximum opportunity[1]	LTIP as a % of maximum opportunity[2]
2019	1,804	45	50
2018	1,857	50	N/A
2017	1,657	33.3	N/A
2016	5,542	N/A	100%
2015	1,459	N/A	N/A
2014	3,671	N/A	100%
2013	1,031	N/A	N/A
2012	870	N/A	N/A

1 Pre Main Market Admission, bonuses were determined by the Committee on a discretionary basis taking into account Group financial and individual performance during the financial year.

2 No LTIP shares were eligible to vest in respect of the years 2012, 2013, 2015, 2017 and 2018.

CEO pay increase in relation to all employees

The table below sets out the percentage change (from the financial year ended 31 December 2018) in base salary, value of taxable benefits and bonus for the CEO compared with the average percentage change for all employees.

Paul Lynam earned a bonus equal to £540,000 in respect of performance for the financial year ended 31 December 2019 (2018: £600,000).

Percentage change	CEO	Wider workforce
Salary	0%	4%
Taxable benefits	28%	14%
Annual bonus	(10.0%)	(1.9%)

The CEO's taxable benefits were £2,871 (2018: £2,241).

2019 CEO pay ratio

Our finalised CEO pay ratio for 2019 is set out in the table below. These figures are on a Group-wide basis, as per the regulations:

Year	Method	25th Percentile Pay Ratio	Median Pay Ratio	75th Percentile Pay Ratio
2019	Option A	96:1	71:1	36:1

Total UK employee pay and benefits figures used to calculate the CEO pay ratio:

	Chief Executive	25th Percentile	Median	75th Percentile
Salary	£1.2m	£18,158	£25,000	£45,000
Total pay and benefits	£1.804m	£19,409	£26,460	£52,886

The Company has chosen Option A methodology to prepare the CEO pay ratio calculation as this is the most statistically robust method and is in line with the general preference of institutional investors. The value of each employee's total pay and benefits, as at 31 December 2019, was calculated using the single figure methodology consistent with the CEO. No elements of pay have been omitted. Where required, remuneration was approximately adjusted to be full-time and full-year equivalent basis based on the employee's average full-time equivalent hours for the year and the proportion of the year they were employed.

The Committee considers that the median pay ratio for 2019 that is disclosed in the above table is consistent with the pay, reward and progression policies for the Company's UK employees taken as a whole.

Spend on pay

The following table sets out the percentage change (from the financial year ended 31 December 2018) in dividends and the overall expenditure on pay (as a whole across the organisation).

	2019 £million	2018 £million	Change %
Dividends, excluding special dividends, and share buybacks	15.5	14.8	4.7
Dividends, including special dividends, and share buybacks	15.5	14.8	4.7
Overall expenditure on pay[1]	51.1	47.3	8.0

[1] Further information can be found in Note 6 set out on page 144.

The increase in overall expenditure on pay is driven primarily by the increased size of Group's workforce, as set out in Note 6.

Directors' Remuneration Report continued

Service agreements and letters of appointment

Details of the Directors' service agreements, letters of appointment and notice periods are set out below:

Name	Commencement of current service agreement/letter of appointment[2,3,4]	Notice period
P Lynam	28 July 2010	12 months
M Forsyth[1]	6 October 2016	6 months
A Berresford	22 November 2016	6 months
P Marrow[1]	6 October 2016	6 months
D McCreadie	18 December 2019	6 months
P Myers	28 November 2018	6 months
L Neville-Rolfe	28 November 2018	6 months
V Stewart	22 November 2016	6 months
Former Directors		
N Kapur	27 October 2011	12 months

1 Entered into new letters of appointment prior to the Company's transition from the AIM to the Main Market.

2 Each of the Non-Executive Directors' letter of appointment was amended in January 2019 by a side letter confirming their respective Committee membership and their total fee. No other changes were made to their existing letter of appointment.

3 All Non-Executive Directors are subject to annual re-election.

4 Those Non-Executive Directors who are members of the Remuneration Committee are set out on page 84.

Implementation of Directors' Remuneration Policy for the financial year ending 31 December 2020

Details on how Secure Trust intends to implement the Directors' Remuneration Policy for the financial year ending 31 December 2020 are set out below.

Salary

Paul Lynam's salary will reduce to £900,000 per annum with effect from 1 April 2020.

Fees

The following table sets out the Non-Executive Director fee structure effective from 1 January 2020.

Role	2020 fee £'000
Chairman[1]	211[2]
Non-Executive Director (basic fee)[2]	69[2]
Senior Independent Director and Committee Chairman	20
Member of Audit, Risk or Remuneration Committee	5
Designated Non-Executive Director with responsibility for workforce engagement[3]	5

1 The Chairman does not receive any additional fees for his membership of any of the Board's committees.

2 With effect from 2020 the base fee payable to the Chairman and the NEDs increased in line with the average increase of remuneration for staff implemented within the annual review of remuneration in the previous year. The increase takes effect from 1 January each year starting with 2019. For 2020 the increase was 3%.

3 With effect from 1 May 2020.

Annual bonus

The proposed maximum annual bonus opportunity for the year ending 31 December 2020 will be equal to 100% of salary. The bonus will be subject to stretching performance metrics based on a balanced scorecard. 60% of the bonus will be subject to financial performance metrics, 15% risk metrics and 25% of the bonus will be subject to a mixture of non-financial strategic, customer, operational and staff performance metrics. The financial metrics will include PBT (20%), ROAE (15%), Cost Income Ratio (10%), and capital ratios (15%). The risk measures will include risk appetite (7.5%) and risk culture (7.5%). The non-financial metrics will include strategic programmes (10%), stakeholder management (7.5%) and governance (7.5%).

The Committee considers that the targets are commercially sensitive. A description of the performance targets will be disclosed in the Annual Report on Remuneration for the year ending 31 December 2020 or at such time when the targets are no longer considered commercially sensitive.

Up to an additional 100% of salary may be awarded in exceptional circumstances (such as in order to recognise exceptional performance during the year). To the extent that any additional bonus is awarded, full details of the award and rationale will be disclosed in the Annual Report on Remuneration for the year ending 31 December 2020.

50% of any bonus earned will be deferred into shares under the Deferred Bonus Plan. Deferred shares will vest in equal tranches after one, two and three years following deferral.

LTIP

The Company proposes to grant LTIP awards to the Executive Directors in the form of nominal share options at the level of up to 100% of the new salary for the CEO. The LTIP awards will be subject to EPS, Relative TSR and risk management performance metrics. Due to the uncertainty arising from the COVID-19 pandemic the Committee is reviewing the EPS performance condition and will determine an appropriate and challenging growth target prior to the grant of the option. Performance will be assessed over a three-year performance period.

The proposed Relative TSR performance targets are set out below.

Vesting (% of maximum)	Relative TSR[1] (40% of award)
0%	Below Median
25%	Median
100%	Upper quartile
Straight-line vesting between points.	

[1] The Committee intends to use the following group of selected peers for assessing TSR performance: Arbuthnot Banking Group, Close Brothers, OneSavings Bank, Metro Bank, Paragon Banking Group, Provident Financial, S&U and PCF Group plc.

20% of the award will be based on risk management performance objectives aligned with the Company's risk management framework.

Statement of voting at AGM

The Remuneration Policy and Directors' Remuneration Report were approved by shareholders at the AGM in 2017 and 2019 respectively; the votes cast were as detailed below.

Resolution	Proxy votes for	% of proxy votes cast	Proxy votes against	% of proxy votes cast
To approve the Directors' Remuneration Policy (2017)	13,454,036	96.04	554,865	3.96
To receive and approve the Directors' Remuneration Report (2019)	15,733,875	100	260	0

Approval

This Report was approved by the Board on 6 May 2020 and signed on its behalf by:

Victoria Stewart
Chairman of the Remuneration Committee

Proposed Directors' Remuneration Policy 2020–2022

This Directors' Remuneration Policy will be submitted to the 2020 AGM for shareholder approval. If approved by shareholders, it will formally take effect from the date of the AGM. The Directors' Remuneration Policy has been prepared in accordance with the regulations set out in the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended). This policy has been developed taking into account the following principles: clarity, simplicity, risk, predictability, proportionality and alignment to culture.

Policy table for Executive Directors

Operation	Maximum opportunity	Performance metrics
Base salary **Purpose: To enable the Group to recruit and retain the services of individuals of a suitable calibre.**		
Salaries are usually reviewed annually taking into account: • underlying Group performance • role, experience and individual performance • competitive salary levels and market forces • pay and conditions elsewhere in the Group For new Executive Directors, base salary will be set at a level appropriate to the role and the experience of the Executive Director being appointed. Current Executive Director salaries will not act as a reference point. The CEO has agreed to a voluntary reduction in annual salary from £1.2 million to £900,000, effective from 1 April 2020.	While there is no maximum salary, increases will normally be in line with the typical range of salary increases awarded (in percentage of salary) to other employees in the Group. Salary increases above this level may be awarded to take account of individual circumstances, such as, but not limited to: • where an Executive Director has had an increase in responsibility • where an Executive Director has been promoted or has had a change in scope • an individual's development or performance in role (e.g. to align a newly appointed Executive Director's salary with the market over time) • where an Executive Director's salary is no longer market competitive (e.g. due to an increase in size and complexity of the business) Increases may be implemented over such time period as the Committee deems appropriate.	N/A
Benefits **Purpose: To provide benefits that will be valued by the recipient.**		
Executive Directors receive benefits in line with market practice, and these include a car allowance, medical insurance, life assurance and disability insurance. Other benefits may be provided based on individual circumstances. These may include, for example, relocation and travel allowances. Any reasonable business-related expenses (including tax thereon if determined to be a taxable benefit) can be reimbursed.	Whilst the Committee has not set an absolute maximum on the level of benefits Executive Directors may receive, the value of benefits is set at a level which the Committee considers to be appropriately positioned taking into account relevant market levels based on the nature and location of the role and individual circumstances.	N/A

Operation	Maximum opportunity	Performance metrics
Pension **Purpose: To provide an appropriate level of retirement benefit (or cash allowance equivalent).**		
Executive Directors are eligible to participate in the Group defined contribution pension plan. In appropriate circumstances, such as where contributions exceed the annual or lifetime allowance, Executive Directors may be permitted to take a cash supplement in lieu of contributions to a pension plan.	Employer pension contributions are limited to 5% of base salary. The maximum cash supplement in lieu of pension is 5% of base salary.	N/A
Annual bonus **Purpose: Rewards performance against targets which support the strategic direction of the Group.**		
Awards are based on performance (measured over a year) against metrics determined by the Committee. Pay-out levels are determined by the Committee after the year-end based on performance against those targets. The Committee has discretion to amend the pay-out should any formulaic output not reflect the Committee's assessment of overall business performance. To further link the Executive Directors' pay to the interests of shareholders, Executive Directors are required to defer 50% of any bonus earned into shares under the Deferred Bonus Plan ('DBP'). Deferred share awards vest in equal tranches after one, two and three years following deferral. Deferred share awards will typically take the form of a nil-cost/nominal-cost share option but may be structured as an alternative form of share award. The Committee may decide to pay the whole of the bonus earned in cash where the amount to be deferred is less than £50,000 and would therefore, in the opinion of the Committee, make operation of the DBP administratively burdensome. Clawback provisions will apply to annual bonus awards and malus and clawback provisions will apply to deferred share awards as detailed on page 99.	The normal maximum annual bonus opportunity is 100% of base salary. An additional annual bonus opportunity of up to 100% of base salary may be awarded in exceptional circumstances.	Targets are set annually reflecting the Group's strategy and aligned with key financial, strategic and/or individual targets. The annual bonus will be assessed against key financial performance metrics of the business and non-financial strategic/personal objectives, in such proportions as the Committee considers appropriate. **Financial metrics** No more than 50% of the maximum potential will be paid for on-target performance and all of the maximum potential will be paid for outstanding performance. **Non-financial strategic or individual metrics** Outcome for the non-financial strategic or individual metrics will apply on a scale between 0% and 100% based on the Committee's assessment of the extent to which a non-financial performance metric has been met. Deferred share awards are not subject to any additional performance metrics.

Proposed Directors' Remuneration Policy 2020–2022 continued

Operation	Maximum opportunity	Performance metrics
Long Term Incentive Scheme ('LTIP')		
Purpose: To provide an effective long-term incentive award to motivate, incentivise and assist in the retention of the services of key individuals.		
Awards will be in the form of nil-cost/nominal-cost share options, conditional shares or other such form as has the same economic effect. Awards will be granted with vesting dependent on the achievement of performance conditions set by the Committee, normally over a three-year performance period. Awards will usually be subject to a two-year holding period following the end of the performance period (with the exception that sufficient shares may be sold to meet income tax and National Insurance liabilities). Awards may be settled in cash (or granted as a right to a cash amount in exceptional circumstances) at the election of the Committee. Malus and clawback provisions will apply to awards as detailed on the following page.	The maximum award is 100% of salary in respect of a financial year. The Committee will take into account Company and personal performance during the preceding financial year when determining the maximum award to be granted.	Performance metrics are selected that reflect underlying business performance. Performance metrics and their weighting where there is more than one metric are reviewed annually to maintain appropriateness and relevance. Awards will vest between 25% and 100% for performance between 'threshold' performance (the minimum level of performance that results in any level of vesting) and 'maximum' performance. In respect of awards granted in 2020 and beyond, the Committee has the discretion to override the formulaic out-turn of the award if appropriate to do so to take into account the overall financial and operational performance of the Company.
All employee share schemes		
Purpose: To create alignment with the Group and promote a sense of ownership.		
Executive Directors are eligible to participate in a HMRC tax-qualifying all-employee Sharesave Scheme under the same terms as other Group employees.	Participant limits are those set by the UK tax authorities from time-to-time.	N/A
Minimum shareholding requirements and post-cessation requirements		
Purpose: To provide a continued focus on long-term sustainable value creation and to further align Executives' and shareholders' interests.		
Executive Directors are required to build up a shareholding in the Company equal to 100% of salary. Current Executive Directors are expected to reach the shareholding requirement by 31 December 2022, while any new Executive Director is expected to meet the requirement within a five-year period from appointment. In addition, a post-cessation shareholding requirement will apply to Executive Directors who leave the Company. Leavers will have a requirement to hold the share ownership requirement or, if lower, 100% of their pre-cessation actual shareholding for 12 months from ceasing to work (the earlier of commencing garden leave or termination of service).	N/A	N/A

Application of malus and clawback

Malus: The ability to reduce, cancel or impose further conditions on unvested awards, in the circumstances set out below.

Clawback: The ability to cancel an award that has vested but not yet been released (in relation to an award which is subject to a holding period) or exercised (in relation to share options), or require the repayment of some or all of an award in the circumstances set out below.

Malus and clawback may apply in the following circumstances:

- Discovery of a material misstatement resulting in an adjustment in the audited consolidated accounts of the Company
- The assessment of any performance target or condition in respect of an award was based on material error or materially inaccurate or misleading information
- The discovery that any information used to determine the DBP and/or LTIP was based on material error, or materially inaccurate or misleading information
- Action or conduct of an Executive Director which, in the reasonable opinion of the Board, amounts to fraud or gross misconduct
- The Executive Director is subject to regulatory censure in respect of a material failure in control
- The Executive Director's service agreement is terminated for gross misconduct or the Executive Director receives a formal written warning for gross misconduct, as defined by the Company's disciplinary policy
- The Company suffers a material loss arising from the Executive Director operating outside of agreed risk policy parameters, and as such the Committee considers a material failure in risk management has occurred
- The level of the award is not considered sustainable when assessing the overall financial viability of the Company
- The Executive Director is subject to regulatory censure in respect of a material failure in control
- The Company has suffered corporate failure such as, although not limited to, the appointment of an administrator or a liquidator or the Company entering into an agreement with its creditors
- A material failure of risk management and/or regulatory non-compliance resulting in damage to the Company's business or reputation
- Any other circumstances that the Board considers to have similar nature or effect

Malus and clawback provisions will apply over the following time periods:

Element	Malus	Clawback
Annual bonus award	To such time as payment is made.	Up to three years following payment.
Deferred bonus award	To such time as the award vests.	Tranche of award deferred for one year: Up to two years following vesting. Tranche of award deferred for two years: Up to one year following vesting. Tranche of award deferred for three years: No clawback provisions apply.
LTIP award	To such time as the award vests.	Up to two years following vesting.

Proposed Directors' Remuneration Policy 2020–2022 continued

Discretions retained by the Committee in operating the LTIP and other variable pay schemes

The Committee operates the Group's various incentive plans according to their respective rules and (where applicable) in accordance with relevant legislation and HMRC guidance. In order to ensure efficient administration of these plans, certain operational discretions are reserved to the Committee.

These include but are not limited to:

- determining who may participate in the plans
- determining the timing of grants of awards and/or payments under the plans
- determining the quantum of any awards and/or payments (within the limits set out in the policy table above)
- in exceptional circumstances, determining that a share-based award (or any dividend equivalent) shall be settled (in full or in part) in cash
- determining the performance measures and targets applicable to an award (in accordance with the statements made in the policy table below)
- discretion to override formulaic outcomes
- where a participant ceases to be employed by the Company, determining whether 'good leaver' status shall apply
- determining the extent of vesting or payment of an award based on assessment of the performance conditions and the overall performance of the Company, including discretion as to the basis on which performance is to be measured if an award vests in advance of normal timetable (on cessation of employment as a 'good leaver' or on the occurrence of corporate events)
- whether, and to what extent, pro-ratio shall apply in the event of cessation of employment as a 'good leaver' or on the occurrence of corporate events
- discretion to vary shareholding and post-cessation holding requirements in exceptional circumstances
- whether malus and/or clawback shall be applied to any award and, if so, the extent to which they shall apply
- making appropriate adjustments to awards on account of certain events, such as major changes in the Company's capital structure

Explanation of performance metrics chosen

Performance metrics are selected that are aligned with the performance of the Group and the interests of shareholders. Stretching performance targets are set each year for the annual bonus and LTIP awards. When setting these performance targets, the Committee will take into account a number of different reference points, which may include the Group's business plans and strategy and the economic environment. Full vesting will only occur for what the Committee considers to be stretching performance.

The annual bonus performance targets have been selected to provide an appropriate balance between incentivising Directors to meet financial targets for the year and achieving strategic and/or personal objectives.

Long-term performance metrics provide a robust and transparent basis on which to measure the Group's performance over the longer term and provide further alignment with the business strategy.

The Committee retains the ability to adjust or set different performance metrics or targets if events occur (such as a change in strategy, a material acquisition and/or a divestment of a Group business or a change in prevailing market conditions) which cause the Committee to determine that the metrics are no longer appropriate and that amendment is required so that they achieve their original purpose.

Awards and options may be adjusted in accordance with the scheme rules in the event of a variation of share capital, demerger, delisting, special dividend or other event which may affect the Company's share price.

Policy for the remuneration of employees more generally

Remuneration arrangements are determined throughout the Group based on the same principle that reward should be achieved for delivery of the business strategy and should be sufficient to attract and retain high calibre talent.

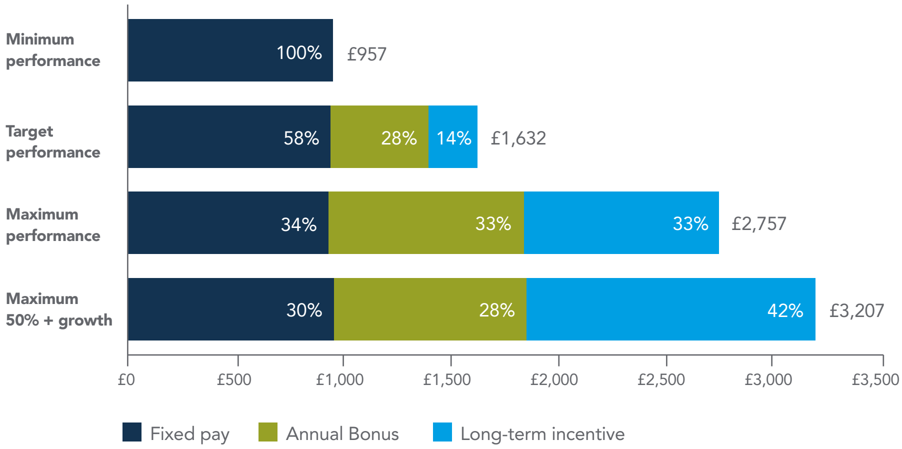
Non-Executive Directors

Element and purpose	Approach of the Company
Chairman and Non-Executive Director fees To enable the Group to recruit and retain Non-Executive Directors of a suitable calibre.	Fees are normally reviewed annually. Fees paid to Non-Executive Directors for their services are approved by the Board. Fees may include a basic fee and additional fees for further responsibilities (for example, chairmanship and membership of Board committees or holding the office of Senior Independent Director). Fees are based on the level of fees paid to Non-Executive Directors serving on the board of similar-sized UK listed companies and the time commitment and contribution expected for the role. Non-Executive Directors cannot participate in any of the Company's share schemes or annual bonus and are not eligible to join the Company's pension scheme. Non-Executive Directors may be eligible to receive benefits such as private medical insurance, the use of secretarial support, travel costs or other support that may be appropriate. Any reasonable business-related expenses (including tax thereon if determined to be a taxable benefit) can be reimbursed.

Illustrations of application of remuneration policy

The chart (right) sets out for the CEO an illustration of the application for 2020 of the remuneration policy set out above. The charts show the split of remuneration between fixed pay, annual bonus (including amounts deferred under the DBP) and LTIP on the basis of minimum remuneration, remuneration receivable for performance in line with the Company's expectations, maximum remuneration (not allowing for any share price appreciation) and maximum remuneration (allowing for 50% share price appreciation on the LTIP award). Amounts shown are in £thousands.

Paul Lynam



In illustrating the potential reward, the following assumptions have been made:

Scenario	Description	Assumptions
Minimum performance	Minimum remuneration receivable.	Fixed elements of remuneration only – salary as at 1 April 2020, benefits and pension. No payments under incentive plans.
Target performance	Remuneration receivable for achieving performance in line with expectations.	Fixed elements of remuneration (as above). 50% of maximum annual bonus earned. 25% of maximum LTIP award vesting.
Maximum performance	Remuneration receivable for achieving performance in excess of the maximum performance targets.	Fixed elements of remuneration (as above). 100% of maximum annual bonus earned. 100% of maximum LTIP award vesting.
Maximum performance including share price growth	Remuneration receivable at maximum performance, plus 50% share price growth on the LTIP vesting value.	Fixed elements of remuneration (as above). 100% of maximum annual bonus earned. 100% of maximum LTIP award vesting plus 50% share price growth.

Recruitment remuneration

The policy aims to facilitate the appointment of individuals of a suitable calibre. When appointing a new Executive Director, the Committee seeks to ensure that arrangements are in the best interests of the Group and not to pay more than is appropriate.

The Committee will take into consideration a number of relevant factors, which may include the calibre of the individual, the candidate's existing remuneration package, and the specific circumstances of the individual including the jurisdiction from which the candidate was recruited.

When hiring a new Executive Director, the Committee will typically align the remuneration package with the above policy.

The Committee may include other elements of pay which it considers are appropriate, however, this discretion is capped and is subject to the principles and the limits referred to below:

- Base salary will be set at a level appropriate to the role and the experience of the Executive Director being appointed. This may include agreement on future increases up to a market rate, in line with increased experience and/or responsibilities, subject to good performance, where it is considered appropriate
- Pension and benefits will be provided in line with the above policy
- The Committee will not offer non-performance related incentive payments (for example a 'guaranteed sign-on bonus')

Proposed Directors' Remuneration Policy 2020–2022 continued

- Other elements may be included in the following circumstances:
  - o an interim appointment being made to fill an Executive Director role on a short-term basis
  - o if exceptional circumstances require that the Chairman or a Non-Executive Director takes on an executive function on a short-term basis
  - o if an Executive Director is recruited at a time in the year when it would be inappropriate to provide a bonus or long-term incentive award for that year as there would not be sufficient time to assess performance. Subject to the limit on variable remuneration set out below, the quantum in respect of the months employed during the year may be transferred to the subsequent year so that reward is provided on a fair and appropriate basis
  - o if the Executive Director will be required to relocate in order to take up the position, it is the Company's policy to allow reasonable relocation, travel and subsistence payments. Any such payments will be at the discretion of the Committee
- The Committee may also alter the performance metrics, performance period and vesting period of the annual bonus, DBP or LTIP, if the Committee determines that the circumstances of the recruitment merit such alteration. The rationale will be clearly explained in the following Directors' Remuneration Report
- The maximum level of variable remuneration which may be granted (excluding 'buyout' awards as referred to below) will be within the maximum limits set out in the policy table

Any share awards referred to in this section will be granted as far as possible under the Company's existing share plans. If necessary, and subject to the limits referred to above, recruitment awards may be granted outside of these plans as permitted under the Listing Rules which allow for the grant of awards to facilitate, in unusual circumstances, the recruitment of an Executive Director.

