Secure Trust Bank Group

Helping more consumers and businesses fulfil their ambitions

Annual Report & Accounts 2023

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Strategic Report

Corporate Governance Report

Financial Statements

www.securetrustbank.com

About us

We are an award-winning UK specialist lender, providing savings accounts and lending services to over 1.2 million customers. The Group has been helping consumers and businesses fulfil their ambitions for over 70 years.

Adjusted profit before tax

£42.6m

2022: £39.0 million

Statutory profit before tax

£36.1m

2022: £39.0 million

Customer lending

£3.3bn

2022: £2.9 billion

Common equity tier 1 ratio

12.7%

2022: 14.0%

Pages 1 to 64 form the Strategic Report. It includes our market review, strategy, financial review and a business review for each of the lines of business. Pages 100 to 103 form the Directors' report.

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

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

Further information on exceptional items are included on page 12, and discontinued operations are included in Note 10 to the Financial Statements.

Group at a glance
Our strategy

Our vision

To be the most trusted specialist lender in the UK

Our purpose

To help more consumers and businesses fulfil their ambitions

Our strategic pillars

Grow | Sustain | Care

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

Our strategic priorities

Simplify

Focus on core business units and use technology to deliver efficiency and better operational processes

Enhance customer experience

Improve the customer journey to increase retention and attract new customers to gain market share

Leverage networks

Take advantage of our strong partnerships with introducers to drive growth

Enabled by technology

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

Our strengths

Specialist | Expert | Diverse | Ambitious

Values

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

Stakeholders

Customers
Shareholders
Employees
Environment
Wider society
Regulators
Suppliers

Group at a glance
Our business model

Consumer Finance

Retail Finance
We provide quick and easy finance options at point of purchase

Vehicle Finance
We help to drive more business in UK car dealerships by providing financing for consumers and dealerships

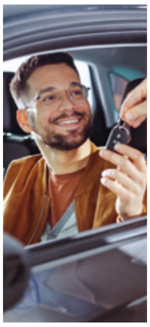
V12 Retail Finance   AppToPay   V12 Vehicle Finance   moneyway

2023 Customer lending

£1.7bn

2022: £1.4 billion

See pages 16 to 19

Business Finance

Real Estate Finance
We lend money against residential properties to professional landlords and property developers

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

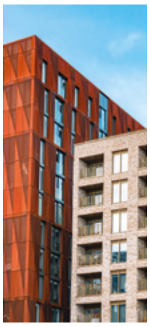
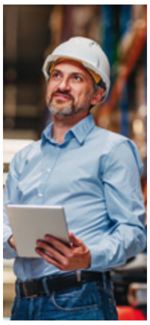
SecureTrust Bank

2023 Customer lending

£1.6bn

2022: 1.5 billion

See pages 20 to 23

Savings

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

SecureTrust Bank

2023 Customer deposits

£2.9bn

2022: £2.5 billion

See pages 24 to 25


Group at a glance

Our strategic progress

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

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

Chairman's statement

A robust set of results

"We are well placed to achieve our growth targets and deliver value for our shareholders."

Lord Forsyth
Chairman

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

For the fifth year running we have received the UK's Best Workplaces™ accolade from Great Place to Work® and are ranked 44 amongst the top large companies in Europe. This reflects the relentless effort by Anne McKenning and her team in HR to promote a positive work culture. The business continues to collect prestigious awards, with Vehicle Finance nominated for 'Finance provider of the Year' for the third year in a row, and Commercial Finance winning 'Asset-based lender of the year' at the Real Deal Private Equity awards in Europe. The Group met the bracing Consumer Duty implementation deadlines set by the FCA and we remain completely committed to ensuring the highest standards of service and support to our customers.

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

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

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

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

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

Lord Forsyth
Chairman
20 March 2024

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

Chief Executive's statement

Strong progress in 2023

I am pleased to report continued progress against a challenging backdrop."

David McCreadie
Chief Executive Officer

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

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

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

The Group achieved a statutory profit before tax of £36.1 million (2022: £39.0 million), which includes exceptional items of £6.5 million, which relate to customer remediation activity following the FCA's industry review of Borrowers in Financial Difficulty ('BiFD') and corporate activity. Further information on these items can be found on page 12 of the Financial Review.

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

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

Further information on financial performance for the year is included in the Financial review (see pages 10 to 15).

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

Chief Executive’s statement

Key performance indicators

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

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

Definitions of the financial key performance indicators, their calculation and an explanation of the reasons for their use can be found in the Appendix to the Annual Report on pages 175 to 178.

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

Further explanation of the financial key performance indicators is discussed in the narrative of the Financial review on pages 10 to 15, where they are identified by being in bold font.

Further explanation of the non-financial key performance indicators is provided in the Managing our business responsibly (pages 41 to 54) and Climate-related financial disclosures (pages 55 to 64) sections.

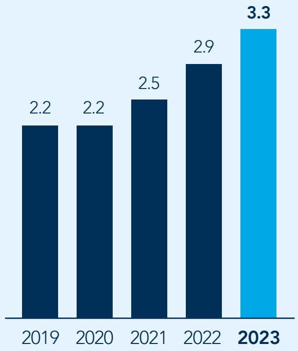
The Directors’ Remuneration Report, starting on page 85, sets out how executive pay is linked to the assessment of key financial and non-financial performance indicators.

Grow

Loans and advances to customers (£bn)

Why we measure this

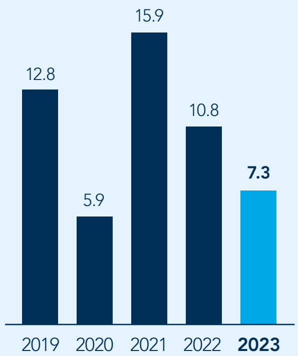
Shows the growth in the Group’s lending balances, which generate income



Total return on average equity (%)

Why we measure this

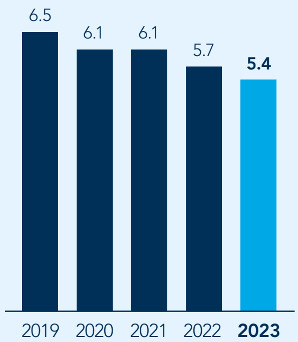
Measures the Group’s ability to generate profit from the equity available to it



Net interest margin (%)

Why we measure this

Shows the interest margin earned on the Group’s lending balances, net of funding costs



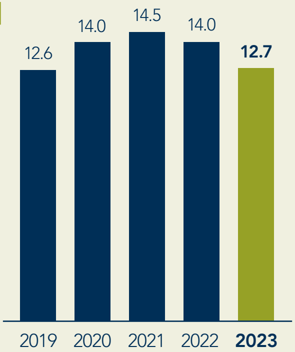
Chief Executive's statement

Sustain

Common Equity Tier 1 ('CET 1') ratio (%)

Why we measure this

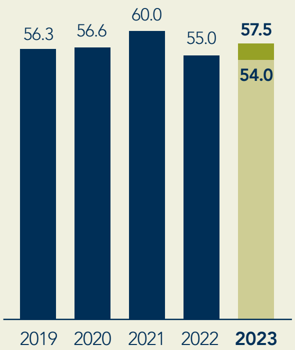
The CET 1 ratio demonstrates the Group's capital strength



Cost to income ratio (%)

Why we measure this

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

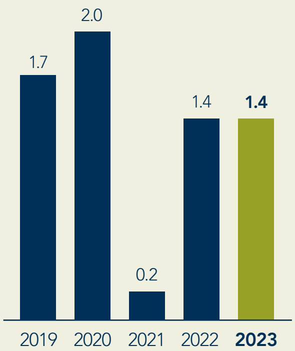


Adjusted cost to income ratio excludes exceptional items. For further information see page 12

Cost of risk (%)

Why we measure this

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



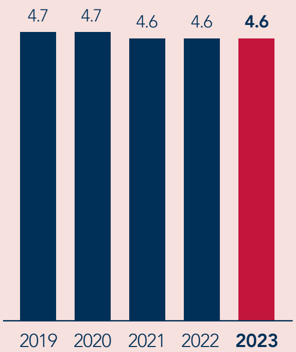
Care

Customer Feefo ratings (Stars)

Why we measure this

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

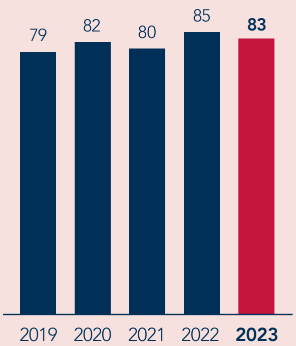
(Mark out of 5 based on star rating from 1,989 reviews (2022: 990, 2021: 937, 2020: 1,466, 2019:1,754))



Employee survey trust index score (%)

Why we measure this

Indicator of employee engagement and satisfaction

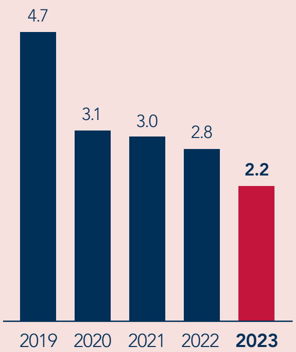


Environmental intensity indicator (%)

Why we measure this

Indicator of the Group's impact on the environment

(Total Scope 1, 2 and certain Scope 3 emissions per £m Group operating income. See page 61 for further details)



Chief Executive's statement

Strategic priorities

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

Simplify

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

Enhance customer experiences

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

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

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

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

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

Leverage networks

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

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

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

Enabled by technology

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

Regulatory Initiatives

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

Chief Executive's statement

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

Environmental, Social and Governance ('ESG')

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

2023 Awards

Best Workplaces Special Recognition™ – 5 years

Best Workplaces in Financial Services & Insurance™

Best Workplaces Europe™

Best Workplaces for Women™

Best Workplaces for Wellbeing™

We recently installed solar panels at our head office, which will contribute to our objective of reducing our Scope 1 and 2 CO_2e emissions. This will provide about a quarter of our electricity and reduce greenhouse gas emissions by 15 tonnes CO_2e per year. We have seen our environmental intensity indicator reduce 21.4% year-on-year (for further information see pages 61 to 62). We have also made strong progress against our other ESG targets. Further details of our achievements can be found on pages 41 to 43.

Retirement of Chairman

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

Outlook

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

David McCreadie
Chief Executive Officer
20 March 2024

Financial review

Further progress in income and net lending

"Continued focus on net lending growth whilst maintaining strong credit discipline and cost management."

Rachel Lawrence
Chief Financial Officer

Income statement

Continuing operations	**2023 £million**	2022 £million	Movement %
Interest income and similar income	304.0	203.0	49.8
Interest expense and similar charges	(136.5)	(50.4)	170.8
Net interest income	**167.5**	**152.6**	**9.8**
Fee and commission income	17.3	17.4	(0.6)
Fee and commission expense	(0.1)	(0.4)	(75.0)
Net fee and commission income	**17.2**	**17.0**	**1.2**
Operating income	**184.7**	**169.6**	**8.9**
Net impairment charge on loans and advances to customers	(43.2)	(38.2)	13.1
Gains on modification of financial assets	0.3	1.1	(72.7)
Fair value and other gains/(losses) on financial instruments	0.5	(0.3)	(266.7)
Operating expenses	(99.7)	(93.2)	7.0
Profit before income tax from continuing operations before exceptional items	**42.6**	**39.0**	**9.2**
Exceptional items	(6.5)	–	–
Profit before income tax from continuing operations	**36.1**	**39.0**	**(7.4)**
Income tax expense	(9.7)	(9.4)	3.2
Profit for the year from continuing operations	**26.4**	**29.6**	**(10.8)**
Discontinued operations			
(Loss)/profit before income tax from discontinued operations	**(2.7)**	**5.0**	**(154.0)**
Income tax credit/(expense)	0.6	(0.9)	(166.7)
(Loss)/profit for the year from discontinued operations	**(2.1)**	**4.1**	**(151.2)**
Profit for the year	**24.3**	**33.7**	**(27.9)**
Basic earnings per share (pence) – Total	129.6	180.5	(28.2)
Basic earnings per share (pence) – Continuing	140.8	158.5	(11.2)

Financial review

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

Certain key performance indicators and performance metrics represent alternative performance measures that are not defined or specified under International Financial Reporting Standards ('IFRS'). Definitions of these alternative performance measures, their calculation and an explanation of the reasons for their use can be found in the Appendix to the Annual Report on pages 175 to 178. In the narrative of this review, key performance indicators are identified by being in bold font.

All key performance indicators are presented on a continuing basis, unless otherwise stated. Adjusted profit before tax refers to profit before income tax from continuing operations before exceptional items. Further information on exceptional items are included on page 12 and discontinued operations are included on Note 10 to the Financial Statements.

The Directors' Remuneration Report, starting on page 85, sets out how executive pay is linked to the assessment of key financial and non-financial performance metrics.

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

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

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

Operating income

The Group's operating income increased by 8.9% to £184.7 million (2022: £169.6 million). Net interest income on the Group's lending assets continues to be the largest component of operating income. This increased by 9.8% to £167.5 million (2022: £152.6 million), driven by growth in net lending assets, with average balances increasing by 14.8% to £3,099.4 million (2022: £2,699.3 million).

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

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

Financial review

Impairment charge

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

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

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

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

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

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

Operating expenses

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

Taxation

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

Exceptional items

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

Discontinued business

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

Distributions to shareholders

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

Financial review

Summarised balance sheet

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

New business

Loan originations in the year, being the total of new loans and advances to customers entered into during the period, increased by 11.5% to £2,305.4 million (2022: £2,067.8 million). Further details on the divisional split of this new business can be found in the Business review on pages 16 to 23.