The Committee may make payments or awards in respect of hiring an employee to 'buy out' remuneration arrangements forfeited on leaving a previous employer. In doing so the Committee will take account of relevant factors including any performance conditions attached to the forfeited arrangements and the time over which they would have vested. The Committee will generally seek to structure buyout awards or payments on a like-for-like basis to the remuneration arrangements forfeited. Any such payments or awards are limited to the expected value of the forfeited awards. Where considered appropriate, such special recruitment awards will be liable to forfeiture or 'malus' and/or 'clawback' on early departure.

Where a position is filled internally, any ongoing remuneration obligations or outstanding variable pay elements shall be allowed to continue according to the original terms.

Fees payable to a newly-appointed Chairman or Non-Executive Director will be in line with the fee policy in place at the time of appointment.

Service agreements and letters of appointment

Executive Directors' service agreements are on a rolling basis and may be terminated on 12 months' notice by the Company or the Executive Director. Service agreements for new Executive Directors will generally be limited to 12 months' notice by the Company.

All Non-Executive Directors' letters of appointment are on a rolling basis and may be terminated on six months' notice by the Company or the Non-Executive Directors. All Non-Executive Directors are subject to re-election at intervals of not more than three years.

Details of the Directors' service agreements, letters of appointment and notice period are set out on page 94. It is contemplated that Paul Lynam will enter into a new service contract in April 2020 to reflect the amended terms of his employment as set out in this report.

Payments for loss of office

The principles on which the determination of payments for loss of office will be approached are set out below:

Scenario	Description
Payment in lieu of notice	The Company has discretion to make a payment in lieu of notice to Executive Directors and Non-Executive Directors. Such a payment would include base salary or fees for the unexpired period of notice. As part of the CEO's transition from his current salary to a reduced salary, if notice of termination is given before the end of 2020 the base salary for the notice period will be the pre 1 April 2020 level of £1.2 million. If notice is given from on or after 1 January 2021, salary for the notice period will be the salary prevailing at the time notice is given.
Annual bonus	This will be at the discretion of the Committee on an individual basis and the decision as to whether or not to award an annual bonus award in full or in part will be dependent on a number of factors, including the circumstances of the individual's departure and their contribution to the business during the annual bonus period in question. Any annual bonus award amounts paid will normally be pro-rated for time in service during the annual bonus period and will, subject to performance, be paid at the usual time (although the Committee retains discretion to pay the annual bonus award earlier in appropriate circumstances). Any annual bonus earned for the year of departure and, if relevant, for the prior year may be paid wholly in cash at the discretion of the Committee.
Deferred Bonus Plan	The extent to which any unvested award will vest will be determined in accordance with the rules of the DBP. Unvested awards will normally lapse on cessation of employment. However, if a participant leaves due to death, ill-health, injury, disability, the sale of his employer or any other reason at the discretion of the Committee, the Committee shall determine whether the award will vest at cessation or at the normal vesting date. In either case, the extent of vesting will be determined by the Committee, taking into account, unless the Committee determines otherwise, the period of time elapsed from the date of grant to the date of cessation relative to the deferral period. Awards in the form of nil-cost or nominal-cost share options may then be exercised during such period as the Committee determines. Awards in the form of nil-cost or nominal-cost share options which have vested but remain unexercised at the date of cessation may be exercised if a participant leaves due to death, ill-health, injury, disability, the sale of his employer or any other reason at the discretion of the Committee. Awards may then be exercised for such period as the Committee determines.
LTIP	The extent to which any unvested award will vest will be determined in accordance with the rules of the LTIP. Unvested awards will normally lapse on cessation of employment. However, if a participant leaves due to death, ill-health, injury, disability, the sale of his employer or any other reason at the discretion of the Committee, the Committee shall determine whether the award will vest at cessation or at the normal vesting date. In either case, the extent of vesting will be determined by the Committee taking into account the extent to which the performance condition is satisfied and, unless the Committee determines otherwise, the period of time elapsed from the date of grant to the date of cessation relative to the performance period. Awards in the form of nil-cost or nominal-cost share options may then be exercised during such period as the Committee determines. If a participant leaves for any reason (other than summary dismissal) after an award has vested but before it has been released (i.e. during a 'holding period'), his award will ordinarily continue until the normal release date when it will be released. The Committee retains the discretion to release awards when the participant leaves. Awards in the form of nil-cost or nominal-cost share options which have vested and been released but remain unexercised at the date of cessation may be exercised if a participant leaves for any reason (other than summary dismissal). Awards may then be exercised for such period as the Committee determines.

Proposed Directors' Remuneration Policy 2020–2022 continued

Scenario	Description
Phantom Share Option Plan ('PSOS')	The extent to which any unvested award will vest will be determined in accordance with the rules of the PSOS. Unvested awards will normally lapse on cessation of employment. However, if a participant leaves due to death, ill-health, injury, disability, redundancy, the sale of his employer or any other reason at the discretion of the Committee, the award may be exercised for up to six months following the date of cessation or such period as the Committee determines. The extent of exercise will be determined by the Committee taking into account the extent to which the performance metric is satisfied and the period of time elapsed from the date of grant to the date of cessation relative to the performance period, unless the Committee determines otherwise.
Change of control	The extent to which unvested awards under the DBP, LTIP and PSOS will vest will be determined in accordance with the rules of the relevant plan. Awards under the DBP may vest in full in the event of a takeover, merger or other relevant corporate event unless the Board determines the award will be subject to roll-over. Awards under the LTIP may vest early on a takeover, merger or other relevant corporate event unless the Board determines the award will be subject to roll-over. The Committee will determine the level of vesting taking into account the extent to which the performance condition is satisfied and, unless the Committee determines otherwise, the period of time elapsed from the date of grant to the date of the relevant corporate event relative to the performance period. In the event of a takeover, merger or other relevant corporate event, awards under the PSOS may be exercised within six months of the relevant corporate event or such period as the Committee determines. The Committee will determine the level of vesting taking into account the extent to which the performance metric is satisfied and the period of time elapsed from the date of grant to the date of the relevant corporate event relative to the performance period, unless the Committee determines otherwise.
Mitigation	Termination payments may be reduced where the Executive Director commences alternative employment during the notice period.
Other payments	Payments may be made either in the event of a loss of office or a change of control under the Sharesave Scheme, which is governed by its rules and the legislation relating to such tax-qualifying plans. There is no discretionary treatment for leavers or on a change of control under these plans. In appropriate circumstances, payments may also be made in respect of accrued holiday, outplacement and legal fees.

Where a buy-out award is made under the Listing Rules then the leaver provisions would be determined at the time of the award.

The Committee reserves the right to make additional exit payments where such payments are made in good faith in the discharge of an existing legal obligation (or by way of damages for breach of such an obligation) or by way of settlement or compromise of any claim arising in connection with the termination of a Director's office or employment.

Where the Committee retains discretion it will be used to provide flexibility in certain situations, taking into account the particular circumstances of the Director's departure and performance.

There is no entitlement to any compensation in the event of Non-Executive Directors' fixed-term agreements not being renewed or the agreement terminating earlier with the exception of a payment in lieu of notice as detailed in the table on the previous page.

Consideration of employment conditions elsewhere in the Company

The Committee considers the general basic salary increase, remuneration arrangements and employment conditions for the broader employee population when determining remuneration policy for the Executive Directors.

Shareholder views

The Committee is committed to an ongoing dialogue with shareholders and welcomes feedback on Executive and Non-Executive Directors' remuneration. Should any significant changes be proposed to the policy going forward, the Company will engage with its shareholders to seek their views.

Existing contractual arrangements

The Committee retains the discretion to make any remuneration payment or payment for loss of office outside the policy in this report:

- where the terms of the payment were agreed before the policy came into effect
- where the terms of the payment were agreed at a time when the relevant individual was not a Director of the Company, and in the opinion of the Committee, the payment was not in consideration of the individual becoming a Director of the Company
- to satisfy contractual arrangements under legacy remuneration arrangements, including any arrangements in place prior to Admission

For these purposes, 'payment' includes the satisfaction of awards of variable remuneration, and in relation to an award involving shares the terms of the payment are agreed at the time the award is granted.

The Committee may satisfy any Phantom Share Option granted under the PSOS and may adjust the terms of any such Phantom Share Option to take account of any variation of share capital, demerger, delisting, special dividend or other event which may affect the Company's share price.

The Committee may make minor changes to this policy which do not have a material advantage to Directors, to aid in its operation or implementation, taking into account the interests of shareholders but without the need to seek shareholder approval.

Directors' Report

The Directors submit their report, the related Strategic Report and Corporate Governance Report, and the audited financial statements of Secure Trust Bank PLC and its subsidiaries (the 'Group') for the year ended 31 December 2019.

Report and financial statements

The Strategic Report is set out beginning on page 02. This Directors' Report also includes additional disclosures required by the UKLA's Disclosure and Transparency Rules and Listing Rules. Some of the matters normally included in the Directors' Report are included by reference as indicated below.

Principal activities and review

The principal activity of the Group is banking including deposit taking and secured and unsecured lending. The business review and information about future developments, key performance indicators and principal risks are contained in the Strategic Report.

Corporate governance

The Corporate Governance Report, on pages 62 to 119, contains information about the Group's corporate governance arrangements, including the Group's compliance with the Code. A statement relating to the Group's compliance with the Code throughout the year ending 31 December 2019 is set out on page 62.

Results

The results for the year are shown on page 120. The Group made a profit for the period of £31.1 million (2018: £28.3 million). The reconciliation of statutory results to adjusted results is set out in the Financial review in the Strategic Report.

For the purposes of DTR 4.15R2 and DTR 4.1.8 this Directors' Report and the Strategic Report on pages 02 to 61 comprise the management report.

Dividends

The Directors did not recommend the payment of a final dividend for the year. An interim dividend of 20 pence per share was paid on 27 September 2019. The total dividend for 2018 was 83 pence per share.

Dividend Policy

The Directors reviewed the dividend policy of the Company and have adopted a progressive dividend policy which takes into account the Company's capital requirements, earnings and cash flow in the long term.

The Directors will have regard to current and projected capital, liquidity, earnings and market expectations in determining the amount of the dividend. On occasion, the Company may declare and pay a special dividend resulting from special circumstances, however no such special dividend is currently envisaged.

Share capital

The share capital of the Company comprises one class of ordinary shares with a nominal value of 40 pence each. As at 31 December 2019 the Company had 18,477,500 ordinary shares in issue. Each ordinary share entitles the holder to one vote.

An additional 2,271 ordinary shares of 40 pence each were issued during 2019 (2018: nil). Since 1 January 2020 and until the date of the report, a further 145,164 ordinary shares of 40 pence each were issued in the Company. All the ordinary shares are fully paid and rank equally in all respects and there are no special rights to dividends or in relation to control of the Company.

Details of the Company's share capital and movements in the Company's issued share capital during the year are provided in Note 30 of the consolidated financial statements.

The Company operates a Long Term Incentive Plan, Sharesave Plan and a Deferred Bonus Share Plan as set out in the Remuneration Report on pages 82 to 95. Upon exercise, shares awarded under these plans have the same rights and rank pari passu with existing ordinary shares.

The powers of the Directors, including in relation to the issue or buyback of the Company's shares are set out in the Companies Act 2006 and the Company's Articles of Association. Shareholders will be asked to grant authority to the Directors to issue and allot shares at the 2020 Annual General Meeting.

Under section 551 of the Companies Act 2006, the Directors may allot equity securities only with the express authorisation of shareholders which may be given in General Meeting, but which cannot last more than five years.
Under section 561 of the Companies Act 2006, the Board may also not allot shares for cash (otherwise than pursuant to an employee share scheme) without first making an offer to existing shareholders to allot such shares to them on the same or more favourable terms in proportion to their respective shareholdings, unless this requirement is waived by special resolution of the shareholders.

Resolutions permitting such actions will be proposed at the 2020 Annual General Meeting. Details of the resolutions for such authority are included in the Notice of the 2020 Annual General Meeting and in the related explanatory notes.

Significant shareholders

The Notice of the 2020 Annual General Meeting also includes resolutions specifically relating to the issue of shares associated with an issue of Additional Tier 1 Securities. These resolutions are in a similar form to the resolutions proposed and passed at the 2019 AGM.

Under section 701 of the Companies Act 2006 a company may make a market purchase of its own shares if the purchase has first been authorised by a resolution of the company.

The Company did not repurchase any of the issued ordinary shares during the year or up to the date of this report, although it was granted authority to do so by shareholders at the 2019 Annual General Meeting on 15 May 2019. That authority expires on 15 August 2020 or, if earlier, the conclusion of the 2020 Annual General Meeting.

At the 2020 Annual General Meeting a special resolution will be proposed authorising the Company to make market purchases of ordinary shares within the limits set out in the resolution.
The resolution is in a similar form to that proposed at the 2019 Annual General Meeting. The Directors have no present intention of exercising the authority granted by the resolution, but regard it as a useful tool to have available.

On a show of hands, each member has the right to one vote at General Meetings of the Company. On a poll, each member is entitled to one vote for every share held. The shares carry no rights to fixed income. No person has any special rights of control over the Company's share capital and all issued shares are fully paid. Voting at the 2020 AGM will be conducted on a poll.

There are no specific restrictions on the transfer of the shares in the Company which are governed by the general provisions of the Articles of Association and prevailing legislation.

Substantial shareholders

In accordance with Disclosure and Transparency Rules DTR5, the Company as at 24 April 2020 (being the latest practicable date before publication of this report), has been notified of disclosable interests in its issued ordinary shares as set out in the table below.

Directors

A full list of Directors who served on the Board throughout the financial year, including their biographical information, is shown on pages 64 to 66. Mr Kapur tendered his resignation as a Director on 6 December 2019. All the Directors will be retiring and standing for either election or re-election at the Annual General Meeting to be held on 13 May 2020.

Directors' interests

The Directors' interests (and those of any persons connected with them) in the share capital of the Company as at 31 December 2019 are set out on page 91 in the Directors' Remuneration Report.

Powers of Directors

The Directors' powers are conferred on them by UK legislation and by the Company's Articles of Association. Changes to the Company's Articles of Association must be approved by shareholders by way of a special resolution and must comply with the provisions of the Companies Act 2006 and the Financial Conduct Authority's Disclosure and Transparency Rules.

Appointment and retirement of Directors

The appointment and retirement of the Directors is governed by the Company's Articles of Association, the UK Corporate Governance Code and the Companies Act 2006. Further details can be found in the explanatory notes included in the Notice of 2020 Annual General Meeting.

Directors' indemnities

The Company's Articles of Association provide that, subject to the provisions of the Companies Act 2006, the Company may indemnify any Director or former Director of the Company or any associated company against any liability and may purchase and maintain for any Director or former Director of the Company or any associated company insurance against any liability.

The Group has maintained directors' and officers' liability insurance throughout 2019.

The letters of appointment of the Non-Executive Directors incorporate by reference the provisions of the Articles of Association in relation to the indemnity of Directors into the contract established by the letter of appointment between the Non-Executive Director and the Company.

Disclosure of information under Listing Rule 9.8.4R

Additional information, where not already contained in the Directors' Report, where applicable to the Company, can be found in the following sections of the annual report as set out in the table at the foot of page 108.

Related party transactions and conflicts of interest

Details of related party transactions are set out in Note 40 to the financial statements. Directors are invited to declare new conflicts of interest at each Board meeting and where an actual or potential conflict of interest has been identified appropriate steps are taken to deal with the conflict. A separate register of Directors' conflicts of interest is maintained by the Company.

Significant contracts

There are no contracts of significance in which a Director is interested.

There are no agreements between any Group company and any of its employees or any Director of any Group company which provide for compensation to be paid to an employee or a Director for termination of employment or for loss of office as a consequence of a takeover of the Company.

There are no significant agreements to which the Company is party that take effect, alter or terminate upon a change of control following a takeover bid for the Company.

Substantial shareholders

	No. of ordinary shares	%
Invesco	**3,348,965**	17.98
Columbia Threadneedle Investments	**3,246,103**	17.43
Arbuthnot Banking Group plc	**1,819,538**	9.77
Wellington Mgt Company	**1,626,327**	8.73
Mr Steven A Cohen	**1,510,412**	8.11
Unicorn Asset Mgt	**1,504,000**	8.08
Tellworth Investments	**1,036,787**	5.57
Ruffer	**672,247**	3.61
Ennismore Fund Mgt	**606,180**	3.23
Premier Miton Investors	**580,520**	3.12

Directors' Report
continued

Employment policies and equal opportunities

The Group is an inclusive and equal opportunities employer and opposes all forms of discrimination. Applications from people with disabilities will be considered fairly and if existing employees become disabled, every effort is made to retain them within the workforce wherever reasonable and practicable. The Group also endeavours to provide equal opportunities in the training, promotion and general career development of disabled employees.

Group policies seek to create a workplace that has an open atmosphere of trust, honesty and respect. Harassment or discrimination of any kind is not tolerated. This principle applies to all aspects of employment from recruitment and promotion, through to termination and all other terms and conditions of employment.

The Group has processes in place for communicating with its employees. Employee communications include information about the performance of the Group, on major matters affecting their work, employment or workplace and to encourage employees to get involved in social or community events. These communications aim to achieve a common awareness for all employees of the financial and economic factors affecting the performance of the Group. Further information on how the Group communicates with its employees is set out in the Managing our business responsibly section starting on page 52.

Research and development

The Group does not undertake research and development activities.

Political donations and expenditure

The Group made no political donations and incurred no political expenditure during the year (2018: £nil).

Post balance sheet events

There have been no significant events between 31 December 2019 and the date of approval of the financial statements which would require change to the financial statements. Note 43 provides information in respect of the COVID-19 outbreak, which will impact the Group's results for 2020.

Disclosure of information to auditor

Each Director in office at the date of this Directors' report confirms that so far as the Director is aware, there is no relevant audit information of which the Company's auditor is unaware and each Director has taken all the steps that they ought to have taken as a Director to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of the Companies Act 2006.

Going concern and viability

The financial statements have been prepared on a going concern basis. Further information about this and the Group's ongoing viability, including the potential impact of COVID-19, is to be found on page 50.

Fair, balanced and understandable

The Directors are satisfied that the Annual Report and Accounts, taken as a whole, are fair, balanced and understandable, and provide the information necessary for members and other stakeholders to assess the Group's position and performance, strategy and business model.

Future developments and financial risk management objectives and policies

Information about future developments, internal control and financial risk management systems in relation to financial reporting and financial risk management objectives and policies in relation to the use of financial instruments can be found in the following sections of the annual report which are incorporated into this report by reference:

Future developments – see Strategic Report on pages 02 to 61.

Internal control and financial risk management systems in relation to financial reporting – see Corporate Governance Report on pages 62 to 119. Financial risk management objectives and policies in relation to the use of financial instruments can be found on the Group's website: **www.securetrustbank.com/our-corporate-information/risk-management** and Note 1.10 to the financial statements.

Greenhouse gas emissions from our operations

The Group's greenhouse gas emissions, required under the Companies Act 2006 (Strategic Report and Directors' Report Regulation 2013), are detailed on page 58.

Auditor

Deloitte LLP was appointed as auditor at the Annual General Meeting held in 2019. As detailed on page 73 in the Audit Committee report, the Board is recommending the reappointment of Deloitte LLP as auditor at the 2020 Annual General Meeting.

Annual General Meeting

The 2020 Annual General Meeting will be held at 10am on 24 June 2020 at (Upper) Ground Floor, Abbey Gardens, Reading RG1 3BA.

By order of the Board.

M P D Stevens
Secretary

6 May 2020

Disclosure of information under Listing Rule 9.8.4R

Item	Page reference
Details of any long term incentive schemes	Note 31, Page 166
Allotments of cash or equity securities otherwise than to shareholders in proportion to their holdings	Note 30, Page 165

Directors' responsibility statement

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

Company law requires the Directors to prepare Group and parent company financial statements for each financial year. As required by the Listing Rules, they are required to prepare the Group financial statements in accordance with IFRS as adopted by the EU and applicable law and have elected to prepare the parent company financial statements on the same basis.

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

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

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

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

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

We confirm that to the best of our knowledge:

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

This responsibility statement was approved by the Board of Directors on 6 May 2020 and is signed on their behalf by:

Lord Forsyth
Chairman

Paul Lynam
Chief Executive Officer

Independent Auditor's report
to the members of Secure Trust Bank plc

Report on the audit of the financial statements

1. Opinion

In our opinion:

- the financial statements of Secure Trust Bank PLC (the 'Company') and its subsidiaries (the 'Group') give a true and fair view of the state of the Group's and of the Company's affairs as at 31 December 2019 and of the Group's profit for the year then ended
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union
- the Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements which comprise:

- the consolidated statement of comprehensive income
- the consolidated and company statement of financial position
- the consolidated and company statements of changes in equity
- the consolidated and company statements of cash flows; and
- the related notes 1 to 43.

The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union and, as regards the Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

2. Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the Group and the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. The non-audit services provided to the Group and Company for the year are disclosed in note 6 to the financial statements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

3. Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were: • Going Concern assessment and related disclosures; • Revenue recognition; and • Impairment of receivables. Within this report, key audit matters are identified as follows: ↔ Similar level of risk ! Newly identified
Materiality	The materiality used for the Group financial statements and Company financial statements was £1.9 million (2018: £1.7 million) and £1.4 million (2018: £1.3 million) respectively, which was determined using 5% of profit before tax.
Scoping	We have performed a full scope audit on all entities within the Group which is consistent with the prior year. All full scope audits were performed directly by the Group audit team and executed at levels of materiality applicable to each individual entity. Audit testing to respond to the risks of material misstatement was performed directly by the Group audit engagement team.
Significant changes in our approach	Given the rapid spread of COVID-19 and the ongoing uncertainty surrounding its impact, we have focused a greater degree of audit effort on the Directors' judgements. This was both in determining the Company's and Group's ability to continue to adopt the going concern basis over a period of at least 12 months from the date of approval of the Financial Statements, and over the disclosure of post balance sheet events. In accordance with this greater level of audit effort, we have identified a new key audit matter in the period relating to the going concern assessment and post balance sheet event disclosures.

4. Conclusions relating to going concern, principal risks and viability statement

4.1. Going concern

We have reviewed the directors' statement in note 1.2 to the financial statements and strategic report about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the Group's and Company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements.

We considered as part of our risk assessment the nature of the Group, its business model and related risks including where relevant the impact of the COVID-19 pandemic and Brexit, the requirements of the applicable financial reporting framework and the system of internal control. We evaluated the directors' assessment of the Group's ability to continue as a going concern, including challenging the underlying data and key assumptions used to make the assessment, and evaluated the directors' plans for future actions in relation to their going concern assessment.

We are required to state whether we have anything material to add or draw attention to in relation to that statement required by Listing Rule 9.8.6R(3) and report if the statement is materially inconsistent with our knowledge obtained in the audit.

Our challenge of the directors' going concern assessment and related disclosures have been identified as a Key Audit Matter, which is further discussed below in Section 5.1.

Going concern is the basis of preparation of the financial statements that assumes an entity will remain in operation for a period of at least 12 months from the date of approval of the financial statements.

We confirm that we have nothing material to report, add or draw attention to in respect of these matters.

4.2. Principal risks and viability statement

Based solely on reading the directors' statements and considering whether they were consistent with the knowledge we obtained in the course of the audit, including the knowledge obtained in the evaluation of the directors' assessment of the Group's and the Company's ability to continue as a going concern, we are required to state whether we have anything material to add or draw attention to in relation to:

- the disclosures on pages 40 to 49 that describe the principal risks, procedures to identify emerging risks, and an explanation of how these are being managed or mitigated
- the directors' confirmation on page 48 that they have carried out a robust assessment of the principal and emerging risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity; or
- the directors' explanation on page 50 as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions

We are also required to report whether the directors' statement relating to the prospects of the Group required by Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.

Viability means the ability of the Group to continue over the time horizon considered appropriate by the directors.

We confirm that we have nothing material to report, add or draw attention to in respect of these matters.

Independent Auditor's report continued

5. Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

5.1. Going concern assessment and related disclosures !

Key audit matter description

The rapid spread and ongoing uncertainty surrounding the impact of COVID-19 has increased complexity associated with the Directors' assessment of the Group's and Company's ability to continue as a going concern over a period of at least 12 months from the date of approval of the financial statements. In addition, there is an increased risk associated with the adequacy of disclosures over the going concern assessment and events after the reporting date.

In making their assessment, the Directors consider that the going concern basis of accounting is appropriate and that there is no material uncertainty related to going concern. The Directors have disclosed their explanations and conclusions on the going concern basis and the key matters considered, including judgements in relation to (i) the ongoing confidence in the Company's and Group's capital and liquidity positions, particularly in light of remodelling the potential level of expected credit losses as a result of COVID-19, as well as (ii) the capability of the operational resilience framework in place over the assessment period.

Management's associated consideration of the impact of COVID-19 on the Company's and Group's ability to continue as a going concern is detailed on pages 50 to 51 within the Directors' Report and note 1. Detail of the impact of events after the reporting date are presented in note 43.

How the scope of our audit responded to the key audit matter

In response to the significant economic disruption associated with the COVID-19 pandemic we increased audit effort to challenge whether there was a material uncertainty over the Company's and Group's ability to continue as a going concern over a period of at least twelve months from the date of approval of the Financial Statements.

Capital, liquidity and stress testing

We reviewed and challenged, with the support of our prudential experts where appropriate:

- with specific reference to the Group's Internal Capital Adequacy Assessment Process, the interplay between IFRS 9 provisions and capital in stress taking account of Bank of England guidance, including the guidance issued on 26 March 2020, as well as forecast assumptions of the Company and Group's capital plan, given current market conditions;
- with specific reference to the Group's Internal Liquidity Adequacy Assessment Process, the forecast changes to the Company and Group's liquidity and funding plan, which is required to be produced for all regulated banks, with reference to the Group's internal risk appetite and regulatory minimum requirements, given current market conditions;
- the preparation and internal governance process followed by Management in order to prepare scenarios and model the potential impact of COVID-19. This included attending the Assumptions Committee where the scenarios and key assumptions were discussed and agreed by Management;
- the scenarios adopted by Management to capture potential downside risks, including the associated macro-economic assumptions;
- the subsequent stress testing output, with a particular focus on the capital and liquidity headroom available against minimum regulatory requirements; and
- the regulator's issued guidance in relation to temporary use of regulatory buffers where appropriate.

Operational Resilience

We reviewed and assessed Management's:

- business continuity plans and subsequent changes to those plans as a consequence of a prolonged impact from the COVID-19 pandemic;
- internal monitoring process recently introduced by Management in order to monitor the operational impact of COVID-19 on a regular basis; and
- oversight of service providers' operational and financial resilience, or where necessary, the contingency plans in place where a supplier has been deemed at risk.

How the scope of our audit responded to the key audit matter (continued)	**Events after the reporting date** In order to assess whether the post balance sheet event disclosures in note 43 were appropriate we have: • reviewed the most recent Board minutes and regulatory correspondence to identify items of interest; • evaluated Management's assessment of the impact of the significant business developments that occurred after the year end, including the spread of COVID-19 and the resulting actions taken by the UK Government; and • challenged Management's assessment of the impact of recent events on the carrying value of the Group's assets and liabilities. **Disclosures** We have reviewed the disclosures made by Management in relation to events after the reporting date and going concern, to assess whether they adequately reflect the deterioration in economic outlook since 31 December 2019 and the impact on the Group, and checked the consistency of the disclosures with our knowledge of the Group based on our audit.
Key observations	Based on the work performed, having taken account of the assumptions and other matters disclosed in the going concern statement made by the Directors and elsewhere in the financial statements, we concurred with the Directors' conclusion that the significant economic disruption associated with the COVID-19 pandemic does not give rise to a material uncertainty over the Company's and Group's ability to continue as a going concern over a period of at least 12 months from the date of approval of the financial statements. We also concluded that the disclosures in relation to going concern and events after the reporting date are appropriate.

5.2. Revenue Recognition ←→

Key audit matter description	The Group recognised interest income of £191.4 million (2018: £169.2 million) against loans and advances to customers during the year. The Group holds loans and advances to customers which meet the criteria of financial assets measured at amortised cost under IFRS 9. The recognition of interest income on loans and advances measured at amortised cost requires the use of the effective interest rate ('EIR') method. Judgement is applied by management to determine key assumptions related to the expected lives, with our specific focus placed on the Motor and Retail Finance portfolios, being the principal income streams for the Group. Any changes to such assumptions during the life of the loan can have a significant impact on the amount of interest income recognised during the year. Given the degree of judgement and estimation involved in determining the expected life, we also identified that there is a potential for fraud through possible manipulation of this balance. Interest income is included in note 4.1 to the accounts, with management's associated accounting policies detailed on in note 1.5. The corresponding area in the Audit Committee report is on page 75.
How the scope of our audit responded to the key audit matter	We obtained an understanding of management's process and relevant control around recognition of interest income through discussions and walkthroughs. Specifically, we assessed the operation of the Assumptions Committee, which is used as a forum for senior management to present analysis, discuss and challenge key assumptions, such as the estimate of expected lives adopted for the Motor and Retail Finance portfolios. We engaged our internal data analytics specialists to independently rebuild the behavioural lives based on historical redemption data. As part of this we tested the accuracy and completeness of the historical redemption data. Using our data analytics specialists we performed a full review of the scripts within the Group's EIR model and recalculated the EIR output based on these scripts and the input data within the model. We also tested the accuracy and completeness of model input data on a sample basis. As part of our wider assessment of revenue recognition we also reviewed the treatment of fees and charges arising on loans and advances to customers and the appropriateness of their inclusion or exclusion in the Group's EIR model.
Key observations	We conclude revenue recognition and the expected lives adopted by management to be appropriate. We consider the underlying methodology used for the calculation of EIR for the Motor and Retail Finance portfolios to be compliant with the Group's accounting policies and the requirements of IFRS 9 in all material respects.

Independent Auditor's report
continued

5.3. Impairment of receivables ←→

Key audit matter description	The Group held allowances for impairment of loans and advances to customers of £60.6 million (2018: £67.1 million) against loans and advances to customers of £2,510.7 million (2018: £2,096.0 million). For financial assets measured at amortised cost, IFRS 9 requires the carrying value to be assessed for impairment using unbiased forward-looking information. The measurement of expected credit losses is complex and involves a number of judgements and estimates relating to customer default rates, exposure at default, loss given default, assessing significant increases in credit risk and macroeconomic scenario modelling. These assumptions are informed using historical behaviour and management's experience. They are also affected by management's consideration of the future economic environment. In order to determine the key assumptions within the model, we performed sensitivity analysis and considered the impact each assumption had on the level of recorded provision. The most significant assumptions and judgements applied in the impairment model are: • The determination of the loss given default ('LGD') on the Motor Finance portfolio, in particular the vehicle recovery rate • The valuation of the provision for Real Estate Finance; loans specifically focusing on the staging criteria and collateral valuations of loans in Stages 2 and 3; and • The completeness and accuracy of post-model overlays made by management Given the degree of judgement involved in determining key assumptions, we also identified that there is a potential for fraud through possible manipulation of this balance. Impairment of receivables is included in note 14 of the accounts. Management's associated accounting policies are detailed within note 1.9 on pages 132 to 135. The corresponding area in the Audit Committee report is on page 75.
How the scope of our audit responded to the key audit matter	We identified and understood relevant controls, including the review of management's key judgements paper by the Audit Committee, the management review of credit gradings for the Real Estate Finance business and the operation of the Assumptions Committee, which considers key assumptions including any required management overlays. For the Motor Finance LGD we assessed and tested both the historical and forecast data used to support the vehicle recovery rate, whilst also re-performing the calculation to assess its mechanical accuracy. For Real Estate Finance loans, we challenged the staging applied to cases which demonstrated indicators of a significant increase in credit risk and engaged our internal valuation specialists to challenge the collateral valuations utilised by the Group for all Stage 2 and 3 cases with reference to most recent third party valuation reports. We reviewed the accuracy of management's overlay provisions by reference to the supporting calculations and challenged their completeness through our understanding of model enhancements, peer benchmarking and industry changes and macro-economic changes such as the withdrawal of the United Kingdom from the European Union and depreciation in car values. As part of our wider assessment of impairment of receivables we worked with credit risk and modelling specialists to assess compliance of the modelling approach and scripts utilised with the requirements of the standard and whether the documented modelled approach was implemented in practice. We reconciled the allowances for impairment models to the general ledger and substantively tested a sample of loans to assess whether the data used in the provision calculation were complete and accurate. Finally we assessed the completeness of the Real Estate Finance allowance for impairment by reviewing a sample of the remainder of the Real Estate Finance portfolio to identify whether there are any customers who may be experiencing signs of financial distress.
Key observations	Based on the evidence obtained, we found that the significant assumptions identified in our key audit matter which underpin the allowances for impairment models were determined and applied appropriately. We consider the underlying methodology used for impairment to be compliant with the requirements of IFRS 9 in all material respects and the recognised provision to be appropriately stated.

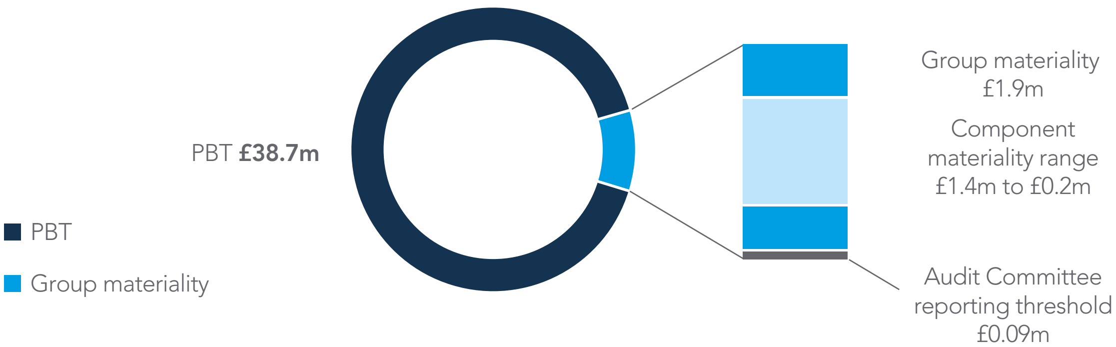
6. Our application of materiality

6.1. Materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Company financial statements
Materiality	£1.9 million (2018: £1.7 million)	£1.4 million (2018: £1.3 million)
Basis for determining materiality	5% of profit before tax	5% of profit before tax
Rationale for the benchmark applied	We determined materiality using profit before tax as we considered this to be the most appropriate measure to assess the performance of the Group. As the majority of the Group's operations are carried out by the Company, the same materiality basis was used for both.	



6.2. Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole. Group performance materiality was set at 70% of Group materiality for the 2019 audit (2018: 70%).

We determined performance materiality with reference to factors such as our understanding of the Group and its complexity, the quality of the control environment and ability to rely on controls and the level of uncorrected misstatements in the current and prior audit.

6.3. Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £0.09 million (2018: £0.08 million), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

Independent Auditor's report
continued

7. An overview of the scope of our audit

7.1. Identification and scoping of components

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including Group-wide controls, and assessing the risks of material misstatement at the Group level. Based on that assessment, our Group audit scope focused on all entities within the Group and covered all of the material balances in the Statement of Comprehensive Income and Statement of Financial Position of the Group.

We have performed a full scope audit on all entities within the Group which is consistent with the prior year. All full scope audits were performed directly by the Group audit team and executed at levels of materiality applicable to each individual entity which were lower than Group materiality and ranged from £0.2 million to £1.4 million (2018: £0.7 million to £1.4 million). These account for 100% (2018: 100%) of the Group's net interest income, 100% (2018: 100%) of the Group's profit before tax and 100% (2018: 100%) of the Group's total assets. At the parent entity level we have also performed testing over the consolidation process of Group entities.

7.2. Our consideration of the control environment

We identified key IT systems for the Group in respect of the financial reporting system, lending systems for Motor Finance, Real Estate Finance, Commercial Finance, Retail Finance and the deposits system. We performed operating effectiveness testing of the general IT controls ('GITCs') associated with these systems and relied upon IT controls across the systems identified.

We adopted a controls reliance approach in relation to both the lending and deposits business cycles with the exception of consumer mortgages, debt management and asset finance lending cycles. This was consistent with 2018 with the exception of Motor Finance and Commercial Finance lending cycles for which a controls reliance approach was adopted for the first time for 2019. We tested the relevant automated and manual controls for the business cycles where a control reliance approach was planned. No control weaknesses were identified during our testing and therefore we adopted a controls reliance approach across the lending and deposit cycles noted above when performing our substantive audit procedures.

8. Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

In this context, matters that we are specifically required to report to you as uncorrected material misstatements of the other information include where we conclude that:

- **Fair, balanced and understandable –** the statement given by the directors that they consider the Annual Report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- **Audit committee reporting –** the section describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee; or
- **Directors' statement of compliance with the UK Corporate Governance Code –** the parts of the directors' statement required under the Listing Rules relating to the Company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code

We have nothing to report in respect of these matters.

9. Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group's and the Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the Company or to cease operations, or have no realistic alternative but to do so.

10. Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Details of the extent to which the audit was considered capable of detecting irregularities, including fraud and non-compliance with laws and regulations are set out below.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

11. Extent to which the audit was considered capable of detecting irregularities, including fraud

We identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and then design and perform audit procedures responsive to those risks, including obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion.

11.1. Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, we considered the following:

- the nature of the industry and sector, control environment and business performance including the design of the Group's remuneration policies, key drivers for directors' remuneration, bonus levels and performance targets
- the Group's own assessment of the risks that irregularities may occur either as a result of fraud or error that was approved by the Audit Committee in September 2019
- results of our enquiries of management, internal audit and the Audit Committee about their own identification and assessment of the risks of irregularities
- any matters we identified having obtained and reviewed the Group's documentation of their policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud
  - the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations

Independent Auditor's report continued

- the matters discussed among the audit engagement team and involving relevant internal specialists, including tax, valuations, share based payments, data analytics, information technology, prudential regulatory and credit risk specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in the following areas: revenue recognition and impairment of receivables. In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory framework that the Group operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included the UK Companies Act, listing rules and tax legislation.

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the Group's ability to operate or to avoid a material penalty. These included the regulation set by the Financial Conduct Authority and by the Prudential Regulation Authority relating to regulatory capital and liquidity requirements, which are fundamental to the Group's ability to continue as a going concern.

11.2. Audit response to risks identified

As a result of performing the above, we identified revenue recognition and impairment of receivables as key audit matters related to the potential risk of fraud. The key audit matters section of our report explains the matters in more detail and also describes the specific procedures we performed in response to those key audit matters.

In addition to the above, our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements
- enquiring of management, the Audit Committee and in-house legal counsel concerning actual and potential litigation and claims
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with HMRC, Financial Conduct Authority and Prudential Regulation Regulatory Authority; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Report on other legal and regulatory requirements

12. Opinions on other matters prescribed by the Companies Act 2006

In our opinion the part of the Directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements

In the light of the knowledge and understanding of the Group and the Company and their environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

13. Opinion on other matter prescribed by the Capital Requirements (Country-by-Country Reporting) Regulations 2013

In our opinion the information given in note 42 to the financial statements for the financial year ended 31 December 2019 has been properly prepared, in all material respects, in accordance with the Capital Requirements (Country-by Country Reporting) Regulations 2013.

14. Matters on which we are required to report by exception

14.1. Adequacy of explanations received and accounting records

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit;
- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Company financial statements are not in agreement with the accounting records and returns

We have nothing to report in respect of these matters.

14.2. Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made or the part of the directors' remuneration report to be audited is not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

15. Other matters

15.1. Auditor tenure

Following the recommendation of the Audit Committee, we were appointed by the Board of Directors on 16 May 2018 to audit the financial statements for the year ended 31 December 2018 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is two years covering the years ending 31 December 2018 to 31 December 2019.

15.2. Consistency of the audit report with the additional report to the Audit Committee

Our audit opinion is consistent with the additional report to the Audit Committee we are required to provide in accordance with ISAs (UK).

16. Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Matthew Perkins, FCA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor

Birmingham, United Kingdom

6 May 2020

Consolidated statement of comprehensive income

	Note	2019 £million	2018 £million
Income statement			
Interest income and similar income	4.1	191.4	169.2
Interest expense and similar charges	4.1	(46.0)	(35.5)
Net interest income	4.1	**145.4**	**133.7**
Fee and commission income	4.2	20.9	19.4
Fee and commission expense	4.2	(0.8)	(1.5)
Net fee and commission income	4.2	**20.1**	**17.9**
Operating income		**165.5**	**151.6**
Net impairment losses on loans and advances to customers		(32.6)	(32.4)
Operating expenses	6	(94.2)	(84.5)
Profit before income tax		**38.7**	**34.7**
Income tax expense	8	(7.6)	(6.4)
Profit for the year		**31.1**	**28.3**
Other comprehensive income			
Items that will not be reclassified to the income statement			
Revaluation reserve		0.2	(0.3)
Taxation		(0.2)	0.1
Other comprehensive income for the year, net of income tax		**–**	**(0.2)**
Total comprehensive income for the year		**31.1**	**28.1**
Profit attributable to:			
Equity holders of the Company		**31.1**	**28.3**
Total comprehensive income attributable to:			
Equity holders of the Company		**31.1**	**28.1**
Earnings per share for profit attributable to the equity holders of the Company during the year (pence per share)			
Basic earnings per share	9.1	**168.3**	**153.2**
Diluted earnings per share	9.2	**166.4**	**150.9**

All comprehensive income relates to continuing operations.

The notes on pages 127 to 187 are an integral part of these consolidated financial statements.

Consolidated statement of financial position

	Note	2019 £million	2018 £million
ASSETS			
Cash and balances at central banks		105.8	169.7
Loans and advances to banks	11	48.4	44.8
Loans and advances to customers	12	2,450.1	2,028.9
Debt securities	15	25.0	149.7
Fair value adjustment for portfolio hedged risk		(0.9)	–
Derivative financial instruments		0.9	–
Investment property	16	4.8	–
Property, plant and equipment	17	11.3	11.0
Right-of-use assets	18	3.6	–
Intangible assets	19	9.0	9.9
Deferred tax assets	21	7.5	7.9
Other assets	22	17.3	22.4
Total assets		**2,682.8**	**2,444.3**
LIABILITIES AND EQUITY			
Liabilities			
Due to banks	23	308.5	263.5
Deposits from customers	24	2,020.3	1,847.7
Fair value adjustment for portfolio hedged risk		(0.7)	–
Derivative financial instruments		0.6	–
Current tax liabilities		3.3	4.2
Lease liabilities	25	4.5	–
Other liabilities	26	40.9	40.1
Provisions for liabilities and charges	27	0.7	1.3
Subordinated liabilities	28	50.6	50.4
Total liabilities		**2,428.7**	**2,207.2**
Equity attributable to owners of the parent			
Share capital	30	7.4	7.4
Share premium		81.2	81.2
Revaluation reserve		1.1	1.1
Retained earnings		164.4	147.4
Total equity		**254.1**	**237.1**
Total liabilities and equity		**2,682.8**	**2,444.3**

The financial statements on pages 120 to 187 were approved by the Board of Directors on 6 May 2020 and were signed on its behalf by:

Lord Forsyth
Chairman

Paul Lynam
Chief Executive Officer

The notes on pages 127 to 187 are an integral part of these consolidated financial statements.

Company statement of financial position

	Note	2019 £million	2018 £million
ASSETS			
Cash and balances at central banks		105.8	169.7
Loans and advances to banks	11	45.2	41.9
Loans and advances to customers	12	2,353.6	1,980.3
Debt securities	15	25.0	149.7
Fair value adjustment for portfolio hedged risk		(0.9)	–
Derivative financial instruments		0.9	–
Investment property	16	4.8	–
Property, plant and equipment	17	6.5	6.0
Right-of-use assets	18	2.5	–
Intangible assets	19	7.4	8.1
Investments	20	4.1	3.9
Deferred tax assets	21	8.1	7.8
Other assets	22	103.8	65.6
Total assets		**2,666.8**	**2,433.0**
LIABILITIES AND EQUITY			
Liabilities			
Due to banks	23	308.5	263.5
Deposits from customers	24	2,020.3	1,847.7
Fair value adjustment for portfolio hedged risk		(0.7)	–
Derivative financial instruments		0.6	–
Current tax liabilities		2.2	3.6
Lease liabilities	25	3.3	–
Other liabilities	26	42.0	49.1
Provisions for liabilities and charges	27	0.7	1.3
Subordinated liabilities	28	50.6	50.4
Total liabilities		**2,427.5**	**2,215.6**
Equity attributable to owners of the parent			
Share capital	30	7.4	7.4
Share premium		81.2	81.2
Revaluation reserve		0.7	0.6
Retained earnings		150.0	128.2
Total equity		**239.3**	**217.4**
Total liabilities and equity		**2,666.8**	**2,433.0**

The Company has elected to take the exemption under section 408 of the Companies Act 2006 not to present the parent company income statement. The profit for the parent company for the year of £35.9 million is presented in the Company statement of changes in equity.

The financial statements on pages 120 to 187 were approved by the Board of Directors on 6 May 2020 and were signed on its behalf by:

Lord Forsyth
Chairman

Paul Lynam
Chief Executive Officer

Registered number: 00541132

The notes on pages 127 to 187 are an integral part of these consolidated financial statements.

Consolidated statement of changes in equity

	Share capital £million	Share premium £million	Revaluation reserve £million	Retained earnings £million	**Total £million**
Balance at 1 January 2018	**7.4**	**81.2**	**1.3**	**133.4**	**223.3**
Total comprehensive income for the period					
Profit for 2018	–	–	–	28.3	28.3
Other comprehensive income, net of income tax					
Revaluation reserve	–	–	(0.3)	–	(0.3)
Tax on revaluation reserve	–	–	0.1	–	0.1
Total other comprehensive income	**–**	**–**	**(0.2)**	**–**	**(0.2)**
Total comprehensive income for the period	**–**	**–**	**(0.2)**	**28.3**	**28.1**
Transactions with owners, recorded directly in equity					
Contributions by and distributions to owners					
Dividends	–	–	–	(14.8)	(14.8)
Share-based payments	–	–	–	0.8	0.8
Tax on share-based payments	–	–	–	(0.3)	(0.3)
Total contributions by and distributions to owners	**–**	**–**	**–**	**(14.3)**	**(14.3)**
Balance at 31 December 2018 (as previously stated)	**7.4**	**81.2**	**1.1**	**147.4**	**237.1**
IFRS 16 transition adjustment net of tax (see Note 1)	–	–	–	(0.1)	(0.1)
Balance at 1 January 2019 (as restated)	**7.4**	**81.2**	**1.1**	**147.3**	**237.0**
Total comprehensive income for the period					
Profit for 2019	–	–	–	31.1	31.1
Other comprehensive income, net of income tax					
Revaluation reserve	–	–	0.2	–	0.2
Tax on revaluation reserve	–	–	(0.2)	–	(0.2)
Total other comprehensive income	**–**	**–**	**–**	**–**	**–**
Total comprehensive income for the period	**–**	**–**	**–**	**31.1**	**31.1**
Transactions with owners, recorded directly in equity					
Contributions by and distributions to owners					
Dividends	–	–	–	(15.5)	(15.5)
Share-based payments	–	–	–	1.2	1.2
Tax on share-based payments	–	–	–	0.3	0.3
Total contributions by and distributions to owners	**–**	**–**	**–**	**(14.0)**	**(14.0)**
Balance at 31 December 2019	**7.4**	**81.2**	**1.1**	**164.4**	**254.1**

The notes on pages 127 to 187 are an integral part of these consolidated financial statements.