Customer lending and deposits

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

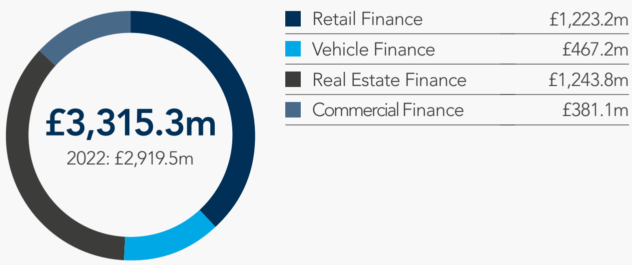
Consumer Finance balances grew by £262.8 million or 18.4%, driven by strong demand from strategic partner retailers.

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

Customer deposits include Fixed term bonds, ISAs, Notice and Access accounts. Customer deposits increased by 14.2% to £2,871.8 million (2022: £2,514.6 million). Total funding ratio of 111.7% decreased slightly from 31 December 2022 (112.5%). As set out on page 15, the mix of the deposit book has continued to change as the Group has adapted to the Base Rate changes throughout the period, with a focus on meeting customer demand for Access products, and retaining stable funds, which is reflected in the increase in Fixed term bonds and ISAs.

New business volumes

Loans and advances to customers



Financial review

Investments and wholesale funding

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

Tier 2 subordinated liabilities

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

Capital

Management of capital

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

Key factors influencing the management of capital include:

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

Capital resources

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

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

Capital ratios	2023 %	2022 %
CET 1 capital ratio	**12.7**	14.0
Total capital ratio	**15.0**	16.1
CET 1 capital ratio (excluding IFRS 9 transitional adjustment)	**12.7**	13.6
Total capital ratio (excluding IFRS 9 transitional adjustment)	**14.9**	15.7
Leverage ratio	**9.7**	10.7

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

Capital requirements

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

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

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

Financial review

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

Liquidity

Management of liquidity

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

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

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

Liquid assets

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

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

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

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

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

Business review

Consumer Finance

Retail Finance

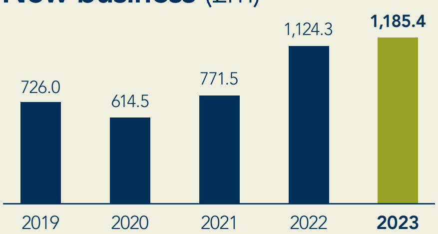
We provide quick and easy finance options at point of purchase:

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

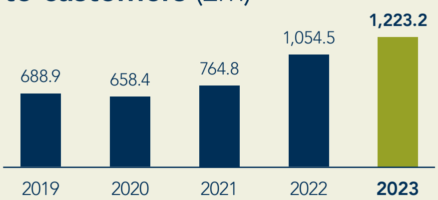
V12 Retail Finance AppToPay

Performance history

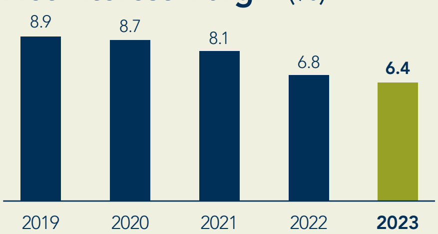
New business (£m)



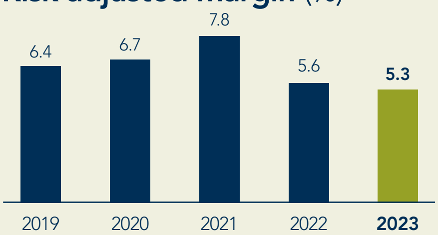
Loans and advances to customers (£m)



Net interest margin (%)



Risk adjusted margin (%)



What we do

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

2023 performance

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

Outlook

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

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

Business review

Electrifying interest-free finance

In March 2023, a successful new business partnership between British Gas and V12 Retail Finance was formed.

Initially, the launch was based solely on the purchase of E Hive chargers, using interest-free finance over 10 months, however due to the success of the launch, in early May, British Gas increased the offering to include untethered chargers and added an interest-free six-month option.

As the electric/hybrid car market continues to be a major focus for the UK, the demand to have chargers installed at home is rising. British Gas advertises across all British Gas/Centrica sites, promoting Hive chargers with an app that controls everything related to home services, including Hive EV charging, making it easy for customers, much like the V12 application that provides a simple and streamlined process from any online device.

British Gas Hive systems can currently be found in 1.9 million homes, a figure that is set to increase.

"The experience I have had has been excellent. The interest-free credit is a great option to have."

Customer feedback
Trustpilot, V12 Retail Finance customer

2023 Retail Finance loans and advances to customers

£1.2bn

2022: £1.1 billion

Market share[1]

13.5%

2022: 12.8%

Business review

Consumer Finance

Vehicle Finance

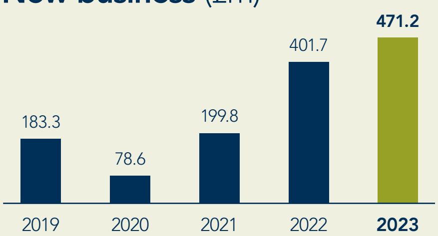
We help to drive more business in UK car dealerships:

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

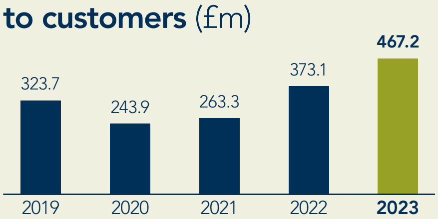
V12 Vehicle Finance Powered by Secure Trust Bank   moneyway

Performance history

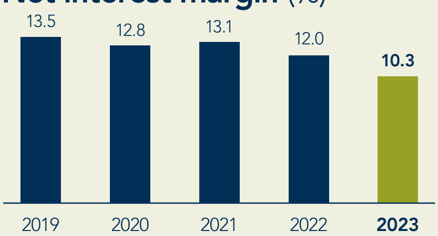
New business (£m)



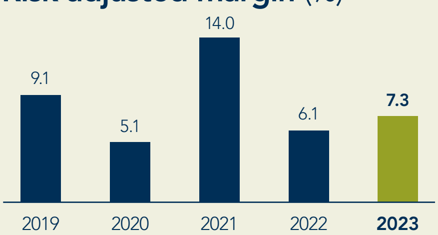
Loans and advances to customers (£m)



Net interest margin (%)



Risk adjusted margin (%)



What we do

- We provide lending products that are secured against the vehicle being financed. The majority of vehicles financed are used cars sold by independent dealers.
- We also provide vehicle stock funding whereby funds are advanced and secured against dealer forecourt used car stock; sourced from auctions, part exchanges or trade sources.
- Finance is provided via technology platforms, allowing us to receive applications online from its introducers; provide an automated decision; facilitate document production through to pay-out to dealer; and manage in-life loan accounts.

2023 performance

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

Outlook

The final phase of MTP is to transfer Near Prime originations onto the new platform with the implementation of a new rate for risk module, which will allow us to price lending based on the risk profile of the borrower.

In January 2024, the FCA announced it was to undertake a review of discretionary commission arrangements in the motor finance market. We sometimes operated these arrangements until June 2017. The FCA plans to set out its next steps in Q3 2024, when the implications for the industry should become clearer. (See Note 31.1.2 to the Financial Statements).

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

Business review

Providing more options for our dealers

In 2023, we continued to invest in our Stock Funding product, which helps vehicle dealerships with the funding and technology to seamlessly buy vehicles from wholesale suppliers.

Our integration with auction houses extended from 13 to 16, thereby extending the range of suppliers for our dealers.

Our technology, coupled with the strong relationships we hold across the industry, continues to help us to make our Stock Funding product stand out, and provide us with a strong point of differentiation in the market. This contributed towards achieving 250 active dealers, where credit lines reached £50 million. Since inception of the product launching in 2019, we've funded over £400 million of vehicles.

"Easy to work with and very fast application approval. Highly recommended."

Customer feedback
Vehicle Finance customer

2023 Vehicle Finance loans and advances to customers

£0.5bn

2022: £0.4 billion

Number of brokers, dealers, internet introducers

756

2022: 626

Business review

Business Finance

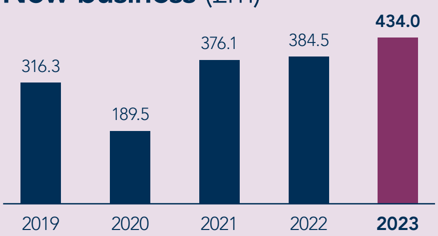
Real Estate Finance

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

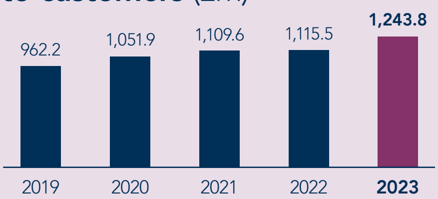
- Providing commercial lending facilities to professional landlords to allow them to improve and grow their portfolio.
- Providing development facilities to property developers and SME housebuilders to help build new homes for sale or letting.
- We have an experienced specialist team, with many years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

Performance history

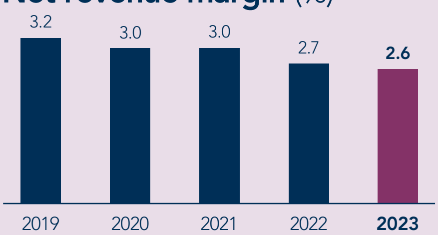
New business (£m)



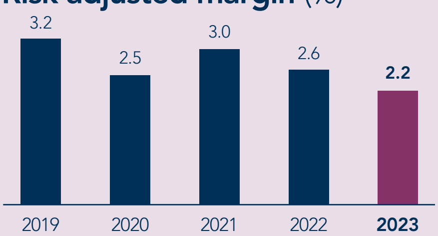
Loans and advances to customers (£m)



Net revenue margin (%)



Risk adjusted margin (%)



What we do

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

2023 performance

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

Outlook

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

Business review

Supporting energy efficiency through our lending

Real Estate Finance has provided a dedicated Energy Performance Certificate ('EPC') Improvement Loan to Kingsford Group, provider of luxury apartments in Edinburgh. The EPC Improvement Loan is designed to help landlords remediate their properties with energy-saving solutions for themselves and their tenants.

Arranged by Matthew Blaine-Young, Head of Origination at Real Estate Finance, the EPC Improvement Loan will fund the installation of secondary glazing and, once upgraded to an EPC C-rating, further measures will be introduced, such as solar panels, a community battery and heat pump technology.

Alan Watts,
CEO of Kingsford Group, said:

"Matthew at Secure Trust Bank understood my desire to make the right decisions for people and the planet. There was no doubt that the EPC Improvement Loan was the best option interest rate."

2023 Real Estate Finance loans and advances to customers

£1.2bn

2022: £1.1 billion

Average loan-to-value

57.2%

2022: 57.7%

Business review

Business Finance

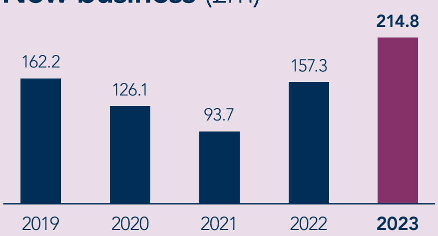
Commercial Finance

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

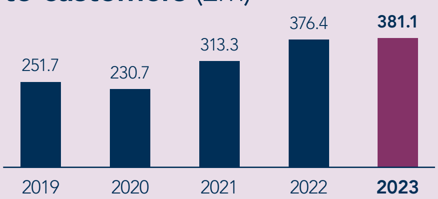
- Providing a full suite of Asset Based Lending to UK clients who need working capital solutions.
- Providing bespoke lending facilities where Secure Trust Bank is well known for working closely with clients to sustain their businesses.

Performance history

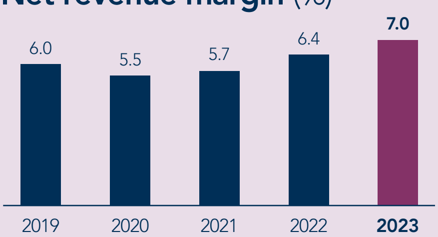
New business (£m)



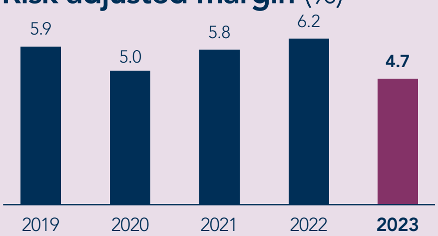
Loans and advances to customers (£m)



Net revenue margin (%)



Risk adjusted margin (%)



What we do

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

2023 performance

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

Outlook

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

Business review

Award winning Lending

In April, Commercial Finance won the Asset Based Lender of the Year award at the 2023 Real Deals Private Equity Awards, the longest running and most prestigious Private Equity awards in Europe.

Richard Foote, London and South East's Regional Managing Director, said: "We were absolutely delighted to be named Asset Based Lender of the Year. Private Equity is a strategic focus for Commercial Finance, so it is a honour for us to be recognised by the industry. A huge thanks and congratulations to all of our fantastic team. The award is testament to their hard work and the support we provide to our clients and introducers.

My experience of Secure Trust Bank, and in particular Dillon and Munair, has been a positive one since we switched over from a high street lender. Dillon and Munair are always available for any queries I might have, and always offer good advice and service. We would 100% recommend STB."