Company statement of changes in equity

	Share capital £million	Share premium £million	Revaluation reserve £million	Retained earnings £million	**Total £million**
Balance at 1 January 2018	**7.4**	**81.2**	**0.5**	**121.7**	**210.8**
Total comprehensive income for the period					
Profit for 2018	–	–	–	20.8	20.8
Other comprehensive income, net of income tax					
Revaluation reserve	–	–	0.1	–	0.1
Total other comprehensive income	**–**	**–**	**0.1**	**–**	**0.1**
Total comprehensive income for the period	**–**	**–**	**0.1**	**20.8**	**20.9**
Transactions with owners, recorded directly in equity					
Contributions by and distributions to owners					
Dividends	–	–	–	(14.8)	(14.8)
Share-based payments	–	–	–	0.8	0.8
Tax on share-based payments	–	–	–	(0.3)	(0.3)
Total contributions by and distributions to owners	**–**	**–**	**–**	**(14.3)**	**(14.3)**
Balance at 31 December 2018 (as previously stated)	**7.4**	**81.2**	**0.6**	**128.2**	**217.4**
IFRS 16 transition adjustment net of tax (see Note 1)	–	–	–	(0.1)	(0.1)
Balance at 1 January 2019 (as restated)	**7.4**	**81.2**	**0.6**	**128.1**	**217.3**
Total comprehensive income for the period					
Profit for 2019	–	–	–	35.9	35.9
Other comprehensive income, net of income tax					
Revaluation reserve	–	–	0.1	–	0.1
Total other comprehensive income	**–**	**–**	**0.1**	**–**	**0.1**
Total comprehensive income for the period	**–**	**–**	**0.1**	**35.9**	**36.0**
Transactions with owners, recorded directly in equity					
Contributions by and distributions to owners					
Dividends	–	–	–	(15.5)	(15.5)
Share-based payments	–	–	–	1.2	1.2
Tax on share-based payments	–	–	–	0.3	0.3
Total contributions by and distributions to owners	**–**	**–**	**–**	**(14.0)**	**(14.0)**
Balance at 31 December 2019	**7.4**	**81.2**	**0.7**	**150.0**	**239.3**

The notes on pages 127 to 187 are an integral part of these consolidated financial statements.

Consolidated statement of cash flows

	Note	2019 £million	2018 Restated £million
Cash flows from operating activities			
Profit for the year		31.1	28.3
Adjustments for:			
Income tax expense	8	7.6	6.4
Depreciation of property, plant and equipment	17	1.2	1.3
Depreciation of right-of-use assets	18	0.9	–
Loss on disposal of computer software		–	0.1
Amortisation of intangible assets	19	1.9	1.8
Impairment losses on loans and advances to customers	14	32.6	32.4
Share-based compensation	31	1.2	0.8
Revaluation loss	17	1.1	–
Lease interest charged	25	0.1	–
Amortisation of subordinated liabilities issue costs	28	0.2	–
Cash flows from operating profits before changes in operating assets and liabilities		77.9	71.1
Changes in operating assets and liabilities:			
– net increase in loans and advances to customers		(453.8)	(494.8)
– net decrease/(increase) in other assets		4.6	(17.0)
– net increase in deposits from customers		172.6	364.5
– net increase/(decrease) in other liabilities		1.3	(0.5)
Income tax paid		(7.8)	(6.4)
Net cash outflow from operating activities		**(205.2)**	**(83.1)**
Cash flows from investing activities			
Redemption of debt securities		320.1	305.0
Purchase of debt securities		(195.4)	(449.7)
Purchase of investment property	16	(1.6)	–
Purchase of property, plant and equipment	17	(5.5)	(1.1)
Purchase of intangible assets	19	(1.1)	(1.4)
Net cash inflow/(outflow) from investing activities		**116.5**	**(147.2)**
Cash flows from financing activities			
Increase in amounts due to banks		45.0	150.0
Issue of subordinated liabilities		–	50.0
Subordinated liabilities issue costs		–	(0.8)
Dividends paid	10	(15.5)	(14.8)
Repayment of lease liabilities	25	(1.1)	–
Net cash inflow from financing activities		**28.4**	**184.4**
Net decrease in cash and cash equivalents		**(60.3)**	**(45.9)**
Cash and cash equivalents at 1 January		214.5	260.4
Cash and cash equivalents at 31 December	32.1	**154.2**	**214.5**

Redemption and purchase of debt securities have been grossed up and moved from operating activities to investing activities as this better represents the nature of the underlying activity.

The notes on pages 127 to 187 are an integral part of these consolidated financial statements.

Company statement of cash flows

	Note	2019 £million	2018 Restated £million
Cash flows from operating activities			
Profit for the year		35.9	20.8
Adjustments for:			
Income tax expense	8	5.3	4.9
Depreciation of property, plant and equipment	17	0.7	0.7
Depreciation of right-of-use assets	18	0.5	–
Loss on disposal of computer software		–	0.1
Amortisation of intangible assets	19	1.6	1.6
Impairment losses on loans and advances to customers	14	37.5	33.1
Share-based compensation	31	1.0	0.6
Revaluation deficit	17	1.1	–
Lease interest charged	25	0.1	–
Amortisation of subordinated liabilities issue costs	28	0.2	–
Cash flows from operating profits before changes in operating assets and liabilities		83.9	61.8
Changes in operating assets and liabilities:			
– net increase in loans and advances to customers		(410.8)	(480.3)
– net increase in other assets		(38.7)	(32.4)
– net increase in deposits from customers		172.6	364.5
– net (decrease)/increase in other liabilities		(6.6)	6.0
Income tax paid		(6.5)	(4.3)
Net cash outflow from operating activities		**(206.1)**	**(84.7)**
Cash flows from investing activities			
Redemption of debt securities		320.1	305.0
Purchase of debt securities		(195.4)	(449.7)
Purchase of investment property	16	(1.6)	–
Purchase of property, plant and equipment	17	(5.3)	(0.5)
Purchase of intangible assets	19	(1.0)	(1.3)
Net cash inflow/(outflow) from investing activities		**116.8**	**(1.8)**
Cash flows from financing activities			
Increase in amounts due to banks		45.0	150.0
Issue of subordinated liabilities		–	50.0
Subordinated liabilities issue costs		–	(0.8)
Dividends paid	10	(15.5)	(14.8)
Repayment of lease liabilities	25	(0.8)	–
Net cash inflow from financing activities		**28.7**	**184.4**
Net decrease in cash and cash equivalents		**(60.6)**	**(46.8)**
Cash and cash equivalents at 1 January		211.6	258.4
Cash and cash equivalents at 31 December	32.1	**151.0**	**211.6**

Redemption and purchase of debt securities have been grossed up and moved from operating activities to investing activities as this better represents the nature of the underlying activity.

The notes on pages 127 to 187 are an integral part of these consolidated financial statements.

Notes to the financial statements

1. Accounting policies

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

1.1. Reporting entity

Secure Trust Bank PLC is a public limited company incorporated in England and Wales in the United Kingdom (referred to as 'the Company') and is limited by shares. The Company is registered in England and Wales and has the registered number 00541132. The registered address of the Company is One Arleston Way, Solihull, West Midlands, B90 4LH. The consolidated financial statements of the Company as at and for the year ended 31 December 2019 comprise Secure Trust Bank PLC and its subsidiaries (together referred to as 'the Group' and individually as 'subsidiaries'). The Group is primarily involved in banking and financial services.

1.2. Basis of presentation

The Group's consolidated financial statements and the Company's financial statements have been prepared in accordance with International Financial Reporting Standards, as adopted by the Group and endorsed by the EU, and the Companies Act 2006 applicable to companies reporting under IFRS. They have been prepared under the historical cost convention, as modified by the valuation of derivative financial instruments, investment properties and land and buildings at fair value. The consolidated financial statements are presented in pounds sterling, which is the functional and presentational currency of the entities within the Group. There are no IFRS that are issued but not yet effective that will have a material impact on the Group.

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

The Directors have assessed, in the light of current and anticipated economic conditions, the Group's ability to continue as a going concern. The Directors confirm they are satisfied that the Company and the Group have adequate resources to continue in business for the foreseeable future. For this reason, they continue to adopt the 'going concern' basis for preparing accounts, as set out in the Going concern and viability section of the Strategic Report starting on page 2.

The consolidated financial statements were authorised for issue by the Board of Directors on 6 May 2020.

1.3. IFRS 16 'Leases'

IFRS 16 'Leases', which has been issued and endorsed by the EU, is effective for annual periods beginning on or after 1 January 2019.

The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract i.e. the customer ('lessee') and the supplier ('lessor'). It replaces the previous leases standard, IAS 17 'Leases', and related interpretations.

IFRS 16 uses a new single model that applies to all leases, thus eliminating the classification of leases as either operating leases or finance leases for a lessee. Applying that model, on commencement of a lease, the lessee recognises a liability to make lease payments ('the lease liability'), an asset representing the right to use the underlying asset during the lease term ('the right-of-use asset'), and depreciation of right-of-use assets is shown separately from interest on lease liabilities in the income statement.

The lease liability is initially measured based on the net present value of the lease payments to be made over the remaining lease term, using the lessee's incremental borrowing rate as the discount rate. After commencement of the lease, the lease liability is measured on an amortised cost basis, with interest being calculated on an effective interest rate basis on the remaining balance of the liability, and lease payments reducing the lease liability when paid.

The right-of-use assets are initially measured at cost, being the amount of the initial measurement of the lease liability, adjusted for any prepaid rentals less any lease incentives plus any initial direct costs incurred by the lessee and dismantling or restoration costs. Subsequently, the right-of-use assets are amortised on a straight-line basis over the remaining term of the lease. The right-of-use assets are tested for impairment in accordance with IAS 36.

In the cash flow statement, lease interest is included in cash flow from operating activities and repayments of lease liabilities are included in cash flow from financing activities.

Notes to the financial statements continued

1. Accounting policies continued

Transition choices

The Group has elected to recognise the cumulative effect of implementing IFRS 16 as an adjustment to the opening balance of retained earnings at 1 January 2019. Accordingly, prior year comparatives shall not be restated. As a practical expedient, the Group will apply the new standard only to contracts that had previously been identified as leases. Therefore, the new standard will not be applied to contracts that had not previously been identified as leases.

The Group has also elected not to apply IFRS 16 to the following, as they are not material:

- Short-term leases of 12 months or less
- Leases for which the underlying asset is of low value

This has resulted in the new standard only being applicable to a number of property leases and motor vehicle leases.

The Group has chosen to measure the initial right-of-use asset for property leases at its carrying amount as if the standard has been applied since the commencement date, but discounted using the incremental borrowing rate as at 1 January 2019. The initial right-of-use asset for all other leases is measured at an amount equal to the lease liability.

The adjustments (net of tax) arising from the adoption of IFRS 16 on 1 January 2019, and their effect on the 31 December 2018 balance sheet, were as follows:

	As originally stated 31 December 2018 £million	**IFRS 16 transition adjustment 1 January 2019 £million**	**As restated 1 January 2019 £million**
ASSETS			
Cash and balances at central banks	169.7	–	169.7
Loans and advances to banks	44.8	–	44.8
Loans and advances to customers	2,028.9	–	2,028.9
Debt securities	149.7	–	149.7
Lease right-of-use assets	–	4.5	4.5
Deferred tax assets	7.9	0.2	8.1
Other assets	43.3	(0.4)	42.9
Total assets	**2,444.3**	**4.3**	**2,448.6**
LIABILITIES AND EQUITY			
Liabilities			
Due to banks	263.5	–	263.5
Deposits from customers	1,847.7	–	1,847.7
Lease liabilities	–	5.5	5.5
Other liabilities	45.6	(1.1)	44.5
Subordinated liabilities	50.4	–	50.4
Total liabilities	**2,207.2**	**4.4**	**2,211.6**
Equity attributable to owners of the parent			
Share capital	7.4	–	7.4
Share premium	81.2	–	81.2
Revaluation reserve	1.1	–	1.1
Retained earnings	147.4	(0.1)	147.3
Total equity	**237.1**	**(0.1)**	**237.0**
Total liabilities and equity	**2,444.3**	**4.3**	**2,448.6**

1. Accounting policies continued

Adjustments to other assets

These relate to the release of rent prepayments that are no longer required now that the leases are recognised as right-of-use assets.

Adjustment to other liabilities

This relates to the release of a reverse lease premium, which under IAS 17 was included in accruals and was being spread over the term of the lease.

The weighted average incremental borrowing rate applied to lease liabilities recognised in the statement of financial position on transition at 1 January 2019 was 2.61%.

The table below presents a reconciliation from operating lease commitments disclosed at December 2018 to lease liabilities recognised at 1 January 2019:

	£million
Operating lease commitment disclosed under IAS 17 at December 2018	7.4
Effect of discounting	(1.9)
	5.5

In terms of the income statement impact, the application of IFRS 16 resulted in a decrease in other operating expenses and an increase in depreciation and interest expense compared to IAS 17. During the year, in relation to leases under IFRS 16 the Group recognised the following amounts in the consolidated income statement:

	£million
Depreciation	0.9
Interest expense	0.1
	1.0

Lessor accounting

Lessor accounting, which comprises Motor Finance, Asset Finance and the RentSmart business, remains unchanged from IAS 17.

1.4. Consolidation

Subsidiaries

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

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

The parent company's investments in subsidiaries are recorded at cost less, where appropriate, provision for impairment. At the year-end, there was no indication that investments in subsidiaries were impaired, so impairment testing was not performed.

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

The parent company's expected credit loss on amounts due from related companies, calculated by applying probability of default and loss given default the amount outstanding at the year-end, was not material at 31 December 2019.

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

Discontinued operations

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

Notes to the financial statements continued

1. Accounting policies continued

1.5. Interest income and expense

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

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

In calculating the effective interest rate for financial instruments, other than assets that were credit-impaired on initial recognition, the Group estimates cash flows considering all contractual terms of the financial instrument (for example, early redemption penalty charges and broker commissions) and anticipated customer behaviour, but does not consider future credit losses. For financial assets that were impaired on initial recognition (also referred to as purchased or originated credit-impaired assets – 'POCI'), a credit adjusted effective interest rate is calculated using estimated future cash flows, including expected credit losses.

The calculation of the effective interest rate includes all fees received and paid that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial instrument.

For financial assets that are not considered to be credit-impaired ('stage 1' and 'stage 2' assets), interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset. For financial assets that become credit-impaired subsequent to initial recognition ('stage 3' assets), from the next reporting period onwards interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset. The credit risk of financial assets that become credit-impaired are not expected to improve such that they are no longer considered credit-impaired, however, if this were to occur the calculation of interest income would revert back to the gross basis. The Group's definition of stage 1, stage 2 and stage 3 assets is set out in Note 1.9.

For financial assets that were credit-impaired on initial recognition (POCI assets), income is calculated by applying the credit adjusted effective interest rate to the amortised cost of the asset. For such financial assets the calculation of interest income will never revert to a gross basis, even if the credit risk of the asset improves.

Further details regarding when an asset becomes credit-impaired subsequent to initial recognition is provided within Note 1.9.

1.6. Net fee and commission income

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

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

1.7. Financial assets and financial liabilities

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Group has transferred substantially all of the risks and rewards of ownership. There have not been any instances where assets have only been partially derecognised. The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expire, including in the event of a substantial modification as described in Note 1.9.

Amortised cost measurement

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

Fair value measurement

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

1. Accounting policies continued

Financial assets (with the exception of derivative financial instruments)

The Group classifies its financial assets at inception into three measurement categories; 'amortised cost', 'fair value through other comprehensive income' ('FVOCI') and 'fair value through profit and loss' ('FVTPL'). A financial asset is measured at amortised cost if both the following conditions are met and it has not been designated as at FVTPL:

- the asset is held within a business model whose objective is to hold the asset to collect its contractual cash flows
- the contractual terms of the financial asset give rise to cash flows on specified dates that represent payments of solely principal and interest on the outstanding principal amount

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

The amortised cost of an instrument is the amount at which it is measured at initial recognition, less principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, less any expected credit loss allowance. The gross carrying amount of a financial asset is the amortised cost of a financial asset before adjusting for any expected credit loss allowance.

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

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

The Group currently has no financial instruments classified as FVOCI.

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

All other assets are classified as FVTPL. The Group currently has no financial assets classified as FVTPL.

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

Deposits from customers

The Group classifies its financial liabilities as measured at amortised cost. Such financial liabilities are recognised when cash is received from depositors and carried at amortised cost using the effective interest method.

Other financial liabilities (with the exception of derivative financial instruments)

The subordinated liabilities comprise of 6.75% Fixed Rate Reset Callable Subordinated Notes due 2028 (the 'Notes'):

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

The above features provide the issuer with a contractual obligation to deliver cash or another financial asset to the holders, and therefore the notes are classified as financial liabilities. Further information in respect of the notes is provided in Note 28.

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

The fair value of other liabilities repayable on demand is assumed to be the amount payable on demand at the statement of financial position date.

The Group has not elected to measure any financial liabilities at fair value.

Notes to the financial statements continued

1. Accounting policies continued

1.8. Foreign currencies

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

1.9. Impairment of financial assets and loan commitments

The Group recognises loss allowances for Expected Credit losses ('ECLs') on all financial assets carried at amortised cost, including lease receivables and loan commitments.

Credit loss allowances are measured as an amount equal to lifetime ECL, except for the following assets, for which they are measured as 12-month ECL:

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

Such assets are classified as stage 1 assets.

Assets which have experienced a significant increase in credit risk since their initial recognition and have not subsequently met the Group's cure policy are classified as stage 2 assets. The Group's definitions of a significant increase in credit risk and default are set out below.

A financial asset is considered to have low credit risk when its credit risk rating is equivalent to the widely understood definition of 'investment grade' assets. The Group has assessed all its debt securities, which represents UK Treasury bills, and loans held in STB Leasing Limited, for which credit risk is retained by its partner RentSmart, to be low credit risk.

Definition of default/credit-impaired financial assets (Stage 3 loans)

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

- Initiation of bankruptcy proceedings
- Notification of bereavement
- Identification of loan meeting debt sale criteria
- Initiation of repossession proceedings

In addition, a loan that is 90 days or more past due is considered credit-impaired for all portfolios. The credit risk of financial assets that become credit-impaired are not expected to improve such that they are no longer considered credit-impaired.

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

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

Significant increase in credit risk (Stage 2 loans)

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

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

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

Performing assets which have experienced a significant increase in credit risk since initial recognition are reclassified from stage 1, for which loss allowances are measured at an amount equal to 12-month ECL, to stage 2, for which ECL is measured as lifetime ECL.

1. Accounting policies continued

Cure policy

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

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

Calculation of expected credit loss

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

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

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

ECLs are calculated by multiplying three main components: the probability of default ('PD'), exposure at default ('EAD') and loss given default ('LGD') discounted at the original effective interest rate of an asset. These variables are derived from internally developed statistical models and historical data, adjusted to reflect forward-looking information and are discussed in turn further below. Management adjustments are made to modelled output to account for situations where known or expected risk factors have not been considered in the modelling process.

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

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

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

Exposure at default ('EAD')

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

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

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

Notes to the financial statements continued

1. Accounting policies continued

Loss given default ('LGD')

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

Incorporation of forward-looking data

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

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

Presentation of loss allowance

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

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

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

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

Motor voluntary termination provision

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

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

Write off

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

1. Accounting policies continued

Modification of loans

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

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

1.10. Derivative financial instruments

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

The Group does not hold contracts containing embedded derivatives.

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

Hedge accounting

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

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

The Group does not have cash flow hedges or hedges of net investments.

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

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

Fair value hedge accounting

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

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

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

Notes to the financial statements continued

1. Accounting policies continued

1.11. Intangible assets

(a) Goodwill

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

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

(b) Computer software

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

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

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

(c) Other intangibles

The acquisition of subsidiaries was accounted for in accordance with IFRS 3 'Business Combinations', which requires the recognition of the identifiable assets acquired and liabilities assumed at their acquisition date fair values. As part of this process, it was necessary to recognise certain intangible assets which are separately identifiable and which are not included on the acquiree's balance sheet, which are amortised over their expected useful lives, as set out in Note 19.

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

1.12. Investment property

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

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

1.13. Property, plant and equipment

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

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

Land	not depreciated
Freehold buildings	50 years
Leasehold improvements	shorter of life of lease or 7 years
Computer equipment	3 to 5 years
Other equipment	5 to 10 years

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

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

1. Accounting policies continued

1.14. Leases

(a) As a lessee

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

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

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

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

(b) As a lessor

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

1.15. Cash and cash equivalents

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

1.16. Equity instruments

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

1.17. Employee benefits

(a) Post-retirement obligations

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

(b) Share-based compensation

The fair value of equity settled share-based payment awards are calculated at grant date and recognised over the period in which the employees become unconditionally entitled to the awards (the vesting period). The amount is recognised as personnel expenses in the income statement, with a corresponding increase in equity. Further details of the valuation methodology is set out in Note 31.

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

Notes to the financial statements continued

1. Accounting policies continued

1.18. Taxation

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

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

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

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

1.19. Dividends

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

2. Critical accounting judgements and key sources of estimation uncertainty

2.1. Judgements

The Group considers the COVID-19 outbreak to be a non-adjusting event occurring after the balance sheet date. Further information in respect of this event is provided in Note 43. No other critical judgements have been identified.

2.2. Key sources of estimation uncertainty

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

2.2.1. Impairment losses on loans and advances to customers

As discussed in Note 1.9 ECLs are calculated by multiplying three main components: the PD, EAD and LGD. These variables are derived from internally developed statistical models and historical data, adjusted to reflect forward-looking information. The determination of both the PD and LGD require estimation which is discussed further below.

2.2.2. Probability of default ('PD')

As set out in Note 1.9 Exogenous, Maturity, Vintage ('EMV') modelling is used in the production of forward-looking lifetime PDs in the calculation of ECLs. As the Group's performance data does not go back far enough to capture a full economic cycle, the proxy series of the quarterly rates of write offs for UK unsecured lending data is used to build an economic response model ('ERM') to incorporate the effects of recession.

The portfolios for which external benchmark information represents a significant input into the measurement of ECL are Real Estate Finance, Asset Finance and Commercial Finance. The benchmarks used for all three portfolios are Standard & Poor's Ratings and Bank of England UK Possessions as proxy data for ERM.

With the exception of the Motor Finance and Retail Finance portfolios, sensitivity to reasonably possible changes in PD is not considered to result in material changes in the ECL allowance. A 10% change in the PD for Motor Finance would immediately impact the ECL allowance by £2.0 million (2018: £1.8 million) and a 10% change in the PD for Retail Finance would immediately impact the ECL allowance by £2.3 million (2018: £2.0 million).

The composition of the Retail Finance portfolio remains stable with minimal movement in PDs and the ECL allowance held for the Business Finance, Consumer Mortgages and Other portfolios remains low. Reasonably possible changes in the PD for these portfolios are not considered to result in a material change in the ECL allowance.

2.2.3. Loss given default ('LGD')

The Group's policy for the determination of LGD is outlined in Note 1.9.

With the exception of the Motor Finance portfolio, the sensitivity of the ECL allowance to reasonably possible changes in the LGD is not considered material. For the Motor Finance portfolio a 20% change in the LGD is considered reasonably possible due to potential difficulties in the vehicle collection process and reduced asset values brought about by COVID-19. A 20% change in the vehicle recovery rate assumption element of the LGD for Motor Finance would impact the ECL allowance by £2.6 million (2018: £3.2 million).

2. Critical accounting judgements and key sources of estimation uncertainty continued

During 2019, market factors caused used car prices to fall by more than seasonal norms over the summer months. The fall was approximately 6% greater than expectations and increased expected credit losses for the year by £0.9 million.

2.2.4. Incorporation of forward-looking data

The Group incorporates forward-looking information into both its assessment of whether the credit risk of a financial asset has increased significantly since initial recognition and its measurement of expected credit loss by developing a number of potential economic scenarios and modelling expected credit losses for each scenario. Further detail on this process is provided in Note 1.9. Whilst not material and therefore not required by IAS 1, the Group has included the disclosure below as it is considered useful to readers of the Annual Report and Accounts.

The macroeconomic scenarios and weightings applied on adoption of IFRS 9 are summarised below:

Scenario	Derivation	2019	2018
Base case	Derived from external consensus forecasts and used in the Group's strategic planning and budgeting processes.	65%	65%
Benign case	Assumes macroeconomic variables will move with a more positive trajectory than the base case.	10%	10%
Stressed case	Management's assessment, based on historic data, of an adverse scenario that could occur once every 7 to 8 years.	20%	20%
Deeper stress	Based on the scenario used by the PRA for the H1 2019 ICAAP. This can be found on the Bank of England's website: www.bankofengland.co.uk	5%	5%

Weightings applied to the macro economic scenarios were reconfirmed at the January 2020 Assumptions Committee and remain unchanged since December 2018.

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

	Increase in stressed case weighting by 5% and reduction in base case		Increase in deeper stress case weighting by 5% and reduction in base case	
	2019 £million	2018 £million	**2019 £million**	2018 £million
Motor Finance	0.1	0.1	0.4	0.3
Retail Finance	0.2	0.1	0.7	0.8

The sensitivity is immaterial for other lending products.

Were each of the macroeconomic scenarios to be applied 100%, rather than using the weightings set out above, the impact on ECL for 2019 would be as follows:

Scenario	Impact	2019 £million
Base case	Decrease in provision of	2.3
Benign case	Decrease in provision of	2.7
Stressed case	Increase in provision of	4.2
Deeper stress	Increase in provision of	18.6

2.2.5. Debt Management forecast collections on 'POCI' debt

A +/-5.0% change in Debt Management forecast collections, which the Directors consider to be a reasonable possible change, would increase or decrease Loans and advances to customers by £4.0 million respectively, resulting in a corresponding £4.0 million increase or decrease in profit or loss. A similar change applied to the December 2018 position would result in an increase or decrease to Loans and advances to customers of £3.5 million respectively, resulting in a corresponding £3.5 million increase or decrease in profit or loss.