Coleherne Limited

2023 Commercial Finance loans and advances to customers

£0.4bn

2022: £0.4 billion

Total facilities available to clients

£0.7bn

2022: £0.7 billion

Business review

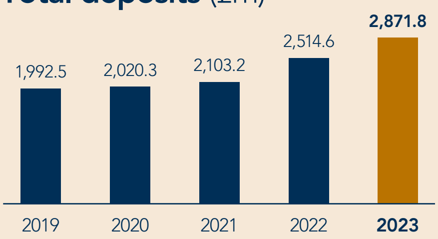
Savings

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

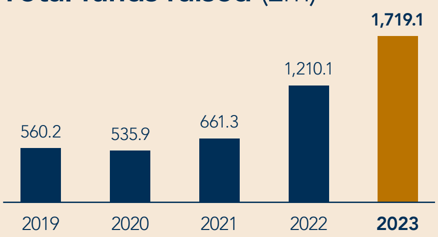
- Helping our customers save for special events such as a holiday, wedding or retirement.
- Helping our lending businesses fund their product to enable them to lend in the market we compete in.

Savings Review

Total deposits (£m)



Total funds raised (£m)



2023

ISA	£629.6m
Notice	£174.3m
Access	£521.3m
Term	£1,546.6m

2022

ISA	£421.8m
Notice	£500.7m
Access	£178.1m
Term	£1,414.0m

What we do

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

2023 performance

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

Outlook

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

Business review

Launch of our first Savings mobile app

In September we launched our first Savings mobile app in response to customer feedback.

The app which is available for both iOS and Android, makes it easy for customers to manage their savings accounts within a secure platform optimised for mobile devices. Customers can view their balance, view and approve transactions, make withdrawals, view statements and send/receive secure messages. The launch demonstrates how we are leveraging technology in line with our optimising for growth strategy by enhancing the customer experience, while also reducing the need for them to call us.

Roll-out of the app to existing customers was completed by year-end, at which point, 12% of eligible customers had registered. Since the launch, circa 15% of all withdrawal requests were submitted via the app.

We remain focused on keeping our innovations clear and simple, so that we can meet our customers' needs and continue to look for opportunities to enhance the capability of the app.

"Excellent customer service – answered my questions and were helpful."

Customer feedback
Feefo, Savings customer

2023 Total customer deposits

£2.9bn

2022: £2.5 billion

Retail deposits covered by FSCS

95.6%

2022: 94.9%

Market review

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

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

Economic review

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

Inflation remains above the Bank of England 2% target, although it has been falling ahead of expectations during the year, from 10.1% in January 2023 to 4.2%[1] in December 2023. The fall follows the Bank of England's response to tackle inflation with several Base Rate hikes in the year, taking rates from 3.5% to 5.25% by December 2023. Financial markets have responded to the recent inflation data, pricing in a fall in the Bank Base Rate to 4.25% by the end of 2024. Although the Bank Base Rate has likely peaked, the full impact of the tightening since late 2021 is still to feed through to the real economy and consumers' disposable incomes and capacity for discretionary spending.

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

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

Outlook

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

Government and regulatory

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

Prudential regulation

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

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

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

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

Market review

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

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

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

During June 2023, the PRA issued CP10/23 'Solvent exit planning for non-systemic banks and building societies'. This proposes a new requirement for non-systemic banks, such as Secure Trust Bank, to develop solvent exit planning documentation as an additional approach that could potentially be used as an alternative to resolution. The proposed implementation date is July 2025.

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

Conduct regulation

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

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

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

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

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

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

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

Government and monetary policy

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

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

Principal risks and uncertainties

Risk management

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

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

Risk appetite

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

Risk culture

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

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

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

Risk governance

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

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

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

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

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

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

Principal risks and uncertainties

Board and Board Committees

- See Corporate Governance section on pages 65 to 113

Group Executive Committee

Chair: Chief Executive Officer

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

Executive Risk Committee

Chair: Chief Risk Officer

- Responsible for overseeing the Group's risk profile, its adherence to regulatory compliance and monitoring these against the risk appetite set by the Board.
- Monitors the effective implementation of the risk management framework across the Group.

Assets and Liabilities Committee ('ALCO')

Chair: Chief Financial Officer

- Responsible for implementing and controlling the liquidity, and asset and liability management risk appetite of the Group, providing high level control over the Group's balance sheet and associated risks.
- Sets and controls capital deployment, treasury strategy guidelines and limits, and focuses on the effects of future plans and strategy on the Group's assets and liabilities.

Credit Committees

Responsible for making decisions about lending, inclusive of oversight of credit scorecards and modelling.

Model Governance Committee

Responsible for understanding, challenging and assessing risk and appropriateness of statistical and financial models and to challenge model assumptions and suitable model validation.

Other Committees

The activities of the Executive Risk Committee and ALCO are also supported by various specialist sub-committees and working groups, covering: Liquidity, Financial Crime, Compliance and Regulation, Operational Risk, Assumptions and Climate Change.

Principal risks

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

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

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

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

Principal risks and uncertainties

Credit risk

Description

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

Mitigation

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

Change during the year **Heightened**

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

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

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

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

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

Principal risks and uncertainties

Liquidity and Funding risk

Description

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

Mitigation

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

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

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

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

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

Contingency funding plans

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

Change during the year **Stable**

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

Principal risks and uncertainties

Capital risk

Description

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

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

Mitigation

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

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

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

Change during the year **Stable**

The Group continues to meet its capital ratio measures, taking into consideration the increased requirements driven by planned growth and any change in regulatory requirements, and continues to operate within its risk appetite. In February 2023, the Group issued £90.0 million of 10.5 year, 13.0% Fixed Rate Callable Subordinated Notes, which also qualify as Tier 2 regulatory capital (subject to a cap of 25% of Pillar 1 and 2A requirements). The Group is actively considering regulatory changes proposed through Basel 3.1 and the Interim Capital Regime as part of the Small Domestic Deposit Takers Regime. Details of the common equity tier 1 ratio, total capital ratio and leverage ratio are included in the financial review on page 14.

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

Principal risks and uncertainties

Market risk

Description

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

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

Mitigation

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

- the mismatch, or duration, between repricing dates of assets and liabilities; and
- customer optionality, for example, early repayment of loans in advance of contractual maturity dates.

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

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

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

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

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

Change during the year **Stable**

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

Principal risks and uncertainties

Operational risk

Description

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

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

Mitigation

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

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

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

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

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

Change during the year **Stable**

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

Principal risks and uncertainties

Model risk

Description

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

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

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

Mitigation

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

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

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

Change during the year **Stable**

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

Principal risks and uncertainties

Compliance and Conduct risk

Description

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

Mitigation

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

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

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

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

Change during the year **Heightened**

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

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

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

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

Principal risks and uncertainties

Financial Crime risk

Description

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

Mitigation

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

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

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

Change during the year **Stable**

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

Principal risks and uncertainties

Climate Change risk

Description

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

Mitigation

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

Stress testing work has been enhanced for 2023, for our Vehicle Finance and Real Estate Finance businesses to test the resilience of our portfolios and strategies to manage the risks and opportunities of climate change. Further detail is provided within the Climate-related financial disclosures section of the Annual Report and Accounts (see pages 55 to 64).

Change during the year **Stable**

The Group's direct exposure to the physical impacts of climate change remains relatively limited, given its footprint and areas of operation. However, it has established robust controls designed to manage the associated risks and will continue to develop its business plans in the future as the risks evolve. Disclosures are made within the Climate-related financial disclosures section of the Annual Report and Accounts in line with the guidance from the 'Task Force on Climate-Related Financial Disclosures. Specific detail on each of the key risks identified and mitigation are covered within the Strategy section on page 56. The Group continues to monitor the evolving climate disclosure landscape and regulatory requirements and expectations, including transition planning.

Strategic and Emerging risks

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

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

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

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

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

Viability and going concern

Going concern

In assessing the Group as a going concern, the Directors considered the factors likely to affect its future performance and development, recent regulatory announcements, 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 business planning assumptions to identify the headroom on regulatory compliance measures. The details of the forecasts and stress tests are explained in the Business viability section below.

Accordingly, the Directors conclude that the Company and the Group have adequate resources to continue in operational existence for a period of at least 12 months from the date of the approval of the Financial Statements, and therefore it is appropriate to continue to adopt the going concern basis in preparing the accounts.

Business viability

In accordance with provision 31 of the UK Corporate Governance Code, the Directors have 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 2028. As the Group's financial planning horizon is five years, the Group considers a five-year period for its viability assessment.

The Directors are confident of the Group's viability over the longer-term after considering all of the principal risks affecting the Group, including these factors:

- The Group has delivered strong profit growth and capital management in 2023 and the 2024 annual budget process indicates long-term growth potential.
- The Group successfully navigated through the real life business and financial stresses resulting from the COVID-19 pandemic. The legacy of the pandemic is that the Group has adopted new working practices, proved it can take necessary action on credit policy to manage risk and control business volumes, and demonstrated its operational resilience.
- Our deposit base is made up of retail customers and 95.6% of total deposits are fully covered by the Financial Services Compensation Scheme ('FSCS').
- Our stress testing indicates the Group's ability to manage its capital and liquidity requirements through the regulator's prescribed financial stresses.
- The Group has maintained capital levels in excess of its internal risk appetites and regulatory requirements throughout the year and is forecast to continue to do so over the five-year planning horizon.
- The Group has assessed the impact of recent regulatory announcements on the outputs and conclusions of the 2023 ICAAP, and determined that under a severe but plausible outcome of the FCA's reviews of motor finance industry discretionary commission arrangements and of Borrowers in Financial difficulty ('BiFD'), the Group would continue to maintain sufficient capital over the planning horizon.
- In the area of climate change, the Board recognises the long-term risks and following a review launched its full ESG Strategy in 2023. The Group plans to enhance its financial planning processes in respect of climate change. Risks associated with climate change are considered as part of the annual ICAAP. Material impacts of climate change on the Group's markets and business model will emerge over the longer-term horizon and beyond the period of viability assessment. Notwithstanding this, the Group is mindful of the need to adapt its business model to changes in the markets it operates in as a result of climate change.

Furthermore, the Board considers that the circumstances required to cause the Group to fail, as demonstrated by its stress testing procedures, are sufficiently remote.

The Directors have based their assessment on the results of these activities:

- The latest annual budget process, which contains information on the expected financial and capital positions and performance of the Group over the 2024 to 2028 period.
- The Group monitors its key performance indicators across profit, capital, liquidity, and different risk categories to mitigate any changes in risk outside of its risk appetite.
- In addition to the annual budget process, key sensitivities are measured through other forecasting activity undertaken over the course of the year, which would impact on capital and liquidity over the planning horizon.
- The Group's ILAAP, approved by the Board in June 2023, provides assurance that the Group can maintain liquidity resources that 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. This risk was tested under the financial stresses outlined below. The Group has maintained liquidity levels in excess of its liquidity risk appetite and regulatory requirements throughout the year and is forecast to continue to do so over the ILAAP planning horizon.
- The Group's ICAAP, which considered the PRA's published macroeconomic stress and severe scenarios in order to assess the adequacy of capital resources over the 2023 to 2027 period, was approved in August 2023. Within this process, the Group considered the extent of the credit, operational and market risks it is exposed to, and how such risks affect its required capital levels. Under the macroeconomic stress, the details of which are set out below, at no point were minimum regulatory capital requirements breached, and capital buffers held at the start of the stress were confirmed to be adequate.

Viability and going concern

- The latest Group Recovery Plan was approved in September 2023 and confirmed that the Group has sufficient recovery options available to recover from the severe economic stress scenario modelled over the 2023 to 2027 period. The primary recovery options are to raise new deposits and reduce the level of new lending.
- Consideration of the other principal risks, as set out on pages 28 to 38, identify any other severe, but plausible scenarios that could threaten the Group's business model, future performance, solvency or liquidity.

A summary of the different financial stresses are set out below:

ILAAP

The Group's 2023 ILAAP included idiosyncratic, market-wide and combined stress scenarios.

The idiosyncratic liquidity stress test assumed an operational incident within the Deposits Operations team leads to adverse media coverage across social media, financial websites, newspapers and on TV. This leads to a short-term loss in customer confidence and makes it materially more challenging to retain maturing term bonds, higher notice being served and customers withdrawing Access and ISA deposits. This is expected to be a short-term event, which is most severe within the first number of weeks of the 90-day stress period after which the severity of outflows reduces up to 90 days. The Group manages to lower new lending volumes overall over a period of time, but retains a presence in all material markets.

The market-wide stress is based upon the UK economy entering a severe recession with rising unemployment and inflation, falling house and equity prices, subdued wage growth and a contraction in GDP, due to prolonged economic uncertainty. Higher customer default rates (in line with the Macro ICAAP stress) and the regulators' decision to allow consumer customers to take payment holidays results in lower payment inflows. Completions on consumer contracts fall while requests for refinancing from business customers also contracts in line with reduced economic activity. The Group seeks to maintain a market presence in all material business lines, and so continues lending on a more selective basis, so avoiding potential reputational damage from full market withdrawal. While bonds and savings accounts do not represent the primary liquidity source for many customers, the prevailing economic conditions still result in some increase in notice being served on savings accounts and lower bond retention as customers flock to easy access products.

The combined stress includes elements of the idiosyncratic and market stresses whereby the UK economy enters a severe recession, and the Group suffers outflows due to poor customer services at the same time.

In addition, the ILAAP includes sensitivity analysis to model the impact of adverse variances in stress assumptions used in each of the above scenarios.