Given the improving quality of the Group's loan books year-on-year, the Debt Management forecast collections have improved. The year-on-year improvement resulted in an increase to Loans and advances to customers of £4.5 million, resulting in a corresponding £4.5 million increase in profit or loss.

Notes to the financial statements continued

3. Operating segments

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

Business Finance

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

Consumer Finance

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

Other

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

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

Currently, the Debt Management and Consumer Mortgages segments both fall below the quantitative threshold for separate disclosure, but the Directors consider that they represent sufficiently distinct types of business to merit separate disclosure. Also since the Group ceased new mortgage operations, the Consumer Mortgages business is now managed as part of Consumer Finance, so the prior year figures have been restated accordingly.

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

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

3. Operating segments continued

	Interest income and similar income £million	Fee and commission income £million	Revenue from external customers £million	Net impairment losses on loans and advances to customers £million	Loans and advances to customers £million
31 December 2018					
Real Estate Finance	41.1	0.1	41.2	0.5	769.8
Asset Finance	6.6	–	6.6	2.2	62.8
Commercial Finance	5.5	7.9	13.4	–	194.7
Business Finance	53.2	8.0	61.2	2.7	1,027.3
Retail Finance	58.7	4.1	62.8	19.3	597.0
Motor Finance	47.4	1.1	48.5	11.3	276.4
Debt Management	6.1	0.9	7.0	–	32.3
Consumer Mortgages	1.5	–	1.5	0.2	84.7
Consumer Finance	113.7	6.1	119.8	30.8	990.4
Other	2.3	5.3	7.6	(1.1)	11.2
	169.2	**19.4**	**188.6**	**32.4**	**2,028.9**

Funding costs and operating expenses are not aligned to operating segments for day-to-day management of the business, so they cannot be allocated on a reliable basis. Accordingly, profit by operating segment has not been disclosed.

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

4. Operating income

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

4.1 Net interest income

	2019 £million	2018 £million
Loans and advances to customers	189.6	167.4
Cash and balances at central banks	1.0	1.0
Debt securities	0.7	0.8
	191.3	169.2
Derivative financial instruments measured at fair value through profit and loss		
On financial instruments hedging assets in a qualifying hedge accounting relationship	0.1	–
Interest income and similar income	**191.4**	**169.2**
Deposits from customers	(40.4)	(32.8)
Due to banks	(2.1)	(1.5)
Subordinated liabilities	(3.4)	(1.2)
	(45.9)	(35.5)
Derivative financial instruments measured at fair value through profit and loss		
Net expense on financial instruments hedging liabilities	(0.1)	–
Interest expense and similar charges	**(46.0)**	**(35.5)**
Net interest income	**145.4**	**133.7**

Notes to the financial statements
continued

4. Operating income
4.2 Net fee and commission income

	2019 £million	2018 £million
Fee and disbursement income	17.5	16.3
Commission income	1.9	2.0
Other income	1.5	1.1
Fee and commission income	**20.9**	**19.4**
Other expenses	(0.8)	(1.5)
Fee and commission expense	**(0.8)**	**(1.5)**
Net fee and commission income	**20.1**	**17.9**

Fees and commissions income consists principally of the following:

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

Fee and commission expenses consist primarily of recovery fees payable in respect of Motor Finance and Debt Management.

5. Gains/losses from derivatives and hedge accounting
Group and Company

The Group holds interest rate swaps for risk mitigation purposes. For further information on the Group's risk management strategy for market risk refer to the Principal risks and uncertainties section of the Group's Strategic Report on page 40. No comparatives are presented as the Group held no interest rate swaps during the prior year. Interest rate swaps are designated on initial recognition as measured at fair value through profit and loss. The tables below provide an analysis of the notional amount and fair value of derivatives held:

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

	Notional £million	Assets £million	Liabilities £million
31 December 2019			
In not more than one year	214.5	–	(0.1)
In more than one year	773.2	0.9	(0.5)
	987.7	**0.9**	**(0.6)**

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

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

5. Gains/losses from derivatives and hedge accounting continued

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

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

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

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

Although the Group uses derivatives exclusively to hedge interest rate risk exposures, income statement volatility can still arise due to hedge accounting ineffectiveness or because hedge accounting is not achievable. This arises from the application of accounting rules which do not reflect the economic reality of the business. Where such volatility arises it will trend back to zero over time.

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

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

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

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

	Gross amount reported on balance sheet £million	Master netting arrangements £million	Financial collateral £million	Net amounts after offsetting £million
31 December 2019				
Derivative financial assets	0.9	(0.6)	(0.3)	–
Derivative financial liabilities	(0.6)	0.6	(0.1)	(0.1)

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

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

Notes to the financial statements continued

6. Operating expenses

	2019 £million	2018 £million
Staff costs, including those of Directors:		
Wages and salaries	43.1	39.1
Social security costs	5.1	6.0
Pension costs	1.7	1.4
Share-based payment transactions	1.2	0.8
Depreciation of property, plant and equipment (Note 17)	1.2	1.3
Depreciation of lease right-of-use assets (Note 18)	0.9	–
Amortisation of intangible assets (Note 19)	1.9	1.8
Operating lease rentals	0.8	1.7
Other administrative expenses	38.3	32.4
Total operating expenses	**94.2**	**84.5**

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

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

	2019 £'000	2018 £'000
Fees payable to the Company's auditor for the audit of the Company's annual accounts	325	233
Fees payable to the Company's auditor for other services:		
The audit of the Company's subsidiaries, pursuant to legislation	30	37
Audit related assurance services	–	–
Other assurance services	57	95
All other non-audit services	12	140
	424	**505**

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

All other non-audit services related to the Financial Services Compensation Scheme reporting health check (2018: the issue of the subordinated liabilities, recovery plan support, review of share scheme documentation and Financial Services Compensation Scheme reporting health check).

7. Average number of employees

	2019 Number	2018 Number
Directors	8	7
Management	157	88
Administration	814	766
	979	**861**

8. Income tax expense

	2019 £million	2018 £million
Current taxation		
Corporation tax charge – current year	7.0	7.3
Corporation tax charge – adjustments in respect of prior years	(0.1)	0.3
	6.9	7.6
Deferred taxation		
Deferred tax charge – current year	0.7	(1.0)
Deferred tax charge – adjustments in respect of prior years	–	(0.2)
	0.7	(1.2)
Income tax expense	**7.6**	**6.4**

	2019 £million	2018 £million
Tax reconciliation		
Profit before tax	38.7	34.7
Tax at 19.00% (2018: 19.00%)	7.4	6.6
Permanent differences	–	–
Banking surcharge	0.1	0.3
Rate change on deferred tax assets	0.2	(0.6)
Prior period adjustments	(0.1)	0.1
Income tax expense for the year	**7.6**	**6.4**

The Government has substantively enacted a reduction in the main rate of UK corporation tax from 19% to 17% (effective 1 April 2020). However, on 17 March 2020, the Government legislated to retain the current rate of 19%. The Group is also subject to an 8% surcharge on the profits of banking companies in excess of £25 million that is reflected in the 2019 tax charge and reconciliation.

9. Earnings per ordinary share

9.1 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:

	2019	2018
Profit attributable to equity holders of the parent (£million)	31.1	28.3
Weighted average number of ordinary shares (number)	18,476,280	18,475,229
Earnings per share (pence)	**168.3**	**153.2**

Notes to the financial statements continued

9. Earnings per ordinary share continued

9.2 Diluted

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

	2019	2018
Weighted average number of ordinary shares	18,476,280	18,475,229
Number of dilutive shares in issue at the year-end	216,943	277,234
Fully diluted weighted average number of ordinary shares	**18,693,223**	**18,752,463**
Dilutive shares being based on:		
Number of options outstanding at the year-end	598,065	511,706
Weighted average exercise price (pence)	528	678
Average share price during the period (pence)	1,390	1,489
Diluted earnings per share (pence)	**166.4**	**150.9**

10. Dividends

	2019 £'000	2018 £'000
2017 final dividend – 61 pence per share (paid May 2018)	–	11.3
2018 interim dividend – 19 pence per share (paid September 2018)	–	3.5
2018 final dividend – 64 pence per share (paid May 2019)	11.8	–
2019 interim dividend – 20 pence per share (paid September 2019)	3.7	–
	15.5	**14.8**

The Directors do not recommend the payment of a final dividend for 2019. An interim dividend of 20 pence per share was paid on 27 September 2019. Total dividends for 2018 were 83 pence per share.

11. Loans and advances to banks

	Group 2019 £million	Group 2018 £million	Company 2019 £million	Company 2018 £million
Placements with banks included in cash and cash equivalents (Note 32)	48.4	44.8	45.2	41.9

Moody's long-term ratings are as follows:

	Group 2019 £million	Group 2018 £million	Company 2019 £million	Company 2018 £million
A1	3.8	11.2	3.6	11.1
A1*/A2	–	28.6	–	25.8
Baa2	39.5	–	36.5	–
Arbuthnot Latham & Co., Limited – No rating	5.1	5.0	5.1	5.0
	48.4	**44.8**	**45.2**	**41.9**

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

Loans and advances to banks includes £9.1 million in relation to collateral held under credit support and similar agreements, with a corresponding payable included within other liabilities.

12. Loans and advances to customers

	Group 2019 £million	Group 2018 £million	Company 2019 £million	Company 2018 £million
Gross loans and advances	2,510.7	2,096.0	2,422.3	2,048.9
Less: allowances for impairment on loans and advances (Note 14)	(60.6)	(67.1)	(68.7)	(68.6)
	2,450.1	**2,028.9**	**2,353.6**	**1,980.3**

The fair value of loans and advances to customers is shown in Note 39. For a maturity profile of loans and advances to customers, refer to Note 38.

Group and Company

At 31 December 2019 loans and advances to customers of £433.4 million (2018: £326.5 million) were pre-positioned under the Bank of England's liquidity support operations and Term Funding Scheme, and were available for use as collateral within the schemes.

The following loans are secured upon real estate:

	2019 Loan balance £million	2019 Loan-to-value %	2018 Loan balance £million	2018 Loan-to-value %
Real Estate Finance	962.2	59%	769.8	57%
Consumer Mortgages	105.9	56%	84.7	59%
	1,068.1		**854.5**	

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

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

Group

£2.0 million (2018: £1.9 million) of collateral is held from RentSmart, against loans of £7.2 million (2018: £10.8 million), which is not recognised on the balance sheet. This is based upon the balance of customer receivables and expected new agreements during the following month.

13. Finance lease receivables

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

	Group 2019 £million	Group 2018 £million	Company 2019 £million	Company 2018 £million
Gross investment in finance lease receivables:				
– No later than 1 year	176.0	175.3	171.6	168.7
– Later than 1 year and no later than 5 years	338.6	326.9	335.7	322.0
– Later than 5 years	–	0.2	–	0.2
	514.6	502.4	507.3	490.9
Unearned future finance income on finance leases	(144.6)	(135.8)	(142.9)	(132.8)
Net investment in finance leases	**370.0**	**366.6**	**364.4**	**358.1**
The net investment in finance leases may be analysed as follows:				
– No later than 1 year	110.2	112.0	107.0	107.6
– Later than 1 year and no later than 5 years	259.8	254.4	257.4	250.3
– Later than 5 years	–	0.2	–	0.2
	370.0	**366.6**	**364.4**	**358.1**

Notes to the financial statements continued

14. Allowances for impairment of loans and advances

Group

	Not credit-impaired		Credit impaired			
	Stage 1: Subject to 12-month ECL £million	Stage 2: Subject to lifetime ECL £million	Stage 3: Subject to lifetime ECL £million	Total provision £million	Gross loans and receivables £million	Provision cover %
31 December 2019						
Business Finance:						
Real Estate Finance	0.5	–	0.1	0.6	962.8	0.1%
Asset Finance	–	0.1	1.7	1.8	29.5	6.1%
Commercial Finance	0.3	–	0.6	0.9	252.6	0.4%
Consumer Finance:						
Retail Finance	10.0	11.1	4.4	25.5	714.4	3.6%
Motor Finance:						
Voluntary termination provision	6.8	–	–	6.8		
Other impairment	3.7	12.9	10.2	26.8		
	10.5	12.9	10.2	33.6	357.3	9.4%
Debt Management	–	–	(2.1)	(2.1)	80.3	(2.6%)
Consumer Mortgages	0.3	–	–	0.3	106.2	0.3%
Other	–	–	–	–	7.6	0.0%
	21.6	**24.1**	**14.9**	**60.6**	**2,510.7**	**2.4%**

	Not credit-impaired		Credit impaired			
	Stage 1: Subject to 12-month ECL £million	Stage 2: Subject to lifetime ECL £million	Stage 3: Subject to lifetime ECL £million	Total provision £million	Gross loans and receivables £million	Provision cover %
31 December 2018						
Business Finance:						
Real Estate Finance	0.6	–	–	0.6	770.4	0.1%
Asset Finance	0.2	0.1	2.7	3.0	65.8	4.6%
Commercial Finance	0.2	0.2	0.4	0.8	195.5	0.4%
Consumer Finance:						
Retail Finance	8.9	9.8	4.3	23.0	620.0	3.7%
Motor Finance:						
Voluntary termination provision	6.0	–	–	6.0		
Other impairment	4.2	13.8	15.4	33.4		
	10.2	13.8	15.4	39.4	315.8	12.5%
Debt Management	–	–	–	–	32.3	0.0%
Consumer Mortgages	0.2	–	–	0.2	84.9	0.2%
Other	–	–	0.1	0.1	11.3	0.9%
	20.3	**23.9**	**22.9**	**67.1**	**2,096.0**	**3.2%**

14. Allowances for impairment of loans and advances continued

Total provisions above include expert credit judgements as follows:

	2019 £million	2018 £million
Specific overlays held against credit-impaired secured assets held within the Business Finance portfolio	0.5	1.4
Planned enhancements to LGD elements of the IFRS 9 models	(0.8)	0.8
Management judgement in respect of PD elements of the IFRS 9 models	(0.8)	(0.2)
POCI adjustment (see below)	(2.1)	–
Other	(0.1)	–
Expert credit judgements over the Group's IFRS 9 model results	(3.3)	2.0

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

POCI adjustment

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

Provisions included in 'Other' are in respect of various legacy products. This segment also includes loans of £7.2 million (2018: £10.8 million) held in STB Leasing Limited. The credit risk associated with those loans is retained by its partner, RentSmart. Accordingly, no provision is held against the RentSmart loans.

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

	2019 £million	2018 £million
Incurred loss individual provision: charge for impairment losses	28.1	30.4
Loans written off, net of amounts utilised	5.3	4.3
Recoveries of loans written off	(0.8)	(2.3)
	32.6	**32.4**

Notes to the financial statements continued

14. Allowances for impairment of loans and advances continued

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

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

	Not credit-impaired		Credit impaired	
	Stage 1: Subject to 12-month ECL £million	Stage 2: Subject to lifetime ECL £million	Stage 3: Subject to lifetime ECL £million	Total £million
At 1 January 2018	18.9	24.9	27.9	71.7
(Decrease)/increase due to change in credit risk				
– Transfer to stage 2	(6.3)	33.0	–	26.7
– Transfer to stage 3	(0.1)	(23.4)	30.8	7.3
– Transfer to stage 1	1.5	(3.2)	–	(1.7)
Passage of time	(6.7)	(1.7)	(3.9)	(12.3)
New loans originated	17.4	–	–	17.4
Derecognised loans	(1.8)	(4.0)	–	(5.8)
Changes to model methodology	(1.3)	(0.2)	–	(1.5)
Changes to credit risk parameters	(1.2)	(1.5)	0.6	(2.1)
Other adjustments	2.4	–	–	2.4
Charge to income statement	3.9	(1.0)	27.5	30.4
Allowance utilised in respect of write offs	(2.5)	–	(32.5)	(35.0)
31 December 2018	**20.3**	**23.9**	**22.9**	**67.1**

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

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

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

14. Allowances for impairment of loans and advances continued

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

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

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

Interest income on loans classified as impaired totalled £2.5 million (2018: £2.0 million).

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

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

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

Company

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

Notes to the financial statements continued

14. Allowances for impairment of loans and advances continued

	Not credit-impaired		Credit impaired			
	Stage 1: Subject to 12 month ECL £million	Stage 2: Subject to lifetime ECL £million	Stage 3: Subject to lifetime ECL £million	Total provision £million	Gross loans and receivables £million	Provision cover %
31 December 2018						
Business Finance:						
Real Estate Finance	0.6	–	–	0.6	770.4	0.1%
Asset Finance	0.2	0.1	2.7	3.0	65.8	4.6%
Commercial Finance	0.2	0.2	0.4	0.8	191.4	0.4%
Consumer Finance:						
Retail Finance	9.2	9.8	4.4	23.4	620.0	3.8%
Motor Finance:						
Voluntary termination provision	6.0	–	–	6.0		
Other impairment	4.3	14.2	16.0	34.5		
	10.3	14.2	16.0	40.5	315.8	12.8%
Consumer Mortgages	0.2	–	–	0.2	84.9	0.2%
Other	–	–	0.1	0.1	0.6	16.7%
	20.7	**24.3**	**23.6**	**68.6**	**2,048.9**	**3.3%**

Total provisions above include expert credit judgements as follows:

	2019 £million	2018 £million
Specific overlays held against credit-impaired secured assets held within the Business Finance portfolio	0.5	1.4
Planned enhancements to LGD elements of the IFRS 9 models	(0.8)	0.8
Management judgement in respect of PD elements of the IFRS 9 models	(0.8)	(0.2)
Other	(0.1)	–
Expert credit judgements over the Company's IFRS 9 model results	(1.2)	2.0

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

14. Allowances for impairment of loans and advances continued

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

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

	Not credit-impaired		Credit impaired	
	Stage 1: Subject to 12-month ECL £million	Stage 2: Subject to lifetime ECL £million	Stage 3: Subject to lifetime ECL £million	Total £million
At 1 January 2018	19.0	25.1	28.2	72.3
(Decrease)/increase due to change in credit risk				
– Transfer to stage 2	(6.5)	33.9	–	27.4
– Transfer to stage 3	(0.1)	(24.0)	31.6	7.5
– Transfer to stage 1	1.5	(3.2)	–	(1.7)
Passage of time	(6.7)	(1.6)	(4.6)	(12.9)
New loans originated	17.9	–	–	17.9
Derecognised loans	(1.8)	(4.1)	2.8	(3.1)
Changes to model methodology	(1.3)	(0.2)	–	(1.5)
Changes to credit risk parameters	(1.2)	(1.5)	0.6	(2.1)
Other adjustments	2.4	–	–	2.4
Charge to income statement	4.2	(0.7)	30.4	33.9
Allowance utilised in respect of write offs	(2.5)	(0.1)	(35.0)	(37.6)
31 December 2018	**20.7**	**24.3**	**23.6**	**68.6**

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

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

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

Notes to the financial statements continued

14. Allowances for impairment of loans and advances continued

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

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

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

Interest income on loans classified as impaired totalled £1.8 million (2018: £1.1 million).

15. Debt securities

Group and Company

Debt securities of £25.0 million (2018: £149.7 million) represent UK Treasury Bills. The Company's intention is to hold them to maturity and, therefore, they are stated in the statement of financial position at amortised cost. The decrease over the year is due to Bills maturing.

All of the debt securities had a rating agency designation at 31 December 2019, based on Moody's long-term ratings of Aa2 (2018: Aa2). None of the debt securities are either past due or impaired.

16. Investment property

Group and Company

	2019 £million
Fair value	
At 1 January 2018	–
Additions	1.6
Transfer from property, plant and equipment	3.2
At 31 December 2019	**4.8**

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

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

Investment properties are stated at fair value at December 2019. The Directors have assessed the value of the freehold property at the year-end through comparison to current rental yields on similar properties in the same area.

17. Property, plant and equipment

Group

	Freehold land and buildings £million	Leasehold property	Computer and other equipment £million	Total £million
Cost or valuation				
At 1 January 2018	9.0	–	11.7	20.7
Additions	–	0.1	1.0	1.1
Disposals	–	–	(2.0)	(2.0)
Revaluation	(0.8)	–	–	(0.8)
At 31 December 2018	**8.2**	**0.1**	**10.7**	**19.0**
Additions	3.5	–	2.0	5.6
Disposals	–	–	(4.5)	(4.5)
Revaluation	(1.1)	–	–	(1.1)
Transfer from intangible assets	–	–	0.2	0.2
Transfer to investment property	(3.2)	–	–	(3.2)
At 31 December 2019	**7.4**	**0.1**	**8.4**	**15.9**
Accumulated depreciation				
At 1 January 2018	–	–	(9.2)	(9.2)
Depreciation charge	(0.5)	–	(0.8)	(1.3)
Disposals	–	–	2.0	2.0
Revaluation	0.5	–	–	0.5
At 31 December 2018	**–**	**–**	**(8.0)**	**(8.0)**
Depreciation charge	(0.2)	–	(1.0)	(1.2)
Disposals	–	–	4.5	4.5
Revaluation	0.2	–	–	0.2
Transfer from intangible assets	–	–	(0.1)	(0.1)
At 31 December 2019	**–**	**–**	**(4.6)**	**(4.6)**
Net book amount				
At 31 December 2018	**8.2**	**0.1**	**2.7**	**11.0**
At 31 December 2019	**7.4**	**0.1**	**3.8**	**11.3**

Notes to the financial statements continued

17. Property, plant and equipment continued

Company

	Freehold property £million	Computer and other equipment £million	Total £million
Cost or valuation			
At 1 January 2018	4.6	10.1	14.7
Additions	–	0.5	0.5
Disposals	–	(2.0)	(2.0)
At 31 December 2018	**4.6**	**8.6**	**13.2**
Additions	3.5	1.8	5.3
Disposals	–	(4.5)	(4.5)
Transfer from intangible assets	–	0.2	0.2
Transfer to investment property	(3.2)	–	(3.2)
Revaluation	(1.4)	–	(1.4)
At 31 December 2019	**3.5**	**6.1**	**9.6**
Accumulated depreciation			
At 1 January 2018	–	(8.6)	(8.6)
Depreciation charge	(0.4)	(0.3)	(0.7)
Disposals	–	2.0	2.0
Revaluation	0.1	–	0.1
At 31 December 2018	**(0.3)**	**(6.9)**	**(7.2)**
Depreciation charge	(0.1)	(0.6)	(0.7)
Disposals	–	4.5	4.5
Transfer from intangible assets	–	(0.1)	(0.1)
Revaluation	0.4	–	0.4
At 31 December 2019	**–**	**(3.1)**	**(3.1)**
Net book amount			
At 31 December 2018	**4.3**	**1.7**	**6.0**
At 31 December 2019	**3.5**	**3.0**	**6.5**

The Group and Company's freehold properties comprise:

- the Registered Office of the Company, which is fully utilised for the Group's own purposes
- Yorke House, Arleston Way, Shirley B90 4LH, 50% of which is used for the Group's own purposes
- 25 and 26 Neptune Court, Vanguard Way, Cardiff CF24 5PJ, which is fully utilised for the Group's own purposes

17. Property, plant and equipment continued

Freehold properties are stated at fair value as at December 2019. The Directors have assessed the value of the freehold property at the year-end through comparison to current rental yields on similar properties in the same area, which resulted in the following revaluation movements:

	Group 2019 £million	Group 2018 £million	**Company 2019 £million**	Company 2018 £million
Revaluation surpluses recognised in other comprehensive income	0.2	0.3	0.1	0.1
Revaluation deficit recognised in the income statement	(1.1)	–	–	–

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

The carrying value of freehold land which is included in the total carrying value of freehold land and buildings and which is not depreciated is £1.5 million (2018: £1.9 million).

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

	Group 2019 £million	Group 2018 £million	**Company 2019 £million**	Company 2018 £million
Cost	6.8	7.9	9.2	4.1
Depreciation	(1.6)	(1.6)	(0.3)	(0.2)
Net book value	**5.2**	**6.3**	**8.9**	**3.9**

18. Leasing right-of-use assets

Group

	Leasehold property £million	Leased motor vehicles £million	Total £million
Cost			
On transition at 1 January 2019	4.2	0.3	4.5
At 31 December 2019	**4.2**	**0.3**	**4.5**
Accumulated depreciation			
Depreciation charge	(0.7)	(0.2)	(0.9)
At 31 December 2019	**(0.7)**	**(0.2)**	**(0.9)**
Net book amount			
At 31 December 2019	**3.5**	**0.1**	**3.6**

Company

	Leasehold property £million	Leased motor vehicles £million	Total £million
Cost			
On transition at 1 January 2019	2.9	0.2	3.1
At 31 December 2019	**2.9**	**0.2**	**3.1**
Accumulated depreciation			
Depreciation charge	0.5	0.1	0.6
At 31 December 2019	**0.5**	**0.1**	**0.6**
Net book amount			
At 31 December 2019	**2.4**	**0.1**	**2.5**

Notes to the financial statements continued

19. Intangible assets

Group

	Goodwill £million	Computer software £million	Other intangible assets £million	Total £million
Cost or valuation				
At 1 January 2018	1.0	16.2	2.3	19.5
Additions	–	1.4	–	1.4
Disposals	–	(0.6)	(0.1)	(0.7)
At 31 December 2018	**1.0**	**17.0**	**2.2**	**20.2**
Additions	–	1.1	–	1.1
Transfers to property, plant and equipment	–	(0.2)	–	(0.2)
Disposals	–	(1.2)	–	(1.2)
At 31 December 2019	**1.0**	**16.7**	**2.2**	**19.9**
Accumulated amortisation				
At 1 January 2018	–	(7.9)	(1.2)	(9.1)
Amortisation charge	–	(1.6)	(0.2)	(1.8)
Disposals	–	0.6	–	0.6
At 31 December 2018	**–**	**(8.9)**	**(1.4)**	**(10.3)**
Amortisation charge	–	(1.7)	(0.2)	(1.9)
Transfers to property, plant and equipment	–	0.1	–	0.1
Disposals	–	1.2	–	1.2
At 31 December 2019	**–**	**(9.3)**	**(1.6)**	**10.9**
Net book amount				
At 31 December 2018	**1.0**	**8.1**	**0.8**	**9.9**
At 31 December 2019	**1.0**	**7.4**	**0.6**	**9.0**

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

	2019 £million	2018 £million
Music business	0.3	0.3
V12	0.7	0.7
Total	**1.0**	**1.0**

The recoverable amount of these cash generating units are determined on a value in use calculation which uses cash flow projections based on financial forecasts covering a three-year period, and a discount rate of 8% (2018: 8%). Cash flow projections during the forecast period are based on the expected rate of new business. A zero growth based scenario is also considered. The Directors believe that any reasonably possible change in the key assumptions on which recoverable amount is based would not cause the aggregate carrying amount to exceed the aggregate recoverable amount of the cash generating unit.

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

	Years
IT system	5
Distribution channel	10
Brand name	5

19. Intangible assets continued

Company

	Goodwill £million	Computer software £million	Total £million
Cost or valuation			
At 1 January 2018	0.3	12.3	12.6
Additions	–	1.3	1.3
Disposals	–	(0.7)	(0.7)
At 31 December 2018	**0.3**	**12.9**	**13.2**
Additions	–	1.0	1.0
Transfers to property, plant and equipment	–	(0.2)	(0.2)
Disposals	–	(1.3)	(1.3)
At 31 December 2019	**0.3**	**12.4**	**12.7**
Accumulated amortisation			
At 1 January 2018	–	(4.1)	(4.1)
Amortisation charge	–	(1.6)	(1.6)
Disposals	–	0.6	0.6
At 31 December 2018	**–**	**(5.1)**	**(5.1)**
Amortisation charge	–	(1.6)	(1.6)
Transfers to property, plant and equipment	–	0.1	0.1
Disposals	–	1.3	1.3
At 31 December 2019	**–**	**(5.3)**	**(5.3)**
Net book amount			
At 31 December 2018	**0.3**	**7.8**	**8.1**
At 31 December 2019	**0.3**	**7.1**	**7.4**

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

Notes to the financial statements continued

20. Investments

Company

	£million
Cost and net book value	
At 1 January 2018	3.7
Equity contributions to subsidiaries in respect of share options	0.2
At 31 December 2018	**3.9**
Equity contributions to subsidiaries in respect of share options	0.2
At 31 December 2019	**4.1**

Shares in subsidiary undertakings of Secure Trust Bank PLC at 31 December 2019 are stated at cost less any provision for impairment. All subsidiary undertakings are unlisted and none are banking institutions. All are 100% owned by the Company. The subsidiary undertakings were all incorporated in the UK and wholly owned via ordinary shares. All subsidiary undertakings are included in the consolidated financial statements and have an accounting reference date of 31 December.

Details are as follows:

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

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

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

21. Deferred taxation

	Group 2019 £million	Group 2018 £million	Company 2019 £million	Company 2018 £million
Deferred tax assets:				
Other short-term timing differences	7.5	7.9	8.1	7.8
Deferred tax assets	**7.5**	**7.9**	**8.1**	**7.8**

	Group 2019 £million	Group 2018 £million	Company 2019 £million	Company 2018 £million
Deferred tax assets:				
Prior period closing	7.9	0.6	7.8	0.6
Tax on IFRS 9 transition adjustment	–	6.3	–	6.4
Tax on IFRS 16 transition adjustment	0.2	–	0.2	–
At 1 January	8.1	6.9	8.0	7.0
Income statement	(0.7)	1.2	(0.2)	1.1
Other comprehensive income	0.1	(0.2)	0.3	(0.3)
At 31 December	**7.5**	**7.9**	**8.1**	**7.8**

The Government substantively enacted a reduction in the main rate of UK corporation tax from 19% to 17% (effective 1 April 2020). However, on 17 March 2020, the Government legislated to retain the current rate of 19%. The Group is also subject to an 8% surcharge on the profits of banking companies in excess of £25 million that is reflected in the 2019 tax charge and reconciliation. Deferred tax has been calculated based on the enacted rate of 17.5% (being an average of the rate of 19% to March 2020 and 17% thereafter) to the extent that the related temporary differences are expected to reverse in future periods, and is recognised on the basis that future taxable profits are in excess of the profits arising from the reversal of existing taxable temporary differences. The potential effect of the rate remaining at 19% would be to increase deferred tax assets by £0.7 million. A deferred tax asset was recognised on the IFRS 9 transition adjustment on 1 January 2018 and the current year credit includes a reassessment of the rates at which it is projected to reverse over the period to 31 December 2027.

22. Other assets

	Group 2019 £million	Group 2018 £million	Company 2019 £million	Company 2018 £million
Other receivables	5.2	16.2	4.5	16.1
Amounts due from related companies	–	–	88.5	44.5
Cloud software development prepayment	6.4	–	6.4	–
Other prepayments and accrued income	5.7	6.2	4.4	5.0
	17.3	**22.4**	**103.8**	**65.6**

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

Notes to the financial statements
continued

23. Due to banks

	Group 2019 £million	Group 2018 £million	Company 2019 £million	Company 2018 £million
Amounts due to other credit institutions	308.0	263.0	308.0	263.0
Accrued interest	0.5	0.5	0.5	0.5
	308.5	**263.5**	**308.5**	**263.5**

24. Deposits from customers
Group and Company

	2019 £million	2018 £million
Current/demand accounts	22.6	14.5
Term deposits	1,959.3	1,833.2
Individual savings accounts	38.4	–
	2,020.3	**1,847.7**

25. Lease liabilities
Group

	2019 £million
On transition at 1 January 2019	5.5
Payments	(1.1)
Interest expense	0.1
	4.5
Lease liabilities – Gross	
– No later than one year	1.0
– Later than one year and no later than five years	3.9
	4.9
Less: Future finance expense	(0.4)
	4.5
Lease liabilities – Net	
– No later than one year	0.9
– Later than one year and no later than five years	3.6
	4.5

25. Lease liabilities continued

Company

	2019 £million
On transition at 1 January 2019	4.0
Payments	(0.8)
Interest expense	0.1
	3.3
Lease liabilities – Gross	
– No later than one year	0.7
– Later than one year and no later than five years	2.9
	3.6
Less: Future finance expense	(0.3)
Lease liabilities – Net	**3.3**
Lease liabilities – Gross	
– No later than one year	0.7
– Later than one year and no later than five years	2.6
	3.3

26. Other liabilities

	Group 2019 £million	Group 2018 £million	Company 2019 £million	Company 2018 £million
Other payables	27.2	25.8	25.5	22.8
Amounts due to related companies	–	–	5.5	14.1
Accruals and deferred income	13.7	14.3	11.0	12.2
	40.9	**40.1**	**42.0**	**49.1**

Notes to the financial statements continued

27. Provisions for liabilities and charges

Group and Company

	Customer redress £million	ECL allowance on loan commitments £million	Fraud £million	Total £million
Balance at 1 January 2018	1.2	0.3	0.2	1.7
(Credited)/charged to income statement	(0.4)	0.1	(0.1)	(0.4)
Balance at 31 December 2018	**0.8**	**0.4**	**0.1**	**1.3**
Credited to income statement	(0.6)	–	–	(0.6)
Balance at 31 December 2019	**0.2**	**0.4**	**0.1**	**0.7**

Customer redress provision

The Group provides for its best estimate of redress payable in respect of outstanding claims relating to historical sales of accident, sickness and unemployment insurance, by considering the likely future uphold rate for claims, in the context of confirmed issues and historical experience. The accuracy of these estimates would be affected, were there to be a significant change in the incidence of claims upheld by the Financial Ombudsman Service.

The Financial Conduct Authority announced a deadline for making these customer redress claims, which gave consumers until 29 August 2019 to make a claim, so no further claims were accepted after this date.

Fraud

The fraud provision relates to cases where the Bank has reasonable evidence of suspected fraud, but further investigation is required before the cases can be dealt with appropriately.

ECL allowance on loan commitments

In accordance with the requirements of IFRS 9 the Group holds an ECL allowance against loans it has committed to lend but have not yet been drawn. For the Real Estate Finance and Commercial Finance portfolios, where a loan facility is agreed that includes both drawn and undrawn elements and the Group cannot identify the ECL on the loan commitment separately, a combined loss allowance for both drawn and undrawn components of the loan is presented as a deduction from the gross carrying amount of the drawn component, with any excess of the loss allowance over the gross drawn amount presented as a provision. At 31 December 2019 no provision was held for losses in excess of drawn amounts.

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

28. Subordinated liabilities

	2019 £million	2018 £million
Notes at par value	50.0	50.0
Unamortised issue costs	(0.6)	(0.8)
Accrued interest	1.2	1.2
	50.6	**50.4**

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

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

29. Contingent liabilities and commitments

29.1 Contingent liabilities

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

29.2 Capital commitments

At 31 December 2019, the Group had no capital commitments (2018: £nil).

The Company had no capital commitments (2018: £nil).

29.3 Credit commitments

Commitments to extend credit to customers were as follows:

	Group 2019 £million	Group 2018 £million	**Company 2019 £million**	Company 2018 £million
Business Finance				
Real Estate Finance	120.9	173.4	120.9	173.4
Commercial Finance	48.7	45.6	48.7	45.6
Consumer Finance				
Retail Finance	33.2	28.3	33.2	28.3
Motor Finance	0.5	0.5	0.5	0.5
Consumer Mortgages	–	15.3	–	15.3
	203.3	**263.1**	**203.3**	**263.1**

30. Share capital

	Number	£million
At 1 January 2018 and 31 December 2018	18,475,229	7.4
Issued during 2019	2,271	–
At 31 December 2019	**18,477,500**	**7.4**

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

Notes to the financial statements continued

31. Share-based payments

At 31 December 2019, the Group had five share-based payment schemes in operation:

- Share option Scheme
- 2017 long term incentive plan
- 2017 sharesave plan
- 2017 deferred bonus plan
- 'Phantom' share option scheme

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

	Outstanding at 1 January 2019 Number	Granted during the year Number	Forfeited lapsed and cancelled during the year Number	Exercised during the year Number	Outstanding at 31 December 2019 Number	Vested and exercisable at 31 December 2019 Number	Vesting dates	Weighted average exercise price of options outstanding at 31 December 2018 £	Weighted average exercise price of options outstanding at 31 December 2019 £
Equity settled									
Share option scheme	177,084	–	(35,417)	–	141,667	141,667	2016	7.20	7.20
2017 long term incentive plan	161,597	134,046	(32,549)	–	263,094	–	2020–2024	0.40	0.40
2017 sharesave plan	145,009	65,789	(46,284)	(872)	163,642	–	2020–2022	13.39	12.28
2017 deferred bonus plan	14,690	28,775	(12,404)	(1,399)	29,662	3,497	2019–2022	0.40	0.40
	498,380	**228,610**	**(126,654)**	**(2,271)**	**598,065**	**145,164**		**6.60**	**5.26**
Cash settled									
'Phantom' share option scheme	**312,917**	**–**	**(31,250)**	**–**	**281,667**	**281,667**		**2019**	**25.00**

	Group 2019 £million	Group 2018 £million	Company 2019 £million	Company 2018 £million
Expense incurred in relation to share-based payments	**1.2**	0.8	**1.0**	0.6

31.1. Share option scheme

The share option scheme was established on 17 October 2011.

On 2 November 2011, 934,998 share options were granted at an exercise price of £7.20 per share, entitling three Directors and certain senior employees to purchase shares in the Company. Approximately half of the share options vested and were exercised on 2 November 2014, with the remainder vesting and becoming exercisable on 2 November 2016. The bulk of the remainder were exercised on 7 November 2016, and 35,417 were cancelled during 2019 leaving 141,667 share options unexercised. Vested options are exercisable for a period of 10 years from the date of grant.

The intrinsic value of unexercised options is £1.2 million (2018: £0.8 million).

31. Share-based payments continued

31.2. Long term incentive plan

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

Awards under this plan are subject to three performance conditions, which are based on:

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

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

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

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

	Subject to a holding period Number	Subject to no holding period Number	Total Number
At 1 January 2018	33,467	34,525	67,992
Granted	30,429	64,075	94,504
Forfeited, lapsed and cancelled	–	(899)	(899)
At 31 December 2018	63,896	97,701	161,597
Granted	54,312	79,734	134,046
Forfeited, lapsed and cancelled	(32,549)	–	(32,549)
At 31 December 2019	**85,659**	**177,435**	**263,094**

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

	Granted 2019 Subject to a holding period	Granted 2019 Subject to no holding period	Granted 2018 Subject to a holding period	Granted 2018 Subject to no holding period
Share price at grant date	£15.20	£15.20	£20.85	£20.85
Exercise price	£0.40	£0.40	£0.40	£0.40
Expected dividend yield	6.18%	6.18%	4.05%	4.05%
Expected stock price volatility	25.9%	29.1%	25.2%	26.9%
Risk free interest rate	0.86%	0.72%	1.15%	0.89%
Average expected life (years)	5.00	3.00	5.00	3.00
Discount for lack of marketability during holding period	10.0%	N/A	10.0%	N/A
Original grant date valuation	**£9.02**	**£10.48**	**£14.26**	**£15.47**

Notes to the financial statements continued

31. Share-based payments continued

31.3. Sharesave plan

The sharesave plan was established on 3 May 2017.

This plan allows all employees with more than 12 months' service to save for three years, subject to a maximum monthly amount of £500, with the option to buy shares in Secure Trust Bank PLC when the plan matures. Participants cannot change the amount that they have agreed to save each month but they can suspend payments for up to six months. Participants can withdraw their savings at any time but, if they do this before the completion date, they lose the option to buy shares at the Option Price, and if participants cease to hold plan-related employment before the third anniversary of the grant date, then the options are also lost. The options ordinarily vest approximately three years after grant date, and are exercisable for a period of six months following vesting.

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

	Awarded during 2019	Awarded during 2018
Share price at grant date	£13.00	£17.53
Exercise price	£10.64	£14.03
Expected stock price volatility	28.34%	28.14%
Expected dividend yield	6.77%	4.57%
Risk free interest rate	0.46%	0.89%
Average expected life (years)	3.00	3.36
Original grant date valuation	**£2.10**	**£3.67**

31.4. Deferred bonus plan

The deferred bonus plan was established on 3 May 2017.

Since 2017, 50% of the bonus earned by two Executive Directors, amounting to £450,000 (2018: £280,000), is deferred into shares under the deferred bonus plan. The awards vest in three equal tranches after one, two and three years following deferral. One of the Executive Directors resigned during the year, leaving only one Executive Director remaining in the plan. Accordingly, the following awards remain outstanding under the plan, entitling one Executive Director to purchase shares in the Company:

	Awards granted Vesting after 1 year Number	Awards granted Vesting after 2 years Number	Awards granted Vesting after 3 years Number	Awards granted Total
At 1 January 2018	–	–	–	–
Granted	4,896	4,896	4,898	14,690
At 31 December 2018	**4,896**	**4,896**	**4,898**	**14,690**
Granted	9,591	9,591	9,593	28,775
Exercised	(1,399)	–	–	(1,399)
Cancelled	(3,202)	(4,601)	(4,601)	(12,404)
At 1 December 2019	**9,886**	**9,886**	**9,890**	**29,662**
Vested and exercisable	**3,497**	**–**	**–**	**3,497**

31. Share-based payments continued

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

	Granted 2019 Awards vesting after one year	Granted 2019 Awards vesting after two years	Granted 2019 Awards vesting after three years	Granted 2018 Awards vesting after one year	Granted 2018 Awards vesting after two years	Granted 2018 Awards vesting after three years
Share price at grant date	£11.90	£11.90	£11.90	£20.85	£20.85	£20.85
Exercise price	£0.40	£0.40	£0.40	£0.40	£0.40	£0.40
Expected dividend yield	7.06%	7.06%	7.06%	3.96%	3.96%	3.96%
Expected stock price volatility	27.34%	24.79%	28.82%	25.25%	30.90%	27.68%
Risk free interest rate	0.74%	0.74%	0.76%	0.69%	0.77%	0.82%
Average expected life (years)	1.00	2.00	3.00	1.00	2.00	3.00
Original grant date valuation	**£10.69**	**£9.94**	**£9.59**	**£19.64**	**£18.87**	**£18.12**

31.5. Cash settled share-based payments

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

As at 31 December 2019, 281,667 (2018: 312,917) share options remained outstanding. The options vested during 2019 and are exercisable for a period of 10 years after grant date.

As at 31 December 2019, the estimated fair value has been prepared using the Black-Scholes model. Measurement inputs and assumptions used were as follows:

	2019	2018
Share price at reporting date	£16.00	£11.80
Expected stock price volatility	30.34%	24.76%
Expected dividend yield	5.5%	7.12%
Risk free interest rate	0.60%	0.76%
Average expected life (years)	2.60	3.71
Fair value	**£0.53**	**£0.05**

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

	2019 £million	2018 £million
Liability	**0.2**	**0.2**

The fair value at December 2018 was not used to calculate the liability, as management concluded that it was appropriate to hold the accrual at the same level as 2017 because the options can be exercised at any point during the seven years after vesting, and given high levels of share price volatility at that date.

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

Notes to the financial statements continued

32. Cash flow statement

32.1. Cash and cash equivalents

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

	Group 2019 £million	Group 2018 £million	**Company 2019 £million**	Company 2018 £million
Cash and balances at central banks	105.8	169.7	105.8	169.7
Loans and advances to banks (Note 11)	48.4	44.8	45.2	41.9
	154.2	**214.5**	**151.0**	**211.6**

32.2. Changes in liabilities arising from financing activities

All changes in liabilities arising from financing activities arise from changes in cash flows, apart from £0.1 million of lease liabilities interest expense, as shown in Note 25, and £0.2 million amortisation of issue costs on subordinated liabilities, as shown in Note 28.

33. Financial risk management strategy

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

A more detailed description of the risk governance structure is contained in the Strategic Report beginning on page 2.

The principal financial risks inherent in the Group's business are credit risk (Note 34), market risk (Note 35), liquidity risk (Note 36), and capital risk (Note 37).

34. Credit risk

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

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

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

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

34. Credit risk continued

For Real Estate Finance and Commercial Finance, lending decisions are made on an individual transaction basis, using expert judgement and assessment against criteria set out in the lending policies. Asset Finance lending is outsourced to Haydock, who operate in line with the Group's credit policies and risk appetite, and is currently closed to new business. The loans are secured against the assets lent against (real estate, trade receivables and commercial plant and equipment, respectively). Disclosures relating to collateral and arrears on loans and advances to customers are disclosed in Notes 12 and 14 respectively.

The Board monitors the ratings of the counterparties in relation to the Group's loans and advances to banks. Disclosures of these at the year-end are contained in Note 34.1. There is no direct exposure to the Eurozone and peripheral Eurozone countries.

Group

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

	Stage 1	Stage 2			Stage 3			Total
	£million	<= 30 days past due £million	> 30 days past due £million	Total £million	Excl. purchased credit-impaired £million	Purchased credit-impaired £million	Total £million	£million
31 December 2019								
Business Finance								
Real Estate Finance	910.2	33.7	2.8	36.5	16.1	–	16.1	962.8
Asset Finance	23.8	3.6	0.3	3.9	1.8	–	1.8	29.5
Commercial Finance	245.0	7.0	–	7.0	0.6	–	0.6	252.6
Consumer Finance								
Retail Finance	624.1	80.3	4.5	84.8	5.5	–	5.5	714.4
Motor Finance	240.5	96.9	2.7	99.6	17.2	–	17.2	357.3
Debt Management	–	–	–	–	10.3	70.0	80.3	80.3
Consumer Mortgages	105.6	–	0.3	0.3	0.3	–	0.3	106.2
Other	7.6	–	–	–	–	–	–	7.6
Total drawn exposure	**2,156.8**	**221.5**	**10.6**	**232.1**	**51.8**	**70.0**	**121.8**	**2,510.7**
Off balance sheet								
Loan commitments	203.3	–	–	–	–	–	–	203.3
Total gross exposure	**2,360.1**	**221.5**	**10.6**	**232.1**	**51.8**	**70.0**	**121.8**	**2,714.0**
Less:								
Impairment allowance	(21.6)	(19.8)	(4.3)	(24.1)	(17.0)	2.1	(14.9)	(60.6)
Provision for loan commitments	(0.4)	–	–	–	–	–	–	(0.4)
Total net exposure	**2,338.1**	**201.7**	**6.3**	**208.0**	**34.8**	**72.1**	**106.9**	**2,653.0**

Notes to the financial statements continued

34. Credit risk continued

	Stage 1	Stage 2			Stage 3			Total
	£million	<= 30 days past due £million	> 30 days past due £million	Total £million	Excl. purchased credit-impaired £million	Purchased credit-impaired £million	Total £million	£million
31 December 2018								
Business Finance								
Real Estate Finance	723.3	47.1	–	47.1	–	–	–	770.4
Asset Finance	55.6	6.5	0.5	7.0	3.2	–	3.2	65.8
Commercial Finance	186.1	8.8	–	8.8	0.6	–	0.6	195.5
Consumer Finance								
Retail Finance	537.1	74.1	3.9	78.0	4.9	–	4.9	620.0
Motor Finance	200.2	92.7	2.4	95.1	20.5	–	20.5	315.8
Debt Management	–	–	–	–	9.3	23.0	32.3	32.3
Consumer Mortgages	84.9	–	–	–	–	–	–	84.9
Other	11.3	–	–	–	–	–	–	11.3
Total drawn exposure	**1,798.5**	**229.2**	**6.8**	**236.0**	**38.5**	**23.0**	**61.5**	**2,096.0**
Off balance sheet								
Loan commitments	263.1	–	–	–	–	–	–	263.1
Total gross exposure	**2,061.6**	**229.2**	**6.8**	**236.0**	**38.5**	**23.0**	**61.5**	**2,359.1**
Less:								
Impairment allowance	(20.3)	(19.9)	(4.0)	(23.9)	(22.9)	–	(22.9)	(67.1)
Provision for loan commitments	(0.4)	–	–	–	–	–	–	(0.4)
Total net exposure	**2,040.9**	**209.3**	**2.8**	**212.1**	**15.6**	**23.0**	**38.6**	**2,291.6**

A reconciliation of opening to closing impairment allowance for losses on loans and advances to customers is presented in Note 14.