Reverse stress test modelling was also performed to identify the type and severity of a stress required for the Group to be no longer able to meet its liquidity requirements. Three scenarios were assessed to consider the impact of a severe retail deposits stress, a lending side stress and a wholesale funding-based stress.

ICAAP

The Group's ICAAP considered a PRA-published macroeconomic stress and severe scenarios to assess the adequacy of capital resources over the 2023 to 2027 period. The macroeconomic stress included an unemployment peak of 8.5% in Q2 2024, a 31.0% property price decline by mid-2025, and an economic recovery beginning in 2025. At no point under the stress were the Group's minimum capital requirements not met, and capital buffers held at the start of the stress were confirmed to be adequate.

Reverse stress test modelling was also performed to assess the level of stress required for the Group to be no longer able to meet its capital requirements. This required a significantly more severe scenario, including peak unemployment of 12.0% and a sharper decline in house prices to 48.0% of the starting values.

The ICAAP also used scenario modelling for elements of the Group's Pillar 2A capital assessment to support the assessment of operational risk and credit risk.

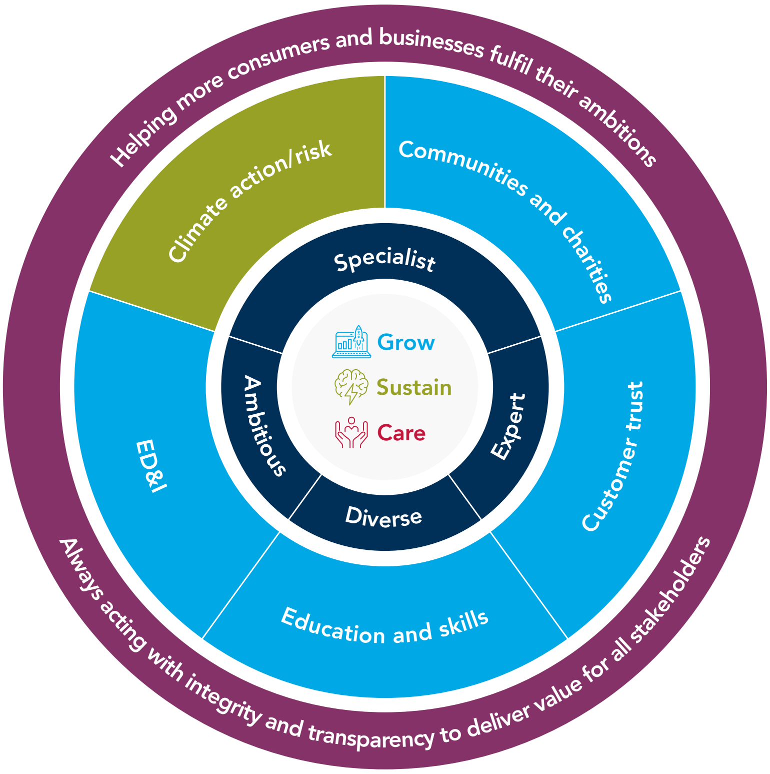
Recovery Plan

The latest Group's Recovery Plan confirmed that the Group has sufficient recovery options available to recover from the severe stress scenarios modelled over the 2023 to 2027 period.

The combined capital stress test included peak unemployment of 12.0%, a 48.0% decline in property prices and an increase in operational losses based on the ICAAP Pillar 2A scenario modelling. The idiosyncratic liquidity stress test assumed a loss of confidence in the Group, resulting in a run on the bank with a rapid loss of Access and ISA deposits and significantly increased Notice Account outflows. In addition, it was assumed that there would be a significant increase in requests to withdraw funds from fixed term bonds prior to the original maturity date. At the same time, to reflect a layering of liquidity risks, lending outflows were increased due to higher levels of pipeline completion.

Managing our business responsibly
Environmental, Social and Governance ('ESG') strategy

Delivering value for all stakeholders



Our focus areas	United Nations' Sustainable Development Goals
Climate action/risk	11 Sustainable cities and communities; 13 Climate action
Customer trust	8 Decent work and economic growth
Equity, Diversity and Inclusion ('ED&I')	11 Sustainable cities and communities; 13 Climate action; 10 Reduced inequalities
Education and skills	3 Good health and well-being; 5 Gender equality
Communities and charities	4 Quality education
Acting responsibly	8 Decent work and economic growth

What is our ESG strategy?

At the start of 2023, the Group published its ESG strategy to:

- prioritise the ESG factors that we determine as material. These are issues of significant concern to our stakeholders that influence the delivery of our business strategy and our ability to achieve success; and
- act responsibly by aligning our activities with external standards relevant to us.

The strategy is supported by an internal process for reporting progress against focus areas identified as material, which provides oversight at the highest level of our organisation.

What progress has been made against our ESG strategy and priorities?

During 2023, our ESG strategy has made good progress, with positive indicators across all of our focus areas. The Group continues to work with Business in the Community ('BiTC'). There has been a significant increase in positive responses across all ESG-related questions in our annual employee engagement survey. We are a signatory to the HM Treasury Women in Finance Charter and pledged to promote gender diversity. This includes targeting female colleagues to be at least 30% of our Executive Committee from 2024 and of our senior management roles from 2026. We met the 2024 target in late 2023 and are on track to meet the 2026 target. We made good progress on our target to deliver a 50% reduction in Scope 1 and 2 CO_2e emissions, with a cumulative 36% reduction by the end of 2023. Future progress on this target though depends on factors such as our property estate size. We made the disclosures and in the period met the other ESG targets we set for 2023 and are on track towards achieving the targets we set for future periods.

Who owns our ESG strategy?

Ultimate ownership and oversight of our ESG strategy is with the Board, as it supports the business strategy set by it. The Board delegates the implementation of our ESG strategy to the Chief Executive Officer ('CEO') and through him to the Executive Committee.

What is the governance that supports our ESG strategy?

The Executive Committee is supported by the Executive Risk Committee and working groups, covering environment, climate change, ED&I and customer experience. It is also supported by our Charity Committee that coordinates our choices of preferred charities and informs them of activities that support them. It also promotes £-for-£ match charity funding and volunteering.

Managing our business responsibly
Environmental, Social and Governance ('ESG') strategy

Governance

Always acting with integrity and transparency to deliver value for all our stakeholders

Grow | Sustain | Care

Social

Stakeholders	Pillar	Focus issue	Measures/Disclosures	Progress
Customer trust • Customers • Shareholders • Employees • Regulators	Grow Sustain	Build the trust of our customers through the way we treat them, by enhancing their experience, achieving high standards of customer service excellence and through the outcomes we enable for them.	• Accreditation with the Government backed Customer Service Excellence quality mark.	✓ Page 45
			• Feefo Trusted Awards.	✓ Page 44
			• Awards from Moneyfacts.	✓
			• HM Government Cyber Essentials Plus certificate.	✓
Equity, Diversity & Inclusion (ED&I) • Customer • Shareholders • Employees • Environment • Wider society • Regulators	Grow Sustain Care	Our vision is to be a successful inclusive business where all of our people feel respected, can confidently be themselves and fulfil their potential.	• Maintaining/improving Great Place to Work® rankings for large companies, women and wellbeing.	✓ Page 47
			• HM Treasury Women in Finance Charter published targets.	↗ Page 49
			• Annual Gender Pay Gap reporting.	✓
			• Maintaining/improving our Employer Network for Equality and Inclusion ('ENEI') TIDE Mark.	✓ Page 47
			• Maintaining our Disability Confident accreditation.	✓
Education and skills • Customer • Shareholders • Employees • Environment • Wider society • Regulators	Grow Sustain Care	Help all of our colleagues through a wide range of skills and development opportunities to build their specialisations, increase their confidence, plan their career progression and make it happen.	• Maintaining/improving Great Place to Work® scores for career development.	✓ Page 47
Communities and charities • Customers • Shareholders • Employees • Environment • Wider society • Regulators • Suppliers	Sustain Care	Make a positive contribution to the communities in which we work and conduct our business.	• Bi-annual report on supplier payment period in days.	✓
			• Annual modern slavery statement setting out steps taken to eradicate modern slavery in our businesses and supply chains.	✓ Page 54
			• Total charities supported and annual fundraising for charity by colleagues and matched by the Group £-for-£.	✓ Page 52

Managing our business responsibly
Environmental, Social and Governance ('ESG') strategy

Governance

Always acting with integrity and transparency to deliver value for all our stakeholders

Grow Sustain Care

Environmental

Stakeholders	Pillar	Focus issue	Measures/Disclosures	Progress
Climate action/risk • Shareholders • Environment • Wider society • Regulators	Sustain	We aim to minimise the harmful impact of our business on the environment by reducing Scope 1 and 2 emissions from our operations and to use less and re-use more.	• Reduce Scope 1 and 2 emissions by 50% from 31 December 2021 to 31 December 2025. • Compliance with the Task Force for Climate-related Financial Disclosures ('TCFD') requirements and related PRA regulations/ Listing Rules.	Page 51 Page 55

Managing our business responsibly
Section 172 statement

This section incorporates both our approach to managing business responsibly and our section 172 statement. The Directors are bound by their duties under section 172(1)(a) to (f) of the Companies Act 2006 and must disclose the manner in which these have been discharged. Pages 44 to 54 demonstrate how the Directors have discharged this duty, in particular their duty to act in the way they consider, in good faith, promotes the success of the Company for the benefit of its members as a whole and outlines decisions taken by the Board, detailing how stakeholder interests were considered and balanced.

Customers

Link to strategy

Care Grow

Why we act responsibly towards our customers

Our purpose is to help more consumers and businesses fulfil their ambitions. Our aim is to build the trust of our customers through the way we treat them by enhancing our customers' experience, achieving high standards of customer service excellence and through the outcomes we enable for them. The Group successfully met the Consumer Duty implementation deadlines and remains focused on ensuring customers receive good outcomes. Discharging the Consumer Duty rules has given us the opportunity to critically review and enhance our existing approach to our customers and the outcomes we reach for them.

We have rigorous policies and procedures designed to make our lending responsible, fair and appropriate to the customer's circumstances, thereby enabling customers to make informed borrowing decisions. We only approve lending once we have checked a customer's creditworthiness and ability to meet repayments. The customer experience is considered at every point in the design process for products and services. We regularly seek customer opinion on new initiatives before promoting them 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.

Two-way engagement

Listening to our customers is paramount. We continue to use Feefo as an independent source of customer feedback, providing valuable insight into our customer relationships. In addition, our customers can use Trustpilot to share their views about us. Feefo scoring and customer service awards are monitored by the Board. We strive to continually improve our services and our complaints data is reviewed by the Executive and Board Risk Committees. In 2023:

- our average Feefo rating, remained 4.6 out of 5 (2022: 4.6); and
- the average Trustpilot rating was 4.6 out of 5 (2022: 4.7).

We also collected feedback from our SME Commercial and Real Estate Finance customers and satisfaction scores, although we are conscious that the small sample size of the population means outlier feedback can impact the scores. In 2023 these were:

- 75% for Real Estate Finance; and
- 100% for Commercial Finance.

We take pride that our ratings demonstrate our culture of putting the customer at the centre of what we do. 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 any problems. Data managed by third parties is subject to similar policies to ensure its protection and security. We make sure that each supplier handling data completes our Security Questionnaire prior to onboarding. The questionnaire is designed to help us assess the risk level for each supplier engagement as well as the robustness of their risk mitigation strategies.

Data protection

Data protection is a key part of building a trusting and strong relationship with our customers. Our data protection policies help to ensure customers are confident that their data is secure in all transactions with the Group. These policies include the requirement for all colleagues to undertake training on cybersecurity, information security and data protection including GDPR.

Managing our business responsibly
Section 172 statement

Customers continued

Outcomes

Consumer Duty implementation

As part of the Consumer Duty requirements, which came into full force on 31 July 2023, for open products and services, we undertook a comprehensive review of all of our Consumer Finance and Savings products and customer experience, a thorough exercise which we dedicated over a year to. This included consumer testing on our communications, and we continue to enhance these to improve our customer experience. We used an independent adviser to help assess the value of our products and consider that our products continue to offer good customer outcomes and represent fair value. We continue to monitor and develop our products and services in line with developing best practice post-implementation of the requirements. The Board conducted a review in early 2023 to understand its readiness to comply with the new Consumer Duty. The Board had particular regard to regulatory compliance and its duties under s172 specifically to the need to foster the Company's business relationships with its customers and to the desirability of the Company maintaining a reputation for high standards of business conduct.

Launch of customer savings mobile app

We continued to develop our digital capabilities to provide customers with increased opportunities to self-serve on their accounts and our customer experience is increasingly digital. In 2023, we launched our mobile Savings app and 15% of customers have registered since launch, and more than 80% of our Retail Finance customers registered for online account management.

Customer service awards

For the eleventh successive year, the Group has been accredited with the Government-backed Customer Service Excellence ('CSE') quality mark. This follows an in-depth external assessment of customer priorities, especially customer insight, culture, information, service delivery and quality of service. The final report states "STB is the only bank in the UK to achieve the CSE Standard. STB continues to demonstrate year on year improvements to service delivery and sustained high levels of customer satisfaction in a climate of global financial uncertainty. Ongoing certification to the CSE Standard continues to be fully justified and well-deserved".

Feefo Trusted Awards and other awards

We remain recognised through the Feefo Trusted Awards. We have a Platinum Trusted Service award by Feefo for our Moneyway and V12 Retail Finance businesses and received the Gold Trusted Service award for our Savings business. These awards are an important barometer of our customers' views as they are rated by customers against demanding criteria. They give clear external recognition that our customer-focused approach runs throughout our organisation.

The Board

The Board receives updates on customer views. This helps us to shape the products and services we offer to suit our customers' needs. Key topics discussed at meetings have included:

- implementation of the Consumer Duty;
- vulnerable customer needs;
- customer trends in 2023;
- reviewing key business activities and lending products against customer feedback;
- customer affordability and the cost of living;
- receiving updates on Feefo and Trustpilot ratings and customer service awards; and
- aligning management reward with Feefo ratings.

How has the customer voice helped the Board make decisions on strategy?

As previously reported, the Board decided to acquire AppToPay Ltd, the owner of the digital Buy Now Pay Later ('BNPL') technology platform following clear demand for this product from retail customers and retailers. During 2023, a pilot of AppToPay was launched in Retail Finance and feedback has been received. The decision to acquire and integrate the AppToPay technology aligns our customer and retailer needs with our growth strategy, which is also at the core of our shareholders' interests. Customer experience updates are also received which have directly led to customer improvements including changes to withdrawal request processing times, customer ability to self-serve for settlement figures and new application process improvements to support vulnerable customers.

Additionally, one of our key values is to be customer focused. In 2023, the Board implemented the new Consumer Duty rules and appointed Finlay Williamson as the Consumer Duty Champion to help ensure that the consumer voice is heard at the Board.

Managing our business responsibly
Section 172 statement

Shareholders and other capital providers

Link to strategy

Care Grow

Why we act responsibly towards our shareholders

The views of those who own STB and support us financially are important as they provide us with the capital we use to run our business.

Two-way engagement

The Board obtained feedback from our major shareholders during 2023 via our Chairman and CEO. Our committee chairmen, as well as the Senior Independent Director, were available to meet with shareholders on request. Ahead of the 2023 AGM, STB undertook an exercise to understand the views of major shareholders on the proposed resolutions.

The Board also receives updates from the Head of Investor Relations and Company Secretary on correspondence received from shareholders throughout the year.

Outcomes

AGM

In addition to being able to attend the AGM in person and submit questions, shareholders continued to be able to submit questions electronically ahead of the 2023 AGM with STB committing to publish responses on our corporate website.

Capital Markets Day

We held a Capital Markets Day in November 2023 to further engage existing and potential shareholders.

The Board

The Board is responsible for safeguarding our shareholders' investment and we seek their feedback on our stewardship. Key topics discussed by the Board this year have included:

- dividends;
- Capital Markets Day;
- the appointment of new company Brokers and a PR Firm following competitive tender;
- regulatory capital requirements;
- mergers and acquisitions;
- growth strategy;
- trading updates.

How has the shareholder voice helped the Board make decisions on strategy?

The Board continued to follow its dividend policy of returning 25% of earnings to shareholders during 2023, and declared an interim dividend of 16 pence per share in 2023 following the 2022 final dividend of 29.1 pence per share.

Managing our business responsibly
Section 172 statement

Employees

Link to strategy

Sustain

Why we act responsibly towards our employees

Giving our employees an effective voice builds trust, innovation, productivity and organisational improvement. By considering our people as a key stakeholder in our decision-making, we seek to attract the best people for our business, gain their commitment and retain them long-term to fulfil their ambitions at work. The employee voice is pivotal in creating diverse, inclusive and safe working environments.

Two-way engagement

YourVoice surveys and champions

In November 2023, we completed for the sixth time an annual 'Your Voice' employee survey conducted by the Great Place to Work® ('GPTW®') Institute.

This comprehensive survey explored the levels of trust and employee engagement across the Group and includes values such as credibility, fairness, respect, camaraderie, honesty and pride. The results are benchmarked against many of the most progressive workplaces in the UK and are considered by the Board. We were thrilled to maintain a high Trust Index rating of 83% (2022: 85%). 85% of respondents stated that 'Secure Trust Bank is a great place to work' (2022: 88%). The Trust Index is the average of the core survey statements and is used as the Group's key performance indicator for employee satisfaction. The 'Your Voice' survey also showed 90% of employees felt they were treated as a full member regardless of their position at the company.

Our 'Your Voice' results are used to drive continuous improvement at both Group and team level throughout the year. Progress is communicated and enabled by a team of colleague volunteers called 'Your Voice' champions. Our Your Voice Champions meet quarterly and act as a conduit between senior management and the wider colleague community to drive and report progress at both a Group and team level.

We were delighted to be recognised:

- once again at the UK's Best Workplaces™ awards in April 2023, significantly improving our ranking in the UK's Best Workplaces™ Large category, placing 12 out of 87 companies (2022: 29), the UK's Best Workplaces™ for Women category and in the UK's Best Workplaces™ for Wellbeing; and
- also now as a best workplace in Europe ranking 44 out of 50 in the 500+ employees category and as a best Workplace in Financial Services and Insurance.

Employee councils

We operate Employee Councils in each of our businesses, with department representatives elected by their colleagues. The Councils meet regularly and encourage a two-way process of communication between employees, senior managers and the Board. Our Group Employee Council meets with the CEO, HR Director and is chaired by the independent Non-Executive Director designated for workforce engagement, Paul Myers. The Group Employee Council aims to promote further employee engagement and provides a structured forum for teams to share their views, receive updates from the Board through Paul Myers and provide insight, feedback and suggestions to make the Group continue to be a great place to work. Throughout 2023, our Employee Councils were pivotal in helping us shape our future working practices and consider colleagues' views. Paul Myers updates the Board following each meeting so that all Directors have a good understanding of employee views and priorities.

ENEI Partnership and TIDE diversity benchmarking

We maintained our partnership with the Employer Network for Equality and Inclusion ('ENEI'), again completing the TIDE diversity benchmarking tool to identify focus areas. In 2023, we were again awarded the silver standard for our approach to and progress on diversity and inclusion. The evaluation results showed an increase in our score to 82% from 78% in the previous year and 74% in 2021. This is the fifth consecutive year that we have been awarded both a UK Best Workplaces™ for Women award and an ENEI TIDE Mark, showing that employees feel a strong sense of trust, fairness and wellbeing in their workplace. Alongside this we also won the ENEI 2023 award for 'Innovative Approach to Diversity, Equality, and Inclusion' for our podcast creating a voice for colleagues to help dispel stereotypes, increase understanding and celebrate our diverse colleagues.

A key focus issue within the social aspects of our ESG strategy is to support our people by promoting 'belonging' through equity, diversity and inclusion, engaging effectively with colleagues and promoting their wellbeing.

Managing our business responsibly
Section 172 statement

Employees continued

Two-way engagement continued

Policies and collaborative working tools

The Board continued to operate WorkWise hybrid working policy, enabling the vast majority of employees to work remotely as well as in the office. Our Workwise and Family Friendly policies include family friendly measures to support colleagues of all genders with families. We offer enhanced maternity, adoption, paternity and shared parental leave pay and hold regular meetings for colleagues on maternity/paternity leave to help them feel supported and connected to the workplace. Fully paid phased returns are available for colleagues on parental and adoption leave. Our Family Friendly policy is designed to enable employees to balance family and work and to fulfil both their family and work obligations plus our Absence Policy details compassionate leave, parental bereavement leave and dependents' leave allowing colleagues to respond to care emergencies. The decision to move to a hybrid working policy was based on feedback received from employees who wanted the flexibility that remote working provides. In further support of our hybrid way of working, in 2023 we launched the Microsoft VIVA and 365 suites of collaboration tools which help support colleagues to work efficiently as effective collaborators in a hybrid environment.

All employee Sharesave plan

During 2023, we invited all eligible employees to participate in the Group's Sharesave plan. The plan seeks to align the interests of our employee stakeholders with those of our shareholders as well as allowing our employees to share in the success they have helped create. We communicated the launch with employees via news articles on the intranet. A webinar, communications with teams, as well as drop in sessions with members of the Company Secretariat were available to eligible participants who wanted to know more. Feedback was sought from employees on the benefit of the plan and will be reflected on when considering the 2024 invite. We launched a financial education initiative, partnering with Wealth at Work, to explain the implications of the maturing 2020 Sharesave grant, the different options available and potential tax consequences. The feedback from participants was that they had a far better understanding of what the maturity meant for them and the majority of participants elected to exercise their share options at maturity. We were highly commended at the ProShare awards in 2023 for this financial education initiative.

Outcomes

Employee development

Employee development remains a priority. We have a comprehensive induction programme for new employees, a wide range of specialist professional qualifications and numerous other development opportunities. These include a comprehensive four-level leadership academy and 'ICE', our Individual Contributor Excellence Programme for those in specialist and non-leadership roles. These programmes have continued to be delivered either virtually or face-to-face during 2023 to ensure that the focus on personal development is maintained. We also continued several line manager masterclasses to build further confidence in leading teams, including compulsory Everyday Allyship training for line managers which shows how to promote inclusion and the wellbeing of others by taking action to support those in marginalised groups. We continue to partner with Everywoman to provide extensive online and self-managed learning that is so important for our hybrid working teams.

Our personal growth programme, Blazing My Trail, sponsored by our Non-Executive Director designated for workforce engagement, helps colleagues to build confidence, plan their progression and make it happen. It remains extremely popular and oversubscribed at each intake and includes a variety of prestigious external speakers who help attract excellent feedback.

We've also been increasing the number of colleagues who are taking part in apprenticeships for our MentorMe programme, with 41 mentors and 54 mentees participating this year. On average, colleagues are spending 20 hours throughout the year on their personal development at STB. Employee training hours are tracked through self-declaration.

2023 was the third year of the Alan Karter scholarships which gives four individuals per year the opportunity to attend professional development programmes with Cranfield Business School for either leadership skills or training on how to develop impact and influencing skills, for use in either their current role or to enable them to progress to a more senior position.

Additionally, all employees engage with our Performance Management System on an bi-annual basis. These identify objectives against company values, as well as opportunities for training and further development in the company.

To ensure employees are kept abreast of financial and other factors affecting the Company, Executive Directors hold periodic sessions to update all employees on the performance of the Group, which included updates on the year end and interim results.

Managing our business responsibly
Section 172 statement

Employees continued

Employee engagement and recognition

Research consistently shows a clear link between high performance and team engagement. To recognise colleagues for their contribution, we have a suite of recognition tools to celebrate exceptional performance and behaviours. These range from simple e-thank you cards to the Group's annual Outstanding Achievers awards, where 30 winners are selected by the Executive Committee. Team leaderboards for e-thank yous were introduced in 2023 to encourage more participation in the initiative. These schemes together with our annual incentive programme continue to help embed excellence within our culture. We provide colleagues with a wide range of training for personal and professional development. We support employees in achieving recognised qualifications from the London Institute of Banking and Finance and other bodies.

In early 2024, we enhanced our rewards for long service across the Group and extended awards to celebrate other significant personal occasions such as on the birth or adoption of a child, marriage or civil partnerships.

Employee wellbeing

It is critically important to provide a positive and healthy working environment, so colleagues have the opportunity and support to enhance their own wellbeing. Following positive feedback, we continued to focus on employee wellbeing during 2023, building on the wellbeing progress previously made and resulting in STB being recognised as a Great Place to Work for wellbeing in 2023. In 2023, we continued our wellbeing hour initiative and launched a VIVA wellbeing challenge where employees can win an extra day of annual leave through engaging with the wellbeing tools and resources available. The wellbeing hour gives colleagues an hour each month during their working day to dedicate to supporting their wellbeing. We maintained the Wellbeing Cafe launched during the pandemic, allowing colleagues to connect with others supported by one of our many Mental Health First Aiders. Our employee wellbeing initiatives are supported by our comprehensive health and safety ('H&S') framework. This framework includes health and safety policies. a full set of H&S risk assessments, a H&S Manual, a programme of H&S training for all new and current employees, a programme of H&S activities (supported by the H&S Management System) and H&S monitoring and reporting.

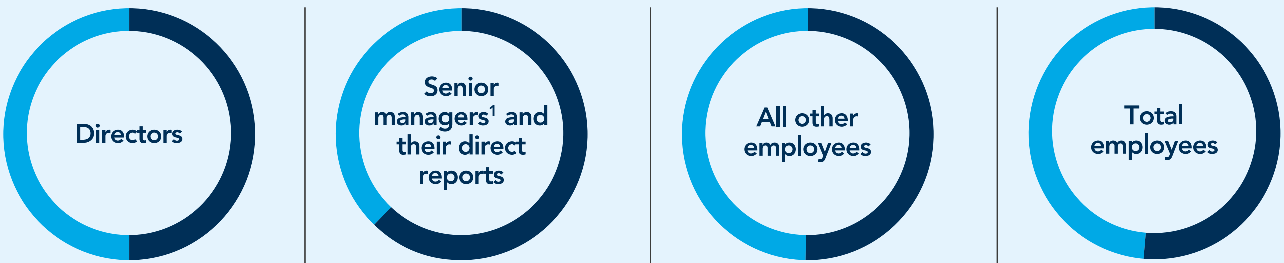
The Facilities and HR teams are responsible for the H&S policy, procedures, training, monitoring and reporting. Senior leaders, line managers and employees are responsible for compliance and completing relevant H&S activities.

Equity, Diversity & Inclusion ('ED&I')

In 2023, we published our fifth Gender Pay Report and supporting commentary. We are committed to diversity in the workplace at all levels. The actions outlined in the report demonstrate this and show our commitment to improving the position at senior manager level. In 2023, women comprised 25% (2022: 25%) of our Executive Committee. Our ED&I agenda remains an area of focus and we are conscious we still have more to do. We continue to work closely with Everywoman in progressing our Inclusion Agenda with two of our senior leaders appointed as Everywoman Ambassadors. We continue to be signatories of the Women in Finance Charter.