34. Credit risk continued

Company

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

	Stage 1	Stage 2			Stage 3			Total
	£million	<= 30 days past due £million	> 30 days past due £million	Total £million	Excl. purchased credit-impaired £million	Purchased credit-impaired £million	Total £million	£million
31 December 2019								
Business Finance								
Real Estate Finance	910.2	33.7	2.8	36.5	16.1	–	16.1	962.8
Asset Finance	23.8	3.6	0.3	3.9	1.8	–	1.8	29.5
Commercial Finance	244.0	7.0	–	7.0	0.6	–	0.6	251.6
Consumer Finance								
Retail Finance	624.1	80.3	4.5	84.8	5.5	–	5.5	714.4
Motor Finance	240.5	96.9	2.7	99.6	17.2	–	17.2	357.3
Consumer Mortgages	105.6	–	0.3	0.3	0.3	–	0.3	106.2
Other	0.5	–	–	–	–	–		0.5
Total drawn exposure	**2,148.7**	**221.5**	**10.6**	**232.1**	**41.5**	**–**	**41.5**	**2,422.3**
Off balance sheet								
Loan commitments	203.3	–	–	–	–	–	–	203.3
Total gross exposure	**2,352.0**	**221.5**	**10.6**	**232.1**	**41.5**	**–**	**41.5**	**2,625.6**
Less:								
Impairment allowance	(22.8)	(22.1)	(4.8)	(26.9)	(19.0)	–	(19.0)	(68.7)
Provision for loan commitments	(0.4)	–	–	–	–	–	–	(0.4)
Total net exposure	**2,328.8**	**199.4**	**5.8**	**205.2**	**22.5**	**–**	**22.5**	**2,556.5**

Notes to the financial statements continued

34. Credit risk continued

	Stage 1	Stage 2			Stage 3			Total
	£million	<= 30 days past due £million	> 30 days past due £million	Total £million	Excl. purchased credit-impaired £million	Purchased credit-impaired £million	Total £million	£million
31 December 2018								
Business Finance								
Real Estate Finance	723.3	47.1	–	47.1	–	–	–	770.4
Asset Finance	55.6	6.5	0.5	7.0	3.2	–	3.2	65.8
Commercial Finance	182.0	8.8	–	8.8	0.6	–	0.6	191.4
Consumer Finance								
Retail Finance	537.1	74.1	3.9	78.0	4.9	–	4.9	620.0
Motor Finance	200.2	92.7	2.4	95.1	20.5	–	20.5	315.8
Consumer Mortgages	84.9	–	–	–	–	–	–	84.9
Other	0.6	–	–	–	–	–	–	0.6
Total drawn exposure	**1,783.7**	**229.2**	**6.8**	**236.0**	**29.2**	**–**	**29.2**	**2,048.9**
Off balance sheet								
Loan commitments	263.1	–	–	–	–	–	–	263.1
Total gross exposure	**2,046.8**	**229.2**	**6.8**	**236.0**	**29.2**	**–**	**29.2**	**2,312.0**
Less:								
Impairment allowance	(20.7)	(20.2)	(4.1)	(24.3)	(23.6)	–	(23.6)	(68.6)
Provision for loan commitments	(0.4)	–	–	–	–	–	–	(0.4)
Total net exposure	**2,025.7**	**209.0**	**2.7**	**211.7**	**5.6**	**–**	**5.6**	**2,243.0**

34.1. 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 Note 3.

Geographical concentration

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

Group and Company

	Real Estate Finance £million	**Consumer Mortgages £million**
31 December 2019		
Central England	127.1	19.9
Greater London	601.8	13.5
Northern England	48.5	21.2
South East England (excl. Greater London)	160.8	35.3
South West England	12.8	11.0
Scotland, Wales and Northern Ireland	11.8	5.3
Gross loans and receivables	962.8	106.2
Allowance for impairment	(0.6)	(0.3)
Total	**962.2**	**105.9**

34. Credit risk continued

	Real Estate Finance £million	Consumer Mortgages £million
31 December 2018		
Central England	35.1	16.2
Greater London	451.5	12.2
Northern England	37.6	16.6
South East England (excl. Greater London)	209.0	26.3
South West England	9.6	9.3
Scotland, Wales and Northern Ireland	27.6	4.3
Gross loans and receivables	770.4	84.9
Allowance for impairment	(0.1)	(0.2)
Total	**770.3**	**84.7**

34.2. Forbearance

At year-end, all bar an insignificant number of customers within the Group's Consumer Mortgage business were up to date with their monthly payments. Should customers face financial difficulties, the Group may, depending on individual circumstances, offer customers one of a number of forbearance options. The types of forbearance the Group was prepared to offer in 2019 included the following:

- Temporary interest only concessions are offered to customers in financial difficulty on a temporary basis with formal periodic review. The concession allows the customer to reduce monthly payments to cover interest only, and if made, the arrears status will not increase
- Arrangement payment plans are agreed to enable customers to reduce their arrears balances by an agreed amount per month which is paid in addition to their standard monthly repayment
- Payment concessions can be agreed on a temporary basis whereby the customer may pay less than the contractual monthly payment, in line with their individual affordability. If a customer is within this type of concession, their arrears position will increase
- In exceptional circumstances, capitalisations of arrears may occur or an interest rate adjustment may be applied. These are used under strict controls, explicitly where the customer circumstances offer no other option

All forbearance arrangements are formally discussed and agreed with the customer. By offering customers in financial difficulty the option of forbearance the Group potentially exposes itself to an increased level of risk through prolonging the period of non-contractual payment and/or potentially placing the customer into a detrimental position at the end of the forbearance period.

All forbearance arrangements are reviewed and monitored regularly to assess the ongoing potential risk, suitability and sustainability to the Group.

Where forbearance measures are not possible or are considered not to be in the customer's best interests, or where such measures have been tried and the customer has not adhered to the forbearance terms that have been agreed, the Group will consider realising its security and taking possession of the property in order to sell it and clear the outstanding debt.

No forbearance arrangements are currently in place in respect of Consumer Mortgages.

Other than Consumer Mortgages, throughout 2019 the Group did not routinely reschedule contractual arrangements where customers default on their repayments. In cases where it offered the customer the option to reduce or defer payments for a short period, the loans retained the normal contractual payment due dates and were treated the same as any other defaulting cases for impairment purposes. Arrears tracking would continue on the account with any impairment charge being based on the original contractual due dates for all products.

Notes to the financial statements continued

35. Market risk

Market risks arise from open positions in interest rate and currency products, all of which are exposed to general and specific market movements. There are no significant exposures to foreign currencies and therefore there is no significant currency risk. The Group does not operate a trading book.

Interest rate risk

Group and Company

Interest rate risk is the risk of potential loss through unhedged or mismatched asset and liability positions, which are sensitive to changes in interest rates. When interest rates change, the present value and timing of future cash flows change. This in turn changes the underlying value of the Group's assets, liabilities and off-balance sheet instruments and hence its economic value. Changes in interest rates also affect the Group's earnings by altering interest sensitive income and expenses, affecting its net interest income.

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

The Group monitors the interest rate mismatch on at least a monthly basis using market value sensitivity and earnings at risk. At 31 December 2019 these were as follows:

	2019 £million	2018 £million
Market value sensitivity		
+200bps parallel shift in yield curve	2.6	0.2
-200bps parallel shift in yield curve	(1.0)	–
Earnings at risk sensitivity		
+100bps parallel shift in yield curve	0.6	1.0

The Directors consider that 200bps in the case of Market value sensitivity and 100bps in the case of Earnings at risk are a reasonable approximation of possible changes.

The Group maintained such exposures within the risk appetite set by the Board throughout the year.

Interest rate risks inherent in new products or through changes to the terms and conditions of existing products were assessed over the course of the year.

This potential exposure is managed by the Group Treasury function and overseen by ALCO. The policy is not to take significant unmatched positions.

36. Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. The liquidity requirements of the Group are met through withdrawing funds from its Bank of England Reserve Account to cover any short-term fluctuations and longer-term funding to address any structural liquidity requirements.

The Group has a formal governance structure in place to manage and mitigate liquidity risk on a day-to-day basis. The Board sets and approves the Group's liquidity risk management strategy. The ALCO, comprising senior executives of the Company, monitors liquidity risk. Key liquidity risk management information is reported by the Treasury function and monitored by the Chief Executive Officer and Chief Financial Officer on a daily basis. The ALCO meets monthly to review liquidity risk against set thresholds and risk indicators including early warning indicators, liquidity risk tolerance levels and ILAAP metrics.

36. Liquidity risk continued

The Group raised new fixed rate deposits during the year as set out below:

	2019 £million	2018 £million
Fixed rate bonds	192.4	448.4
Notice accounts	329.0	247.6
Individual Savings Accounts	38.2	–
Total	**559.6**	**696.0**

The terms of the deposits ranged from 1 to 7 years, and were issued to broadly match the term lending by the Group.

The PRA requires a firm to maintain at all times liquidity resources which are adequate, both as to amount and quality, to ensure that there is no significant risk that its liabilities cannot be met as they fall due. There is also a requirement that a firm ensures its liquidity resources contain an adequate buffer of high quality, unencumbered assets (i.e. Government Securities in the liquidity asset buffer), and it maintains a conservative funding profile. The liquidity assets buffer is a pool of highly liquid assets that can be called upon to create sufficient liquidity to meet liabilities on demand, particularly in a period of liquidity stress. The liquidity resources outside the buffer must either be marketable assets with a demonstrable secondary market that the firm can access, or a credit facility that can be activated in times of stress.

The Group has a Board approved ILAAP. The ILAAP rules require the Group to identify, measure, manage and monitor liquidity and funding risks across different time horizons and stress scenarios, consistent with the Group's risk appetite as established by the Board. The ILAAP seeks to document the Group's approach to liquidity and funding, and demonstrate that it complies with the Overall Liquidity Adequacy Rule. The PRA's approach to liquidity supervision is based on the principle that a firm must have adequate levels of liquidity resources and a conservative funding profile, and that it comprehensively manages and controls liquidity and funding risks. The liquidity buffer required by the ILAAP has been put in place and maintained since that time. Liquidity resources outside of the buffer are made up of deposits placed at the Bank of England. The ILAAP is updated annually.

The primary measure used by management to assess the adequacy of liquidity is the Overall Liquidity Adequacy Rule, which is the Board's own view of the Group's liquidity needs as set out in the Board approved ILAAP. The Group maintained liquidity in excess of the Overall Liquidity Adequacy Rule throughout the year ended 31 December 2019.

The LCR regime has applied to the Group from 1 October 2016, requiring management of net 30-day cash outflows as a proportion of High Quality Liquid Assets. The Group has set a more conservative internal limit. The actual LCR has significantly exceeded both limits throughout the year.

The Group is exposed to daily calls on its available cash resources from maturing deposits and loan draw-downs. The Group maintains significant cash resources to meet all of these needs as they fall due.

The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Group. It is unusual for banks to be completely matched, as transacted business is often of uncertain term and of different types.

The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest bearing liabilities as they mature are important factors in assessing the liquidity of the Group and its exposure to changes in interest rates.

Notes to the financial statements continued

36. Liquidity risk continued

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

	Carrying amount £million	Gross nominal outflow £million	Not more than 3 months £million	More than 3 months but less than 1 year £million	More than 1 year but less than 5 years £million	More than 5 years £million
At 31 December 2019						
Non-derivative financial liabilities						
Due to banks	308.5	312.1	0.5	46.7	264.9	–
Deposits from customers	2,020.3	2,086.4	292.3	1,055.0	706.8	32.3
Subordinated liabilities	50.6	61.8	0.9	2.5	58.4	–
Other financial liabilities	27.2	27.2	27.2	–	–	–
	2,406.6	**2,487.5**	**320.9**	**1,104.2**	**1,030.1**	**32.3**
Derivative financial liabilities						
Derivative financial instruments	0.6	0.7	0.1	0.2	0.4	–
	0.6	0.7	0.1	0.2	0.4	–
	2,407.2	**2,488.2**	**321.0**	**1,104.4**	**1,030.5**	**32.3**

	Carrying amount £million	Gross nominal outflow £million	Not more than 3 months £million	More than 3 months but less than 1 year £million	More than 1 year but less than 5 years £million	More than 5 years £million
At 31 December 2018						
Non-derivative financial liabilities						
Due to banks	263.5	263.5	263.5	–	–	–
Deposits from customers	1,847.7	1,916.3	644.3	404.7	855.8	11.5
Subordinated liabilities	50.4	66.9	0.8	2.5	63.6	–
Other financial liabilities	26.3	26.3	26.3	–	–	–
	2,187.9	**2,273.0**	**934.9**	**407.2**	**919.4**	**11.5**

36. Liquidity risk continued

Company

	Carrying amount £million	Gross nominal outflow £million	Not more than 3 months £million	More than 3 months but less than 1 year £million	More than 1 year but less than 5 years £million	More than 5 years £million
At 31 December 2019						
Non-derivative financial liabilities						
Due to banks	308.5	312.1	0.5	46.7	264.9	–
Deposits from customers	2,020.3	2,086.4	292.3	1,055.0	706.8	32.3
Subordinated liabilities	50.6	61.8	0.9	2.5	58.4	–
Other financial liabilities	31.0	31.0	31.0	–	–	–
	2,410.4	**2,491.3**	**324.7**	**1,104.2**	**1,030.1**	**32.3**
Derivative financial liabilities						
Derivative financial instruments	0.6	0.7	0.1	0.2	0.4	–
	0.6	0.7	0.1	0.2	0.4	–
	2,411.0	**2,492.0**	**324.8**	**1,104.4**	**1,030.5**	**32.3**

	Carrying amount £million	Gross nominal outflow £million	Not more than 3 months £million	More than 3 months but less than 1 year £million	More than 1 year but less than 5 years £million	More than 5 years £million
At 31 December 2018						
Non-derivative financial liabilities						
Due to banks	263.5	263.5	263.5	–	–	–
Deposits from customers	1,847.7	1,916.3	644.3	404.7	855.8	11.5
Subordinated liabilities	50.4	66.9	0.8	2.5	63.6	–
Other financial liabilities	37.4	37.4	37.4	–	–	–
	2,199.0	**2,284.1**	**946.0**	**407.2**	**919.4**	**11.5**

The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest bearing financial liabilities as they mature are important factors in assessing the liquidity of the Company and Group and its exposure to changes in interest rates and exchange rates.

Other financial liabilities, as shown above, do not include non-interest accruals as these are not classed as financial liabilities.

37. Capital risk

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

In accordance with CRD IV and the required parameters set out in the Capital Requirements Regulation, the Group's ICAAP is embedded in the risk management framework of the Group and is subject to ongoing updates and revisions when necessary. However, as a minimum, the ICAAP is updated annually as part of the business planning process. The ICAAP is a process that brings together the management framework (i.e. the policies, procedures, strategies, and systems that the Group has implemented to identify, manage and mitigate its risks) and the financial disciplines of business planning and capital management.

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

Notes to the financial statements continued

37. Capital risk continued

Pillar 3 complements the minimum capital requirements (Pillar 1) and the supervisory review process (Pillar 2). Its aim is to encourage market discipline by developing a set of disclosure requirements which would allow market participants to assess key pieces of information on a firm's capital, risk exposures and risk assessment processes. Pillar 3 disclosures for the Group for the year ended 31 December 2019 are published as a separate document on the Group's website.

The following table, which is unaudited and therefore not in scope of the independent auditor's report, shows the regulatory capital resources for the Group. The Group has adopted the IFRS 9 transitional rules. For 2019 this allowed 85% (2018: 95%) of the initial IFRS 9 transition adjustment, net of attributable deferred tax, to be added back to eligible Tier 1 capital. Tier 2 capital comprises solely subordinated debt issued during the year net of unamortised issue costs and excluding accrued interest, capped at 25% of the capital requirement.

	2019 £million (unaudited)	2018 £million (unaudited)
Tier 1		
Share capital	7.4	7.4
Share premium	81.2	81.2
Retained earnings	164.4	147.4
Revaluation reserve	1.1	1.1
IFRS 9 transition adjustment	22.8	24.5
Goodwill	(1.0)	(1.0)
Intangible assets net of attributable deferred tax	(7.9)	(8.8)
CET1 capital before foreseen dividend	**268.0**	**251.8**
Proposed dividend	–	(11.8)
CET1 capital	**268.0**	**240.0**
Tier 2		
Subordinated liabilities	50.6	50.4
Less ineligible portion	(0.6)	(4.7)
Total Tier 2 capital	**50.0**	**45.7**
Own Funds	**318.0**	**285.7**
Reconciliation to total equity:		
IFRS 9 transition adjustment	(22.8)	(24.5)
Eligible subordinated liabilities	(50.0)	(45.7)
Goodwill and other intangible assets net of attributable deferred tax	8.9	9.8
Proposed dividend	–	11.8
Total equity	**254.1**	**237.1**

The Group ICAAP includes a summary of the capital required to mitigate the identified risks in its regulated entities and the amount of capital that the Group has available. The PRA sets a Total Capital Requirement ('TCR') for each UK bank calibrated by reference to its Capital Resources Requirement, which is broadly equivalent to 8% of risk weighted assets and thus representing the capital required under Pillar 1 of the Basel III framework. The ICAAP is a key input into the PRA's TCR setting process, which addresses the requirements of Pillar 2 of the Basel II framework. The PRA's approach is to monitor the available capital resources in relation to the TCR. The Group maintains an extra internal buffer and capital ratios are reviewed on a monthly basis to ensure that external and internal requirements are adhered to. The PRA reviewed the Group's ICAAP in 2018 and issued its updated TCR in March 2019.

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

The Group raised Tier 2 capital in 2018. Further details of the capital issuance are given in Note 28.

38. Maturity analysis of consolidated assets and liabilities

Group

	Due within one year £million	Due after more than one year £million	No contractual maturity £million	Total £million
Contractual maturity analysis at 31 December 2019				
ASSETS				
Cash and balances at central banks	105.8	–	–	105.8
Loans and advances to banks	48.4	–	–	48.4
Loans and advances to customers	1,080.6	1,341.3	28.2	2,450.1
Debt securities	25.0	–	–	25.0
Fair value adjustment for portfolio hedged risk	–	–	(0.9)	(0.9)
Derivative financial instruments	–	0.8	0.1	0.9
Other assets	–	–	53.5	53.5
Total assets	**1,259.8**	**1,342.1**	**80.9**	**2,682.8**
LIABILITIES				
Due to banks	45.5	263.0	–	308.5
Deposits from customers	1,355.6	664.7	–	2,020.3
Fair value adjustment for portfolio hedged risk	–	–	(0.7)	(0.7)
Derivative financial instruments	0.1	0.5	–	0.6
Current tax liabilities	3.3	–	–	3.3
Lease liabilities	0.8	3.7	–	4.5
Other liabilities	–	–	41.6	41.6
Subordinated liabilities	1.2	50.0	(0.6)	50.6
Total liabilities	**1,406.5**	**981.9**	**40.3**	**2,428.7**

	Due within one year £million	Due after more than one year £million	No contractual maturity £million	Total £million
Contractual maturity analysis at 31 December 2018				
ASSETS				
Cash and balances at central banks	169.7	–	–	169.7
Loans and advances to banks	44.8	–	–	44.8
Loans and advances to customers	1,035.1	960.2	33.6	2,028.9
Debt securities	149.7	–	–	149.7
Other assets	–	–	51.2	51.2
Total assets	**1,399.3**	**960.2**	**84.8**	**2,444.3**
LIABILITIES				
Due to banks	263.5	–	–	263.5
Deposits from customers	1,016.6	831.1	–	1,847.7
Current tax liabilities	4.2	–	–	4.2
Other liabilities	–	–	41.4	41.4
Subordinated liabilities	1.2	50.0	(0.8)	50.4
Total liabilities	**1,285.5**	**881.1**	**40.6**	**2,207.2**

The Directors have reviewed behavioural maturity of the loan book and have concluded that it would not significantly affect the analysis above.

Notes to the financial statements continued

38. Maturity analysis of consolidated assets and liabilities continued

Company

	Due within one year £million	Due after more than one year £million	No contractual maturity £million	Total £million
Contractual maturity analysis at 31 December 2019				
ASSETS				
Cash and balances at central banks	105.8	–	–	105.8
Loans and advances to banks	45.2	–	–	45.2
Loans and advances to customers	994.5	1,338.7	20.4	2,353.6
Debt securities	25.0	–	–	25.0
Fair value adjustment for portfolio hedged risk	–	–	(0.9)	(0.9)
Derivative financial instruments	0.1	0.8	–	0.9
Other assets	–	–	137.2	137.2
Total assets	**1,170.6**	**1,339.5**	**156.7**	**2,666.8**
LIABILITIES				
Due to banks	45.5	263.0	–	308.5
Deposits from customers	1,355.6	664.7	–	2,020.3
Fair value adjustment for portfolio hedged risk	–	–	(0.7)	(0.7)
Derivative financial instruments	0.1	0.5	–	0.6
Current tax liabilities	2.2	–	–	2.2
Lease liabilities	0.7	2.6	–	3.3
Other liabilities	–	–	42.7	42.7
Subordinated liabilities	1.2	50.0	(0.6)	50.6
Total liabilities	**1,405.3**	**980.8**	**41.4**	**2,427.5**

	Due within one year £million	Due after more than one year £million	No contractual maturity £million	Total £million
Contractual maturity analysis at 31 December 2018				
ASSETS				
Cash and balances at central banks	169.7	–	–	169.7
Loans and advances to banks	41.9	–	–	41.9
Loans and advances to customers	1,026.5	953.8	–	1,980.3
Debt securities	149.7	–	–	149.7
Other assets	–	–	91.4	91.4
Total assets	**1,387.8**	**953.8**	**91.4**	**2,433.0**
LIABILITIES				
Due to banks	263.5	–	–	263.5
Deposits from customers	1,016.6	831.1	–	1,847.7
Current tax liabilities	3.6	–	–	3.6
Other liabilities	–	–	50.4	50.4
Subordinated liabilities	1.2	50.0	(0.8)	50.4
Total liabilities	**1,284.9**	**881.1**	**49.6**	**2,215.6**

The Directors have reviewed behavioural maturity of the loan book and have concluded that it would not significantly affect the analysis above

39. Classification of financial assets and liabilities

Group

	Total carrying amount £million	Fair value £million	Fair value hierarchy level
At 31 December 2019			
Cash and balances at central banks	105.8	105.8	Level 1
Loans and advances to banks	48.4	48.4	Level 2
Loans and advances to customers	2,450.1	2,416.2	Level 3
Debt securities	25.0	25.0	Level 1
Fair value adjustment for portfolio hedged risk	(0.9)	(0.9)	Level 3
Derivative financial instruments	0.9	0.9	Level 2
Other financial assets	5.2	5.2	Level 3
	2,634.5	**2,600.6**	
Due to banks	308.5	308.5	Level 2
Deposits from customers	2,020.3	2,016.9	Level 3
Fair value adjustment for portfolio hedged risk	(0.7)	(0.7)	Level 3
Derivative financial instruments	0.6	0.6	Level 2
Other financial liabilities	27.2	27.2	Level 3
Subordinated liabilities	50.6	50.6	Level 2
	2,406.5	**2,403.1**	

	Total carrying amount £million	Fair value £million	Fair value hierarchy level
At 31 December 2018			
Cash and balances at central banks	169.7	169.7	Level 1
Loans and advances to banks	44.8	44.8	Level 2
Loans and advances to customers	2,028.9	2,032.5	Level 3
Debt securities	149.7	149.7	Level 1
Other financial assets	16.2	16.2	Level 3
	2,409.3	**2,412.9**	
Due to banks	263.5	263.5	Level 2
Deposits from customers	1,847.7	1,859.7	Level 3
Other financial liabilities	26.3	26.3	Level 3
Subordinated liabilities	50.4	50.4	Level 2
	2,187.9	**2,199.9**	

All financial assets and liabilities at 31 December 2019 and 31 December 2018 were carried at amortised cost, except for derivative financial instruments which are value at fair value through profit and loss. Therefore for these assets and liabilities, the fair value hierarchy noted above relates to the disclosure in this note only.

Notes to the financial statements continued

39. Classification of financial assets and liabilities continued

Company

	Total carrying amount £million	Fair value £million	Fair value hierarchy level
At 31 December 2019			
Cash and balances at central banks	105.8	105.8	Level 1
Loans and advances to banks	45.2	45.2	Level 2
Loans and advances to customers	2,353.6	2,319.7	Level 3
Debt securities	25.0	25.0	Level 1
Fair value adjustment for portfolio hedged risk	(0.9)	(0.9)	Level 3
Derivative financial instruments	0.9	0.9	Level 2
Other financial assets	93.0	93.0	Level 3
	2,622.6	**2,588.7**	
Due to banks	308.5	308.5	Level 2
Deposits from customers	2,020.3	2,016.9	Level 3
Fair value adjustment for portfolio hedged risk	(0.7)	(0.7)	Level 3
Derivative financial instruments	0.6	0.6	Level 2
Other financial liabilities	31.0	31.0	Level 3
Subordinated liabilities	50.6	50.6	Level 2
	2,410.3	**2,406.9**	

	Total carrying amount £million	Fair value £million	Fair value hierarchy level
At 31 December 2018			
Cash and balances at central banks	169.7	169.7	Level 1
Loans and advances to banks	41.9	41.9	Level 2
Loans and advances to customers	1,980.3	1,983.9	Level 3
Debt securities	149.7	149.7	Level 1
Other financial assets	60.6	60.6	Level 3
	2,402.2	**2,405.8**	
Due to banks	263.5	263.5	Level 2
Deposits from customers	1,847.7	1,859.7	Level 3
Other financial liabilities	37.4	37.4	Level 3
Subordinated liabilities	50.4	50.4	Level 2
	2,199.0	**2,211.0**	

All financial assets and liabilities at 31 December 2019 and 31 December 2018 were carried at amortised cost except for derivative financial instrument which are value at fair value through profit and loss. Therefore for these assets, the fair value hierarchy noted above relates to the disclosure in this note only.