Our ED&I workforce champions ('Inclusioneers') champion our Group vision and provide valuable feedback to our ED&I Steering Committee. They are supported by our Advisory Committee of relevant subject matter experts. These groups are critical in helping us to take meaningful action in ensuring everyday inclusion is a reality.

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



Directors	
Male	4
Female	4
Total	8

Senior managers[1] and their direct reports	
Male	43
Female	26
Total	69

All other employees	
Male	415
Female	407
Total	822

Total employees	
Male	459
Female	434
Total	893

1. In accordance with the requirement set out in s.414C(8)(c)(ii) of the Companies Act 2006 for disclosure of STB's 'senior managers' (as that term is defined in s.414C(9)), there were 7 Male and 2 Female senior managers.

Managing our business responsibly
Section 172 statement

Employees continued

Board and Executive Management gender representation[1]

	Number of Board members	Percentage of the Board	Number of senior positions on the Board (CEO,CFO, SID and Chair)	Number in Executive Management[2]	Percentage of Executive Management
Men	4	50%	2	8	73%
Women	4	50%	2	3	27%
Other categories	–	–	–	–	–
Not specified/prefer not to say	–	–	–	–	–

Board and Executive Management ethnic representation[3]

	Number of Board members	Percentage of the Board	Number of senior positions on the Board (CEO,CFO, SID and Chair)	Number in Executive Management[2]	Percentage of Executive Management
White British or other White (including minority-White groups)	8	100	4	11	100%
Not specified/prefer not to say	–	–	–	–	–

1. The Board and Executive Management were asked to confirm their gender from the follow options: male, female, other category and not specified/prefer not to say.
2. In accordance with the requirement under Listing Rules LR 9.8.6R(9) and LR 14.3.33R(1), the 'Number in Executive Management' includes all members of the executive committee (which includes the CEO and CFO, who are also Directors), and the company secretary.
3. The Board and Executive Management were asked to confirm their ethnicity from the follow options: white british/other white, mixed/multiple ethnic groups, asian/asian british, black/african/caribbean/black british, other ethnic group, including arab and not specified/prefer not to say.

The Board

The Board acknowledges that the strength of our service is set by our people. Having a talented, healthy, diverse family of individuals engaged in their roles is essential to bringing to life the Group's vision to be the most trusted specialist lender in the UK and fundamental to the long-term success of the Group. By protecting mental health and listening to employee feedback and implementing ideas for improvements, we stand the best chance of maintaining morale, boosting productivity and retaining the individuals that drive the Group's sustainable success.

Key topics discussed by the Board this year have included:

- communication of our refreshed strategy to our people;
- diversifying the workforce;
- 'Your Voice' results;
- hybrid working;
- aligning Management reward with employee engagement; and
- upskilling existing employees to provide a talent pipeline for the Group through initiatives such as the Confident Leader Academy, Blazing My Trail and an extensive range of professional qualifications.

How has the employee voice helped the Board make decisions on strategy?

The Board recognises employees and other workforce colleagues as key stakeholders and considers their views when making key strategic decisions with our non-executive director for workforce engagement ensuring that the employee voice is heard in the Boardroom.

Our annual pay review prioritised our lower salary banded colleagues with Senior Leadership receiving a lower percentage increase. Further information on other all employee initiatives can be found in our Remuneration Committee report starting on page 85.

Managing our business responsibly
Section 172 statement

Environment

Link to strategy

Sustain

Why we act responsibly towards our environment

We recognise the importance of acting responsibly in relation to the environment. Our ESG Strategy, developed through engaging with a wide range of stakeholders, includes environment as a key focus area.

Two-way engagement

In 2021, the Group adopted an Environment Action Plan for our Solihull head office and Cardiff office. This programme of work continued in 2023 using the outputs from Business in the Community's Responsible Business Tracker survey to guide our environment plan, embed our Environmental Policy and help the Group develop its approach to reducing CO_2 equivalent ('CO_2e') emissions from its operations and improving its environmental impact.

In 2023, the Board launched our ESG strategy, more information can be found on pages 41 to 43.

Outcomes

Our Environmental Policy sets out key areas of focus for the business, committing us to follow environmental guidance, where reasonably practicable, provided by the UK Government, the financial services sector and environmental organisations. This includes reporting our progress using key metrics related to our environmental footprint. More information about our progress in this area is in the following Climate-related Financial Disclosures section.

In 2023, the Real Estate finance business provided a dedicated Energy Performance Certificate Improvement Loan to Kingsford Group, dedicated to help landlords remediate their properties with energy saving solutions and enhance the sustainability credentials of luxury apartments in Edinburgh.

We continued to develop our digital capabilities to provide customers with increased opportunities to self-serve on their accounts. The majority of STB's customers are now accessing savings statements and certificates of interest online via internet banking, reducing both costs for STB and environmental impacts. In 2023, we continued our focus on the development of digital capabilities, launching the Savings mobile app.

The Board has also supported environmental initiatives which have been implemented at various offices including solar panels and electric vehicle chargers at STB's offices in Cardiff and Solihull. Our Manchester office now uses 100% renewable energy and our leased office in Birmingham is now using 59% of its energy from renewable sources.

We monitor emissions from our operations and review the business model to assess what the indirect impact of financing of certain industries, such as Vehicle Finance, can have on the environment. We have continued to provide financing for the small but growing second hand electric vehicles market. Additionally, the remaining group leasing vehicles have switched from petrol and diesel vehicles to plug in hybrid and electric vehicles.

The group has assessed its use of freshwater and freshwater use intensity. As an office-based business which uses very little water compared to other businesses, our resources have been focused on environmental targets and goals elsewhere, such as our Environmental Action Plan.

The Board

The Board recognises that making decisions that help to improve our impact on the environment support our long-term sustainability.

Key topics discussed by the Board this year have included:

- ESG strategy including how STB can offset its environmental impact from its operations;
- measuring emissions from our operations and setting our CO_2e reduction target for Scope 1 and 2 emissions; and
- future operating model.

How has the environmental voice helped the Board make decisions on strategy?

In developing strategy, environmental impact has been a key feature of Board discussions. The Board continues to be mindful of both STB's direct and indirect impacts on the environment. In 2023, an ESG strategy to improve STB's environmental impact has been developed and adopted by the Board. The Board has received specific training on climate change risk and ESG.

Managing our business responsibly
Section 172 statement

Wider society

Link to strategy

Care Grow

Why we act responsibly towards our society

We remain mindful of our need to act responsibly in society and comply with the wide range of laws and regulations applying to financial services companies generally in the UK.

Two-way engagement

Our established community-focused schemes remain in place and our Charity Committee continues to empower colleagues from different business areas to drive forward charitable activities.

There were increased opportunities for fundraising and community outreach in 2023 and we significantly exceeded our fundraising targets set for 2023. We chose to enhance our £-for-£ matching donations raised by Group employees so STB will match donations £-for-£ up to a total of £400, doubling the previous limit of £200. In 2023, we supported 12 charities and raised over £91,000 for good causes. We have a strong relationship with Solihull College, a respected college local to our headquarters.

The STB Volunteers Scheme entitles colleagues to use one paid day a year to make a difference in their local area. In 2023, 91 days were used by colleagues.

Our Group Financial Promotions policy clearly sets out expectations regarding responsible marketing which are aligned to regulatory expectations and Consumer Duty. Our Group Social Media Policy and Pricing Policy requires colleagues involved in marketing activities to undergo mandatory enhanced training on responsible marketing. We carry out annual training on marketing requirements for all involved in marketing activities.

Our Customer Charter is published on our website and sets out what our customers can expect from us.

Outcomes

The Group has a governance framework and policies designed to enable us to meet our 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 includes:

- anti-bribery and corruption;
- anti-money laundering;
- employment health and safety;
- whistleblowing; and
- human rights and tackling modern slavery.

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

The Board

The Board is proud that STB is a good corporate citizen and funds businesses which fuel our economy. We are mindful of our impact on wider society and supportive of our employees' efforts with local communities and stakeholders.

Managing our business responsibly
Section 172 statement

Regulators

Link to strategy

Care Grow

Why we act responsibly towards our regulators

We have a duty to engage openly and proactively with our regulators.

Two-way engagement

We interact with our regulators through monthly meetings. We engage with thematic reviews in which the Group participates. Informally we regularly consider correspondence and publications from the regulatory sphere. We also engage through UK Finance and the Finance & Leasing Association, the relevant trade bodies.

We adhere to the FCA's 12 Principles for business, the foundation for FCA regulated firms operating in a regulatory environment.

Separately, during H2 2023, we engaged in formal discussions with the FCA about our collections processes, procedures and policies. This follows the FCA's review of Borrowers in Financial Difficulty ('BiFD') across the industry. We have engaged external support to assist us with this review and, where necessary, will take action to enhance our approach. We expect the review to be completed in H2 2024.

Outcomes

We require our people to act with integrity and provide them with the necessary training to conduct themselves with due skill, care and diligence. For example, we have a suite of policies to support the conduct of our employees including, for example, our conflicts of interest policy and conduct risk policy. These policies are embedded through our training programmes. This approach supports the outcomes we provide to our customers.

We review consultation papers as they provide insight on key risks and opportunities and allow us to learn from our peers on industry wide challenges. This enables us to evolve our business processes, become more resilient and identify opportunities to take advantage of our specialisations and/or our technology. This helps us to serve our customers in the best way we can.

Our horizon -scanning processes helps safeguard against the risk of missing or not responding to regulatory change impacting the Group as set out on page 36.

The Board

By taking part in regulatory initiatives and having open communication with our regulators, we can understand better the key drivers for regulatory change which, in the Board's view, promote the long-term success of the Group. It also provides us with a platform to provide input into the regulatory environment in which we operate. By supporting the regulatory regime in which we have been granted a licence to operate, we ensure, collectively with our peers, continued customer confidence in the industry. Key topics discussed by the Board this year have included:

- the Consumer Duty;
- operational and cyber resilience; and
- areas of regulatory focus.

How has the regulators' voice helped the Board make decisions on strategy?

Knowing regulatory and industry expectations allows us to enhance and adapt our existing operating model. It also provides us with a steer on what is needed when implementing our strategy.

Managing our business responsibly
Section 172 statement

Suppliers

Link to strategy

Care Grow

Why we act responsibly for our suppliers

Our suppliers support a wide range of services and systems which underpin our operating model.

Two-way engagement

The Group has a structured supplier governance framework to manage material, and other, suppliers. The Group is registered with Transparency in the Supply Chain ('TISC') Report and Modern slavery statement registry service to further demonstrate its commitment to increasing transparency within its supply chain and within its own business, and in tackling modern slavery and human trafficking.

The Group is committed to systematically asking potential suppliers for their responsible business policies as part of the procurement process, and we actively monitor existing supplier compliance with the social and environmental factors in the contractual terms.

The Group also regularly monitors labour providers, labour sourcing agents and recruitment agencies' compliance with human rights standards and has included human rights risks in its overall risk register.

The Group offers safe and confidential grievance channels for employees and contractors to complain or raise concerns of human rights abuses.

Outcomes

The Board is committed to acting ethically and with integrity in all of its business relationships. The Board has adopted policies which reinforce this commitment including the procurement, the supplier management and the anti-bribery and corruption policies. Additionally, regular risk-based supplier assessments are undertaken to continually manage the working conditions in our supply chain. The Group invests in training for employees on modern slavery.

The Board

Delivery of our vision to be the most trusted specialist lender in the UK depends, in part, on ensuring the continuity of our services. Key topics discussed by the Board this year have included:

- operational resilience of material suppliers; and
- commitments to avoid instances of modern slavery in our supply chain.

How has our suppliers' voice helped the Board make decisions on strategy?

The availability of, and engagement with, suppliers helps to deliver some of our operating strategy and enhance our customers' experience.

Non-financial and sustainability information statement

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

Information about environmental matters, employees, social matters, respect for human rights and anti-corruption and anti-bribery matters is included in the 'Managing our Business Responsibly' section.

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

Reporting Requirement	Section	Pages
Policy embedding, due diligence and outcomes	Principal risks and uncertainties	28 to 38
Description of principal risks and impact of business activity	Principal risks and uncertainties	28 to 38
Description of the business model	Our business model	2
Non-financial key performance indicators	Key performance indicators	6 to 7
Climate related financial disclosures	Climate-related financial disclosures	55 to 64

Climate-related financial disclosures

Climate change

Climate change, and society's response to it, presents risks and opportunities to the UK financial services sector. While some of these risks may not crystalise in the short-term, our industry needs to act now to support and help mitigate the medium to long-term implications of climate change.

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

To explain how the Group is responding to these risks, this report is structured to align with the four key parts of the guidance from the 'Task Force for Climate-related Financial Disclosures' ('TCFD'), being Governance, Strategy, Risk management and Metrics and targets. The key risks, their mitigants and assessments are covered under the Strategy and Risk management sections of this report.

The Group has complied with the requirements of Listing Rule 9.8.6(8) by including climate-related financial disclosures consistent with the recommendations and recommended disclosures of the TCFD within its Annual Report and Accounts, except for two aspects where it has assessed itself as partially aligned:

- Strategy (b): The Group is yet to embed fully climate change risk and opportunities into its annual planning cycle due to the longer-term nature of climate-related impacts. Risks associated with climate change are considered as part of the annual Internal Capital Adequacy Assessment Process. The Group plans in 2024 to enhance its financial planning processes in respect of climate change with a view to making fully aligned disclosures on this aspect in its 2024 Annual Report and Accounts.
- Metrics and thresholds (b): The Group continues to develop its climate-related metrics and has faced challenges in obtaining supply chain and Scope 3 financed emissions data for parts of its business. This is an industry-wide challenge, and the Group has identified this as a key area of focus in 2024. The timeframe within which it will be able to make disclosures fully aligned with this aspect is, however, not certain as it depends on the practicality and availability of suitable data.

The climate-related financial disclosures made by the Group comply with the requirements of the Companies Act 2006 as amended by the Companies (Strategic Report) (Climate-related Financial Disclosure) Regulations 2022. The Group continues to develop its approach to emissions reporting with Scope 1, Scope 2 and elements of Scope 3 emissions continuing to be reported. The Group is keen to see the outcome of the Government's recent consultation on Scope 3 reporting, as well as greater guidance and consistency across the industry, as it develops its approach.

The Group is reporting a summary of financed emissions associated with the Group's portfolio of businesses where suitable and verifiable data can be obtained, with additional third-party oversight implemented in 2023.

The Group continued to develop its Climate strategy and emissions reporting, in preparation for transition planning disclosures anticipated in 2025, and for potential changes in sustainability reporting driven by International Sustainability Disclosure Standards IFRS S1: General Requirements for Disclosure of Sustainability-related Financial Information and S2: Climate-related Disclosures.

Further details are provided in the Metrics and targets section below.

Governance

The Group recognises the importance of climate change risk management and has appointed an enterprise-wide focused specialist risk manager to facilitate and drive our Climate strategy across the Group. The Group has allocated Senior Management Function responsibility for identifying and managing the risks from climate change to the Chief Risk Officer ('CRO').

The Board has delegated responsibility for oversight of climate change risk to the Executive Risk Committee ('ERC'). The ERC receives regular updates and reviews all associated risk appetite metrics and thresholds on a monthly basis. The ERC members include the Chief Executive Officer, Chief Financial Officer and Chief Operating Officer. The Group's risk governance structure can be found on pages 28 to 29.

During 2023:

- The Board approved the Climate Change Risk Appetite Statement and supporting metrics in 2023.
- Climate change risk is reported to the ERC and then the Board Risk Committee ('BRC'). Over the year, the ERC met on 12 occasions and the BRC met on six occasions.
- The Group has also developed climate metrics aligned to our businesses, enabling insights into the embedding of our climate strategy. The Metrics and targets section provides further details.
- In December 2023, the Executive Committee received a progress report about climate change. The Executive Committee discussed our transitional planning and how this could be impacted by regulatory expectations. Other considerations included how to reduce the impact on climate change of our own operations and improve our emissions data management and reporting.
- The CRO and senior members of the risk function are members of the UK Finance TCFD, Disclosure & Consultations Working Group. They attend industry meetings and consultations through UK Finance, and have engaged with external expertise to enhance their skills to develop the Group's response to the risks associated with climate change. This focus will continue to evolve into 2024.

Climate-related financial disclosures

Strategy

The Group, through the governance model described above, has identified several risks and opportunities associated with climate change. They are described below with supporting commentary on the implications for our future strategy. Cognisant of the UK Government's 2050 net zero target, the Group is committed to supporting the consumers and businesses it works with to transition to a low carbon economy. A key consideration for 2024, will be for the Group to develop how it will support and engage with business customers and their own climate approach.

The Group's ESG strategy has been approved by the Board and was published at the start of 2023. This strategy included a focus on environmental aspects including a focus on climate action/risk. The strategy also includes the Group's target to achieve a 50% reduction in Scope 1 and 2 CO_2 equivalent (CO_2e) emissions by December 2025, compared with a 2021 baseline. The Group is on track to achieve this target, following the successful implementation of initiatives in 2022/23 and the planned delivery of its environmental action plan over the next two years.

The Group considers remuneration policies to be an important incentive to achieving our organisation's climate-related goals and objectives.

The management of all risks (including climate change risk) is embedded within the executive's remuneration policy and processes.

In 2023, the Department for Energy Security and Net Zero launched a Call for Evidence, closing in December 2023, to gather feedback on the benefits, costs, and practicalities of Scope 3 GHG emissions reporting in the UK, including links to the Government's Streamlined Energy and Carbon Reporting ('SECR') framework. The Group is keen to factor the outputs of this consultation, once published, into its approach to emissions reporting.

The Group has commenced planning in preparation of the finalisation of the requirement, and form of transition plans that will be required, and for other changes to the Listing Rules anticipated for 2024. It has also been monitoring the proposals for sustainability reporting in 2025. and although these proposals are yet to be finalised for application in the UK, the Group has started to raise awareness internally and upskill relevant members of staff.

The Group has commenced planning in preparation for the form of transition plans that will be required, and for other climate-related disclosure changes to the Listing Rules anticipated for 2024. It has also been monitoring the proposals for sustainability reporting in 2025. Although the application of these proposals in the UK is yet to be finalised, the Group has started to raise awareness internally and upskill relevant members of staff.

Risk management

Whilst climate change risk has been recognised as a principal risk within the Group, the management of this risk has been integrated and embedded within existing risk management frameworks and associated processes, and is governed through existing risk governance structures, including reporting to the ERC and monitoring for any new regulation through established horizon scanning processes.

Physical risks and transitional risks continue to be managed and integrated within the Operational Risk Framework and the Credit Risk Framework, respectively. This includes how risks are identified, assessed, mitigated and any associated stress testing and scenario analysis.

However, all climate change risks are reported collectively to enable management and the Board to understand and consider the scale and breadth of the climate change risk profile. These are reviewed, at a minimum, on an annual basis.

The Group's climate change risks have been identified through workshops with representatives from each business line and the Risk team. These reviews consider both physical and transitional risk and all relevant sources of risk, as described within the guidance tables provided by TCFD. This qualitative review is undertaken annually, and all identified risks are assessed against three time horizons, being one year, five years and 10 plus years. The potential impact of the risks are assessed against an established hierarchy contained within our risk frameworks that cover the potential financial, regulatory/reputational, business disruption, customer impacts and the emerging regulatory landscape.

Each risk each has an executive owner and is collectively reviewed and agreed at the ERC.

Internal stress testing

As described below, the businesses have each undertaken scenario analysis, most appropriate for their time horizon and plausible exceptional scenarios. Each scenario is reviewed for its insights as a minimum every three years. This analysis has improved the Group's understanding of the key drivers to its risks and therefore the mitigating actions required. We continued to refine this analysis in 2024, to understand better the risks and opportunities that climate change presents.

Climate-related financial disclosures

Summary of climate change risks

Climate change risk	Source	Area	Risk	Timeframe	Impact
Physical risk	Acute/ Chronic	Operations	Impact of climate change interrupting our internal operations e.g. floods.	Medium and long-term	Low
	Acute/ Chronic	Operations	Impact of climate change interrupting our supply chain e.g. floods.	Short, medium and long-term	Low
	Acute/ Chronic	Real Estate Finance	The value of the Group's security may be negatively impacted due to increased risk of flood associated with climate change.	Short, medium and long-term	Low
Transitional risk	Technology/ Market	Vehicle Finance	Failure to respond/recognise that the value of the loan security may be negatively impacted by 'transitional' effects from climate change.	Short, medium and long-term	Low
	Current and emerging regulation	Real Estate Finance	Failure to respond/recognise that the value of the loan security may be negatively impacted by the effects of climate change or through 'transitional' impacts.	Short, medium and long-term	Low
	Market/Current and emerging regulation	Commercial Finance	Profitably or viability of our clients may be impacted by the transitional effects of climate change.	Short, medium and long-term	Low
	Reputation	Group	The Group's reputation is negatively impacted due to failure to meet: • climate change regulation; • stakeholder expectations; • the strategic responses needed to address changing markets: and • consumer demands/preferences.	Short, medium and long-term	Low

Operations

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

The Group has reviewed the physical risks associated with the location of each of its operational sites. Similarly, we have consulted with our material suppliers about their contingency plans in the event of flooding or other severe weather. From the flood risk data and energy performance ratings of our internal sites, and the responses from our material suppliers, we do not consider there to be any material risks in the short term.

In strategic terms, these risks and their associated risk appetites will be assessed and will influence any proposed changes to our operational sites and the selection and on-boarding processes for any new suppliers during those processes.

Climate-related financial disclosures

Vehicle Finance

Transitional impacts of climate change within the motor industry as consumers and as the industry responds to the move towards non/low carbon-fuelled vehicles.

The key area of risk for the Group is the implication of an accelerated transition to the use of 'non-fossil fuelled vehicles' on the residual values of our security on internal combustion engine vehicles. Our current planning assumption is based on an orderly transition to non-fossil fuelled vehicles.

As part of our strategic planning process, the Board has reviewed and approved our response to this climate change risk for the Vehicle Finance business. We have already amended our credit policy to allow lending for electric vehicles ('EV'). However, given that we operate in the used vehicle sector where 98% of transactions are for internal combustion engine vehicles (source: SMMT used car sales: Q3 2023), the current level of lending associated with EV and hybrid vehicles is low.

We are committed to supporting our customers where they wish to transition to EV and hybrid vehicles, and dealers wishing to stock them. To assist this, we are actively enhancing our market intelligence in this sector, and closely monitoring the key factors that will influence changes in this market (e.g. customer preferences, Government intervention, infrastructure, and vehicle developments). In addition, we are working with our 'Introducer' base to understand how we can develop our product base and lending criteria better to support demand for EV and hybrid vehicles.

To support this strategy we have set risk appetite metrics that monitor the proportion of older vehicles (with higher emissions) that we are willing to fund, and metrics that monitor customer behaviour.

In order to understand better the potential implications of the transition to vehicles with lower emissions, the Group has reviewed a range of scenarios to help assess the level of risk from climate change on our Vehicle Finance business. These scenarios are linked to the Bank of England's Climate Biennial Exploratory Scenarios ('CBES') that are based on those developed by the Network for Greening the Financial System and are designed to support central banks to bring greater consistency and comparability to stress testing exercises. Two routes to meeting net zero carbon dioxide emissions targets by 2050 were considered: an 'Early Action Scenario' and a 'Late Action Scenario'. A third scenario explored what might happen in terms of the physical risks materialising if governments around the world fail to take action to address climate change: the 'No Additional Action Scenario'.

Whilst it is recognised that the economic impacts of these scenarios were set by the Bank of England prior to the current inflationary environment, the results do still provide the Group with an understanding of the potential impact of these transitional risks on our Vehicle Finance business.

In the unlikely event of the Group not taking any action to mitigate the potential impacts from these scenarios, the increase in the level of credit losses would likely peak around 2031 for the Early Action and Late Action Scenarios, albeit at a lower level in the Early Action Scenario. Management have monitoring tools in place that closely monitor the key indicators and, should elements of the scenarios unfold, the Group would take corrective action through amending credit policies to reduce loan-to-value ratios and/or reduce lending to those vehicles that are likely to see the most significant reduction in value as a result of the transition.

The outcomes from the analysis indicate that currently there is no significant link to credit losses due to climate change factors and the Group is resilient across the scenarios assessed. The results will be factored into the Group's 2024 Internal Capital Adequacy Assessment Process.

The Group plans to develop further the scenario analysis undertaken and will continue to use the results to identify climate change risks/opportunities and how they may influence our business plans.

Climate-related financial disclosures

Real Estate Finance

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

There are two areas of potential risk that could impact the performance of the Real Estate Finance portfolio. The first relates to the risk that climate change has an increased impact on the weather conditions across the UK, and the properties we hold as security for our lending are subject to an increased risk of flooding or similar risks associated with severe weather.

In order to mitigate flood risk, existing on-boarding and due diligence processes require a full valuation from a RICS-qualified surveyor, which includes an assessment of the flood risk. Based on this information, the Group may choose not to proceed with lending, or will look to mitigate the risk through acceptable insurances. It should also be noted that, unlike a residential mortgage, the maximum term of our loan facilities is currently five years, so this limits the potential impact from any change to the level of flood risk and ensures we have recent valuation assessments. Therefore, we are confident that the level of risk is not currently considered to be material.

Notwithstanding these due diligence checks, the Group regularly reviews the assets it currently holds as security at portfolio level against external flood risk data provided by 'Hometrack'. The Group has reviewed and updated this portfolio approach in 2023. This is now assessed against the security values. This is measured by the combined security value of properties in high and very high flood areas, divided by the total portfolio security value. This produces a percentage of properties, exposed to high and very high flood risk by security value. Results show that 3.9% of the security value of the portfolio is classed as having a high or very high level of risk from flooding (3.4% in 2022 using the same methodology). This compares to the national average of 3.7%.

The second area of risk is where the value of our security could be impacted by transitional changes made or imposed on the sector through Government intervention to improve the energy efficiency. The UK Government has set a minimum Energy Performance Certificate ('EPC') rating of E for tenanted properties. In order to understand the potential risks, the Group has reviewed the EPC rating for the properties we hold as security and tracks this rating by the value of residential property within its investment loan portfolio. The results are presented below:

EPC Rating	% of investment loan portfolio by value
C or above	69.4%
D and E	30.4%
Below E	0.2%

To mitigate this risk, new lending facilities are provided on the basis that all properties are compliant (unless exempt) with current EPC requirements. The Group also requires an assessment from the borrower regarding their strategy to comply with any future changes to EPC requirements. For existing exposures, this is reviewed on an annual basis. Therefore, the Group does not consider the risk associated with transitioning to the new EPC requirements to be material.