Fair value classification

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

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

39. Classification of financial assets and liabilities continued

Cash and balances at central banks

The fair value of cash and balances at central banks was calculated based upon the present value of the expected future principal and interest cash flows. The rate used to discount the cash flows was the market rate of interest at the balance sheet date.

At the end of each year, the fair value of cash and balances at central banks was calculated to be equivalent to their carrying value.

Loans and advances to banks

The fair value of loans and advances to banks was calculated based upon the present value of the expected future principal and interest cash flows. The rate used to discount the cash flows was the market rate of interest at the balance sheet date.

Loans and advances to customers

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

Debt securities

The fair value of debt securities is based on the quoted mid-market share price.

At the end of December 2019 the fair value of debt securities was calculated to be equivalent to their carrying value.

Derivative financial instruments

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

Due to banks

The fair value of amounts due to banks was calculated based upon the present value of the expected future principal and interest cash flows. The rate used to discount the cash flows was the market rate of interest at the balance sheet date.

At the end of each year, the fair value of amounts due to banks was calculated to be equivalent to their carrying value due to the short maturity term of the amounts due.

Deposits from customers

The fair value of deposits from customers was calculated based upon the present value of the expected future principal and interest cash flows. The rate used to discount the cash flows was the market rate of interest at the balance sheet date for the notice deposits and deposit bonds. The fair value of instant access deposits is equal to book value as they are repayable on demand.

Dividends and other financial liabilities

The fair value of dividends and other financial liabilities was calculated based upon the present value of the expected future principal cash flows.

At the end of each year, the fair value of dividends and other financial liabilities was calculated to be equivalent to their carrying value due to their short maturity. The other financial liabilities include all other liabilities other than non-interest accruals.

Subordinated liabilities

The fair value of subordinated liabilities was calculated based upon the present value of the expected future principal cash flows.

40. Related party transactions

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

A number of banking transactions are entered into with related parties in the normal course of business on normal commercial terms. These include loans and deposits as set out below. The tables on the following page relate to Key Management Personnel, members of their close family and related entities as described above.

Notes to the financial statements continued

40. Related party transactions continued

	2019 £million	2018 £million
Loans		
Loans outstanding at 1 January	4.2	3.7
Loans advanced	1.3	0.4
Loan repayments	(1.3)	–
Interest applied	0.2	0.1
Loans outstanding at 31 December	**4.4**	**4.2**
Deposits		
Deposits outstanding at 1 January	0.4	0.4
Change in related parties during the year	(0.2)	–
Deposits outstanding at 31 December	**0.2**	**0.4**

The loans outstanding above comprise the following:

- A £0.4million advance (2018: £0.4 million) as part of a £2.5 million facility agreed with a company in which a member of the Key Management Personnel of the Company holds 50% of the voting shares, which is secured by property and personal guarantees
- A £4.0 million advance (2018: £3.8 million) as part of a revised £4.4 million facility agreed with a member of the Key Management Personnel of the Company, which is secured by property and certain other undertakings

Both of these transactions were agreed by the Group's Real Estate Finance business and arose during the normal course of business. Both loans were subject to the usual Board governance and Credit Committee approval procedures and are on substantially the same terms as for comparable transactions with third parties.

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

	2019 £million	2018 £million
Debt Managers (Services) Limited – income from sale of debt portfolio	(0.2)	(0.2)
Debt Managers (Services) Limited – interest charged	(1.1)	–
Debt Managers (Services) Limited – debt collection services	0.6	1.0
Secure Homes Services Limited – building rental paid	0.4	0.4
STB Leasing Limited – interest charged	(0.2)	–
V12 Finance Group Limited – dividend received	(15.1)	–
V12 Retail Finance Limited – fees and commission		
Loan management services	16.2	14.9
Sales commission	7.3	6.5
	7.9	**22.6**

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

	Company 2019 £million	Company 2018 £million
Amounts receivable from subsidiary undertakings	88.5	44.5
Amounts due to subsidiary undertakings	(5.5)	(14.1)
	83.0	**30.4**

All amounts above are repayable on demand and interest is charged at a variable rate.

40. Related party transactions continued

Directors' remuneration

The Directors' emoluments (including pension contributions and benefits in kind) for the year are disclosed in the Directors' Remuneration Report beginning on page 82.

At the year-end the ordinary shares held by the Directors are disclosed in the Directors' report beginning on page 106. Details of the Directors' holdings of share options, as well as details of those share options exercised during the year, are also disclosed in the Directors' report.

41. Immediate parent company and ultimate controlling party

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

42. Country-by-Country reporting

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

The Country-by-Country Information is set out below:

Name	Nature of activity	Location	Turnover £million	Number of FTE employees	Profit before tax £million	Tax paid on profit £million
31 December 2019						
Secure Trust Bank PLC	Banking services	UK	212.3	979	38.7	7.6

Name	Nature of activity	Location	Turnover £million	Number of FTE employees	Profit before tax £million	Tax paid on profit £million
31 December 2018						
Secure Trust Bank PLC	Banking services	UK	188.6	861	34.7	6.4

43. Post balance sheet event – COVID-19

The outbreak of COVID-19 and its impact on the global and UK economies is considered to be a non-adjusting event as, at the balance sheet date, the scale of the outbreak remained limited and therefore there was not sufficient information available to have caused changes to the assumptions applied to the financial position as at 31 December 2019. The full impact of the outbreak is currently uncertain and therefore the financial impact on the Group, which will depend upon the extent of the economic downturn and duration of the current lockdown, cannot be reliably estimated.

The most significant financial impacts of the COVID-19 crisis on the Group are expected to be in respect of significantly reduced demand for the Group's Consumer Finance products while the UK Government restricts movements, particularly for Motor Finance while the UK used car market remains effectively closed, and on the level of impairment provisioning required. Contraction of the lending portfolio started to become evident after 31 March 2020, with demand for Motor Finance lending dropping to almost zero, Retail Finance volumes falling to approximately 50% of expectations and Business Finance new business falling significantly from this point. The impact on impairments is not yet clear though charges are expected to increase, and the sensitivity analysis in Note 2.2 indicates the potential magnitude of this increase in the event of material changes to loan book performance or economic factors. As at 31 March 2020, 0.5% of Retail Finance customers and 2.1% of Motor Finance customers had been granted payment holidays, these being the portfolios where the most material impacts on impairment are expected.

In assessing its viability, the Group has undertaken specific stress testing which considers the potential impact of the outbreak on profitability, capital and liquidity levels. These tests considered two core scenarios, whereby the economy shows a significant fall in GDP and increase in unemployment prior to recovery. The more severe scenario assumed unemployment to peak at over 10%. The scenarios were subject to a range of sensitivities, including even higher unemployment rates and a more prolonged period of poor economic conditions prior to recovery. The Group considers that the results of the stress tests demonstrate that the Group continues to be viable and a going concern in both scenarios.

The ability to operate effectively is also impacted and steps have been taken in order to mitigate the operational impact on the business. The senior leadership team is closely monitoring the guidance provided by the UK Government and making changes to operational practices in order to continue to provide services and support for customers, whilst also maintaining the health and safety of employees.

Five year summary (unaudited)

	2019 £million	2018 £million	2017 £million	2016 £million	2015 £million
Profit for the year					
Interest and similar income	191.4	169.2	149.3	141.1	139.7
Interest expense and similar charges	(46.0)	(35.5)	(26.7)	(26.3)	(21.6)
Net interest income	**145.4**	**133.7**	**122.6**	**114.8**	**118.1**
Net fee and commission income	20.1	17.9	14.9	14.5	14.4
Operating income	**165.5**	**151.6**	**137.5**	**129.3**	**132.5**
Impairment losses on loans and advances	(32.6)	(32.4)	(36.9)	(30.3)	(24.3)
Arbuthnot Banking Group recharges	–	–	–	–	(0.8)
Operating expenses	(94.2)	(84.5)	(71.6)	(71.5)	(70.9)
Profit on sale of equity instruments available-for-sale	–	–	0.3	–	–
Profit before income tax	**38.7**	**34.7**	**29.3**	**27.5**	**36.5**

	2019 £million	2018 £million	2017 £million	2016 £million	2015 £million
Earnings per share for profit attributable to the equity holders of the Group during the year					
(expressed in pence per share) – basic	168.3	153.2	128.8	754.1	157.8

	2019 £million	2018 £million	2017 £million	2016 £million	2015 £million
Financial position					
Cash and balances at central banks	105.8	169.7	226.1	112.0	131.8
Loans and advances to banks	48.4	44.8	34.3	18.2	11.5
Loans and advances to customers	2,450.1	2,028.9	1,598.3	1,321.0	1,074.9
Debt securities	25.0	149.7	5.0	20.0	3.8
Fair value adjustment for portfolio hedged risk	(0.9)	–	–	–	–
Derivative financial instruments	0.9	–	–	–	–
Other assets	53.5	51.2	27.9	38.8	25.4
Total assets	**2,682.8**	**2,444.3**	**1,891.6**	**1,510.0**	**1,247.4**
Due to banks	308.5	263.5	113.0	70.0	35.0
Deposits from customers	2,020.3	1,847.7	1,483.2	1,151.8	1,033.1
Fair value adjustment for portfolio hedged risk	(0.7)	–	–	–	–
Derivative financial instruments	0.6	–	–	–	–
Subordinated liabilities	50.6	50.4	–	–	–
Other liabilities	49.4	45.6	46.3	52.2	38.1
Total shareholders' equity	254.1	237.1	249.1	236.0	141.2
Total liabilities and shareholders' equity	**2,682.8**	**2,444.3**	**1,891.6**	**1,510.0**	**1,247.4**

Appendix to the Annual Report (unaudited)

Key performance indicators

(i) Margin ratios

Net interest margin is calculated as interest income and similar income less interest expense and similar charges for the financial period as a percentage of the average loan book, net revenue margin is calculated as operating income for the financial period as a percentage of the average loan book and gross revenue margin is calculated as interest income and similar income plus fee and commission income for the financial period as a percentage of the average loan book. The calculation of the average loan book is the average of the monthly balance of loans and advances to customers, net of provisions, over 13 months:

	2019 £million	2018 £million
Net interest margin		
Interest income and similar income	191.4	169.2
Interest expense and similar charges	(46.0)	(35.5)
Net interest income	145.4	133.7
Net revenue margin		
Net interest income	145.4	133.7
Net fee and commission income	20.1	17.9
Operating income	165.5	151.6
Gross revenue margin		
Interest income and similar income	191.4	169.2
Fee and commission income	20.9	19.4
Gross revenue	212.3	188.6
Opening loan book	2,028.9	1,566.5
Closing loan book	2,450.1	2,028.9
Average loan book	2,252.4	1,818.2
Net interest margin	**6.5%**	**7.4%**
Net revenue margin	**7.3%**	**8.3%**
Gross revenue margin	**9.4%**	**10.4%**

The margin ratios all measure the yield of the loan book.

A reconciliation of the opening loan book at 1 January 2018 to the balance sheet is as follows:

	1 January 2018 £million
Loan book	1,598.3
IFRS 9 transition adjustment	(31.8)
	1,566.5

Appendix to the Annual Report (unaudited) continued

Key performance indicators continued

(ii) Cost ratios

Cost of risk is calculated as impairment losses on loans and advances to customers for the financial period as a percentage of the average loan book, cost of funds is calculated at interest expense for the financial period as a percentage of average loan book and cost to income ratio is calculated as operating expenses for the financial period as a percentage of operating income for the financial period:

	2019 £million	2018 £million
Net impairment losses on loans and advances to customers	32.6	32.4
Average loan book	2,252.4	1,818.2
Cost of risk	**1.4%**	**1.8%**
Interest expense	46.0	35.5
Average loan book	2,252.4	1,818.2
Cost of funds	**2.0%**	**2.0%**
Operating expenses	94.2	84.5
Operating income	165.5	151.6
Cost to income ratio	**56.9%**	**55.7%**

The cost of risk measures how effective the Group has been in managing its impairment losses. The cost of funds measures the cost of money being lent to customers. The cost to income ratio measures how efficiently the Group is utilising its cost base in producing income.

(iii) Return ratios

Annualised adjusted return on average assets is calculated as the adjusted profit after tax for the previous 12 months as a percentage of average assets, annualised adjusted return on average equity is calculated as the adjusted profit after tax for the previous 12 months as a percentage of average equity and annualised adjusted return on required equity is calculated as the adjusted profit after tax for the previous 12 months as a percentage of average required equity.

Adjusted profit after tax is profit after tax, adjusted for items that are non-controllable items or other items that fall outside of the Group's core business activities. A reconciliation of adjusted profit after tax to statutory profit after tax is provided on page 20.

Average assets is calculated as the average of the monthly assets balances, average equity is calculated as the average of the monthly equity balances and average required equity is calculated as the average of the monthly balances of total required equity. Total required equity is calculated as the equity required to achieve a CET1 ratio of 12%:

	2019 £million	2018 £million
Adjusted profit after tax	33.0	29.9
Opening assets (after IFRS 16/IFRS 9 transition adjustments – see following page)	2,448.6	1,866.1
Closing assets	2,682.8	2,444.3
Average assets	2,554.9	2,182.4
Opening equity (after IFRS 16/IFRS 9 transition adjustments – see following page)	237.0	223.3
Closing equity	254.1	237.1
Average equity	243.6	228.9
Opening required equity	217.8	173.3
Closing required equity	251.8	220.9
Average required equity	234.5	201.7
Annualised adjusted return on average assets	**1.3%**	**1.4%**
Annualised adjusted return on average equity	**13.5%**	**13.1%**
Annualised adjusted return on required equity	**14.1%**	**14.8%**

Key performance indicators continued

A reconciliation of assets to the balance sheet is as follows:

	2019 (opening balance) £million	2018 (opening balance) £million
Balance sheet assets	2,444.3	1,891.6
IFRS 9 transition adjustment	–	(25.5)
IFRS 16 transition adjustment	4.3	–
	2,448.6	**1,866.1**

A reconciliation of equity to the balance sheet is as follows:

	2019 (opening balance) £million	2018 (opening balance) £million
Equity	237.1	249.1
IFRS 9 transition adjustment	–	(25.8)
IFRS 16 transition adjustment	(0.1)	–
	237.0	**223.3**

Return on average assets demonstrates how profitable the Group's assets are in generating revenue. Return on average equity is a measure of the Group's ability to generate profit from the equity available to it. Return on required equity relates profitability to the capital that the Group is required to hold.

(iv) Funding ratios

The loan to deposit ratio is calculated as the loan book at the year-end, divided by deposits from customers at the year-end, and the total funding ratio is calculated as the total funding at the year-end, being the sum of deposits from customers, borrowings under liquidity support operations and the Term Funding Scheme, and equity, divided by the loan book at the year-end:

	2019 £million	2018 £million
Loan book	2,450.1	2,028.9
Deposits from customers	2,020.3	1,847.7
Borrowings under liquidity support operations and the Term Funding Scheme	308.5	263.5
Tier 2 capital (including accrued interest)	50.6	50.4
Equity	254.1	237.1
Total funding	2,633.5	2,398.7
Loan to deposit ratio	**121.3%**	**109.8%**
Total funding ratio	**107.5%**	**118.2%**

The funding ratios measure the Group's liquidity.

(v) Adjusted earnings per share

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

	2019	2018
Adjusted profit attributable to equity holders of the parent (£million)	33.0	29.9
Weighted average number of ordinary shares (number)	18,476,280	18,475,229
Adjusted earnings per share (pence)	**178.6**	**161.8**

Appendix to the Annual Report (unaudited) continued

Key performance indicators continued

(vi) Adjusted profit and effective adjusted tax rate

Adjusted profit before tax was £41.1 million (2018: £36.7 million). Adjusted profit after tax was £33.0 million (2018: £29.9 million).

The Group uses adjusted profit for planning and reporting purposes, as it improves the comparability of information between reporting periods. The adjustments to profit relate to non-controllable items or other items that fall outside of the Group's core business activities.

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

Transformation costs comprise principally costs of the Motor Transformation Programme and treasury development (31 December 2018: comprised principally costs of closing the unsecured personal lending product, the cost of potential corporate acquisition work and treasury development).

Bonus payments of £0.1 million (2018: £1.3 million) relate to a long term incentive plan that was set up for a small number of employees on the creation of the Commercial Finance business. The scheme is based on profits earned by that business up to the end of 2019, and is payable in 2020.

The revaluation deficit of £1.1 million (2018: £nil) relates to stamp duty and irrecoverable VAT incurred on the acquisition of a freehold property during the year.

Glossary

Term	Explanation
AIM	The Alternative Investment Market is the London Stock Exchange's international market for smaller growing companies. A wide range of businesses including early stage, venture capital backed as well as more established companies join AIM seeking access to growth capital.
ALCO	The Assets and Liabilities Committee. The remit of the Committee can be found on the Group's website: www.securetrustbank.com/our-corporate-information/risk-management.
Bank of England	The Bank of England promotes the good of the people of the United Kingdom by maintaining monetary and financial stability. It also performs a supervisory role of the banking system via the Prudential Regulation Authority.
CET1 capital	Common Equity Tier 1 capital comprises a bank's core capital and includes common shares, stock surpluses resulting from the issue of common shares, retained earnings, common shares issued by subsidiaries and held by third parties, and accumulated other comprehensive income.
CET1 capital ratio	The Common Equity Tier 1 capital ratio is the ratio of the bank's CET1 capital to its Total Risk Exposure. This signifies a bank's financial strength. The CET1 capital ratio is utilised by regulators and investors because it shows how well a bank can withstand financial stress and remain solvent.
CRD IV	Capital Requirements Directive IV is intended to implement the Basel III agreement in the EU. This includes enhanced requirements for the quality and quantity of capital; a basis for new liquidity and leverage requirements; new rules for counterparty risk; and new macroprudential standards including a countercyclical capital buffer and capital buffers for systemically important institutions.
Credit impaired assets	Financial assets that are considered to be in default or 'stage 3' assets. There are no material differences in the Group's definition of 'stage 3', credit-impaired or default assets. Financial assets are considered to be stage 3 when an event or events have occurred that have a detrimental impact on estimated future cash flows. Evidence may include initiation of bankruptcy proceedings, notification of bereavement, loan meeting debt sale criteria or initiation of repossessions proceedings. As a backstop a loan that is 90 days or more past due is considered credit-impaired for all portfolios.
Capital Requirement Regulation	The EU regulation implementing CRD IV directly across the EU.
DBP	Deferred Bonus Plan.
Default	Refer to definition of credit-impaired assets above.
DMS	Debt Managers (Services) Limited, the wholly owned subsidiary of Secure Trust Bank PLC, responsible for carrying out market leading debt recovery services to the credit industry.
Expected credit loss ('ECL')	ECLs are probability weighted estimates of credit losses which are measured as the present value of all cash shortfalls. Specifically this is the difference between the contractual cash flows due and the cash flows expected to be received, discounted at the original effective interest rate or, for portfolios purchased outside of the Group by DMS, the credit adjusted effective interest rate.
EU	European Union.
Feefo	The Feedback Forum collects independent reviews from the customers of over 2,500 businesses.
Financial Conduct Authority	The Financial Conduct Authority is the conduct regulator for 58,000 financial services firms and financial markets in the UK. Its aims are to protect consumers, enhance market integrity and promote competition.
The Financial Ombudsman Service	Set up by Parliament, the Financial Ombudsman Service settles individual disputes between consumers and businesses that provide financial services fairly and impartially, and have the power to put things right.
Financial Services Compensation Scheme	The Financial Services Compensation Scheme protects consumers when authorised financial services firms fail.

Glossary
continued

Term	Explanation
General Data Protection Regulation or GDPR	The General Data Protection Regulation (Regulation (EU) 2016/679) is a regulation by which the European Parliament, the European Council and the European Commission intend to strengthen and unify data protection for individuals within the European Union. It also addresses export of personal data outside the European Union.
High Quality Liquid Assets	High Quality Liquid Assets are assets with a high potential to be converted easily and quickly into cash. This is comprised of cash and balances at central banks and treasury bills that are the subject of a repurchase agreement (see below).
IAS	International Accounting Standard.
ICAAP	Internal Capital Adequacy Assessment Process. A firm must carry out an ICAAP in accordance with the PRA's ICAAP rules. These include requirements on the firm to undertake a regular assessment of the amounts, types and distribution of capital that it considers adequate to cover the level and nature of the risks to which it is or might be exposed.
IFRS	International Financial Reporting Standard.
ILAAP	The Internal Liquidity Adequacy Assessment Process allows firms to assess the level of liquidity and funding that adequately supports all relevant current and future liquidity risks in their business. In undertaking this process, a firm should be able to ensure that it has appropriate processes in place to ensure compliance with the CRD IV. This requires firms to develop and use appropriate risk and liquidity management techniques.
ILTR	The Bank of England's Indexed Long Term Repo operations are a component of the Bank's liquidity insurance as part of its Sterling Monetary Framework. It is designed to provide predictable and regular liquidity to banks and other participants.
LCR	The Liquidity Coverage Ratio regime requires management of net 30-day cash outflows as a proportion of High Quality Liquid Assets. The Group has set a more prudent internal limit than that proposed in guidance from the regulator.
LTIP	Long term incentive plan.
MREL	Minimum Requirement for Own Funds and Eligible Liabilities regime.
OLAR	The Overall Liquidity Adequacy Rule is the Board's own view of the Group's liquidity needs as set out in the Board approved ILAAP.
Pillar 1, Pillar 2 and Pillar 3	Basel III uses a 'three pillars' concept – (1) Pillar 1 – minimum capital requirements (addressing risk) using a standardised approach for credit, market and operational risk, (2) Pillar 2 – supervisory review process and (3) Pillar 3 – market discipline and enhanced disclosures. Basel II is the second of the Basel Accords, (now extended and partially superseded by Basel III), which are recommendations on banking laws and regulations issued by the Basel Committee on Banking Supervision.
PRA	The Prudential Regulation Authority was created as a part of the Bank of England by the Financial Services Act (2012) and is responsible for the prudential regulation and supervision of around 1,700 banks. The PRA's objectives are set out in the Financial Services and Markets Act 2000, but the main objective is to promote the safety and soundness of the firms it regulates.
Repurchase agreement	A repurchase agreement is a form of short-term borrowing for dealers in government securities. The dealer sells the government securities to investors, and buys them back at an agreed point in the future.
SME	Small to medium sized enterprises.
Stage 1 assets	Financial assets which have: • been determined to be low credit risk at the reporting date • not experienced a significant increase in credit risk since their initial recognition; or • have experienced a significant increase in credit risk since initial recognition but have since met the Group's cure policy (refer to Note 1 for the Group's cure policy. Credit losses for such assets are measured as an amount equal to 12 months' ECL.

Term	Explanation
Stage 2 assets	Financial assets that have experienced a significant increase in credit risk since their initial recognition and have not subsequently met the Group's cure policy (refer to Note 1 for further detail). As a backstop, the Group considers a significant increase in credit risk occurs no later than when an asset is more than 30 days past due for all portfolios. Credit losses for such assets are measured as an amount equal to lifetime ECL, as defined in Note 1.
Stage 3 assets	Refer to definition of credit-impaired assets above.
Term Funding Scheme	The Term Funding Scheme is designed to reinforce the transmission of Bank Rate cuts to those interest rates actually faced by households and businesses by providing term funding to banks at rates close to Bank Rate. The Term Funding Scheme allows participants to borrow central bank reserves in exchange for eligible collateral.
Tier 2 capital	Tier 2 capital is the secondary component of bank capital, in addition to Tier 1 capital, that makes up a bank's required reserves. Tier 2 capital is designated as supplementary capital, and is composed of subordinated liabilities, net of issue costs.
Total Capital Requirement	Guidance given to a firm about the amount and quality of capital resources that the PRA considers that firm should hold at all times under the overall financial adequacy rule as it applies on a solo level or a consolidated level.
Total Risk Exposure	Total Risk Exposure is the total of the Group's risk-weighted assets.

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