Furthermore, to understand better the potential implications of these risks, the Group has undertaken a review of a range of quantitative scenario assessments, linked to the Bank of England's CBES scenarios (as described above under Vehicle Finance), to help assess the longer-term level of risk from climate change on our Real Estate Finance business. The analysis considered the potential economic implications of the transitioning to net zero and the most severe potential impacts of flooding on property values. The analysis showed that the Group's approach to surveying/valuing properties and the short-term nature of the lending facilities provided, enabled us to minimise any impact from flooding within the planning period and adapt lending policy to withstand the most severe longer-term economic impacts. The outcomes from the analysis indicate that currently there is no significant link to credit losses due to climate change factors and the Group is resilient across the scenarios assessed. The results will be factored into the Group's 2024 ICAAP.

The Group plans to develop further the scenario analysis undertaken and will continue to use the results to identify climate change risks/opportunities and how they may influence our business plans.

Climate-related financial disclosures

Commercial Finance

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

The Group's Commercial Finance clients cover a broad range of sectors. There is a risk that their businesses and/or customers could be affected by the transitional impacts of climate change, which in turn, could affect their ability to service their lending with the Group.

In order to understand and evaluate the risk to our business, the Group has developed an approach to assess formally the climate change risks associated with each of its Commercial Finance clients. The assessments consider all of these areas of risk (i) client risk; (ii) geography; (iii) product risk; (iv) debtor risk; (v) supply risk; and (vi) collateral risk.

This bespoke assessment model allows our Commercial Finance business to focus on the most relevant areas of our credit risk assessment and thereafter engage with those current and prospective clients that may have material or specific risks to understand and support them with necessary mitigations.

To support this approach, the Group has defined its risk appetite that it will not engage with clients whose residual risk rating from this assessment is considered to be 'high' risk in relation to the impacts of climate change. Rather than having a sector specific risk appetite, Commercial Finance operates a business model that makes appropriate client-by-client decisions to reflect the climate change risk associated with each individual facility.

Whilst the client risk reviews have provided useful insight, the level of risk is not currently considered to be material since the Commercial Finance portfolio is primarily composed of short-term, self-liquidating facilities secured principally by debtors and stock. Should there be any material concerns or risks relating to the impact of climate change on the viability of the client, these facilities can be reviewed, reduced or additional collateral taken, where required.

Metrics and targets

The Board has approved an overarching risk appetite statement in relation to climate change: 'Secure Trust Bank Group seeks to understand and quantify its climate change risk exposure, so the Bank working with its customers and clients can minimise the financial risks associated with the transition to a low carbon economy and any impacts from climate change to our business'. This statement is supported by the following metrics and thresholds, which have been approved by the Board:

Business area	Metric example	Thresholds – Outside of appetite	Position at 31 December 2023	Insight provided
Vehicle Finance	Vehicle age – new business portfolio weighted average	> 8 years	7.2 years	Consumer behaviour and buying patterns internal combustion engines in comparison to EVs
Real Estate Finance	Combined security value of properties in high and very high flood areas, divided by the total portfolio security value, as a percentage.	> 8%	3.9%	Understanding of impact on portfolio of flood risk
Commercial Finance	Number of clients with a residual climate risk rating of 'high'	> 1	0	Enables clear understanding of a business's credentials and impact on the Group's metrics

Tracking and reporting of quantifiable metrics has enabled the Group to operate within its appetite and helped to make sure that the impact on our portfolios of climate change is understood and effectively managed. In addition to the above metrics, there are further metrics and thresholds that are reviewed by the ERC on a monthly basis.

We remain committed to developing our understanding of emissions by suppliers to the Group to support delivery of our climate ambitions. In 2024, we plan to enhance further this activity by focusing on the largest suppliers to the Group.

Climate-related financial disclosures

Scope 1, Scope 2, and Scope 3 GHG emissions.

This section of the report covers the Group's GHG emissions. The Group continues to develop its reporting capability each year. This year we are reporting new categories for the first time which are noted under the table. Supply chain emissions are not reported this year, however developing reporting on this area will be a key focus in 2024.

The following tables set out the Group's energy consumption and equivalent emissions (CO_2e) for 2023 in accordance with TCFD guidance and the Companies Act 2006 (Strategic Report and Directors' Report) Regulation 2013, and the Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018.

We have calculated emissions using the GHG Protocol Corporate Accounting and Reporting Standard (revised edition). GHG consumption and emissions are reported as single totals, by converting them to the equivalent amounts of kWh and CO_2e respectively, using emission factors from the UK Government's GHG Conversion Factors for Company Reporting 2023.

All energy consumption and emissions relate to the UK and cover all Group entities and therefore are aligned with the financial reporting of the Group.

Measure	2023 kWh	2022 kWh	Year-on-Year Variance %
Scope 1 – Building energy: gas consumption	145,692	210,605	(30.8)
Scope 1 – Emergency generator: gas oil consumption	4,733	4,733	–
Scope 1 – Business travel: Group-leased vehicles	136,364	195,579	(30.3)
Scope 2 – UK electricity consumption	948,919	1,303,946	(27.2)
Scope 3 – Business travel: employee-owned vehicles	148,844	126,748	17.4
Total energy consumption	**1,384,552**	**1,841,611**	**(24.8)**

Measure (Location-based emissions[1])	2023 CO_2e tonnes	2022 CO_2e tonnes	Year-on-Year Variance %
Scope 1 – Direct emissions from the combustion of fossil fuel	60.2	148.3	(59.4)
Scope 2 – Indirect emissions from purchased electricity	224.8	252.2	(10.9)
Scope 3 – Other indirect emissions (excluding Financed Emissions)	114.9	91.5	25.6
Total Scope 1 to 3 CO_2e emissions (excluding Financed Emissions)	**399.9**	**492.0**	**(18.7)**

Measure	2023	2022	Year-on-Year Variance (%)
Group operating income £ million (continuing and discontinued)	184.7	178.2	3.6
Environmental intensity indicator			
(Total emissions excluding financed emissions per £m Group operating income)	**2.2**	**2.8**	**(21.4)**

1. Location-based emissions are calculated by multiplying electricity consumption for all sites by the Government's conversion factor for UK electricity.

- Scope 1 emissions result from activities owned and controlled by the Group. These are direct emissions that include the combustion of natural gas for heating buildings and fuel for Group-leased vehicles.
- Scope 2 emissions are indirect emissions generated from purchased electricity in relation to the Group's activities, but occur at sources that the Group does not own or control. For 2023, this now includes EV emissions from the Group's leased EVs.
- Scope 3 emissions are indirect emissions generated by the Group's activities, but occur at sources that the Group does not own or control. Emission data included in the table relate to Scope 3 categories (3) Fuel and energy related activities (not included in Scope 1 or 2), (4) Upstream transportation and distribution and (6) Business travel. For 2023, this now includes (5) Waste generated in operations, and additional reporting for EVs under (4) Upstream transportation and distribution. For further information on Scope 3 categories applicable to the Group, see Scope 3 CO_2e emissions section below, where the Financed emissions (category 15) is also detailed, separately, and not included in the above table or the commentary and charts below.

In 2023, the Group achieved a net reduction of 92.1 tonnes of reported location based CO_2e emissions. Like for like emissions have been reduced by 124.2 tonnes CO_2e (25.2%). However, this success has been offset by the addition of three new categories to the reporting for this year, which have added a further 32.1 tonnes CO_2e to the total.

The most significant drivers of the reduction on CO_2e emissions are presented on the following page.

Climate-related financial disclosures

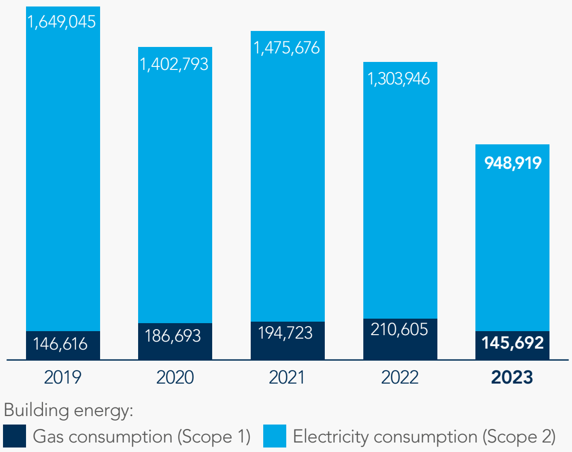
CO_2e emissions

Scope 1
- Business travel: Group-leased vehicles 8.0%
- Building energy: Gas consumption 6.6%
- Other 0.5%

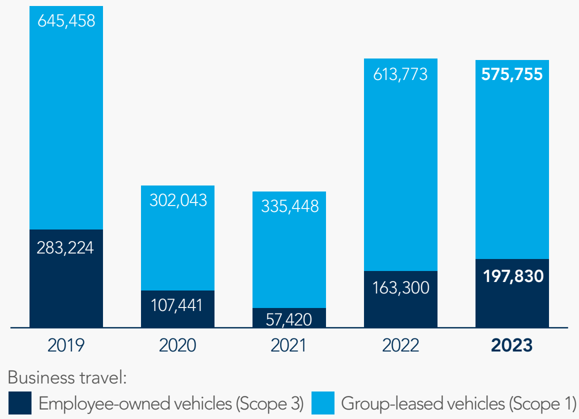
Scope 2
- Building energy: UK Electricity 49.1%
- EV's: UK Electricity 7.1%

Scope 3
- Business travel: Public transport 12.8%
- Business travel: Employee-owned vehicles 10.7%
- Other 5.2%

Energy consumption five year trend (kWh)

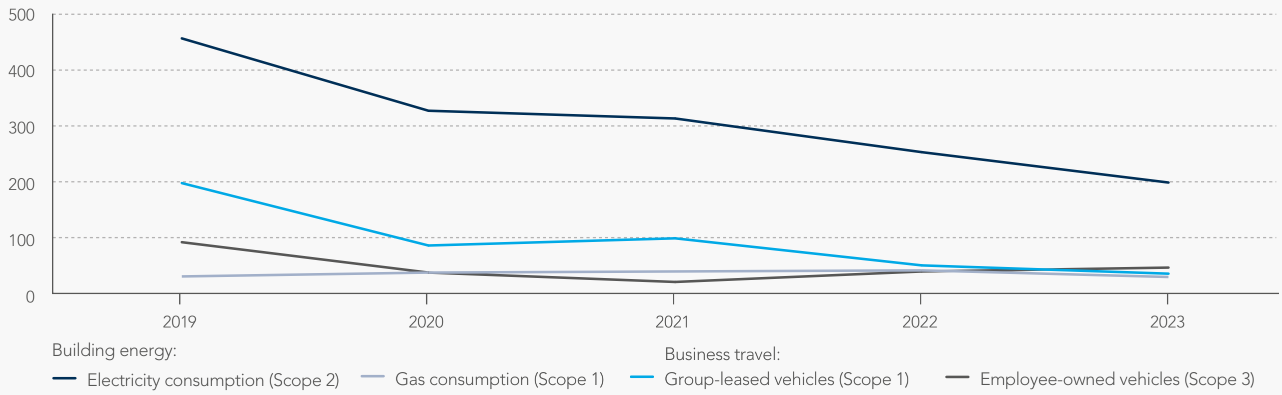


Energy consumption five year trend (miles)



- Energy consumption has decreased year-on-year for natural gas (30.8%) and electricity (27.2%). This has been primarily driven by the closure of three of our offices.
- Business travel mileage for employee-owned vehicles has increased by 21.1%, as the Group returns to pre-pandemic travel levels.
- Business mileage for Group-leased vehicles has decreased by 6.2%. This has been caused by using an improved methodology for calculating company vehicle business mileage that now removes any private mileage from the total annual mileage recorded for each company vehicle.

CO_2e emissions (tonnes) five year trend



* Graph is prepared on location-based emissions.

CO_2e emissions for the categories above are following the trend set by the energy consumption data.

Climate-related financial disclosures

Environmental initiatives

Achievements

Various environmental initiatives are being implemented across the Group. Recent achievements include:

Sector	Achievements
Climate Change	• Manchester office has now switched to 100% renewable electricity. Our leased office in Birmingham is currently using 59% renewable energy. • The closure of three offices and the removal of gas from the fourth office has reduced gas and electricity consumption. • Solar panels have been installed at our office in Cardiff, providing 33% of the energy required at this site. • The remaining Group-leased vehicles have been switched from petrol and diesel vehicles to plug in hybrid and electric vehicles. • A Group-wide scheme has been launched to enable employees to lease EVs.
Circular Economy	• We continued to recycle all serviceable equipment no longer required by the Group and participate in recycling schemes. • Items such as batteries, toner cartridges and IT equipment are recycled. • We purchase as many consumables as possible from recycled supplies, alongside environmentally friendly cleaning products.
Nature Stewardship	• We have developed an Eco Garden at the Solihull office, which is supporting local wildlife.

Planned activities

The Group's programme of environmental initiatives will continue to be implemented throughout 2024. The table below illustrates some of the key initiatives planned:

Sector	Planned activities
Climate Change	• Review the electricity supply with our Birmingham office landlord to encourage them to move to 100% renewable electricity. • We are planning to sell our vacant building in Solihull and downsize our office in London to reduce further energy consumption. • The fleet of Group-leased vehicles will be reviewed again during 2024, with a view to switching from plug in hybrid vehicles to EVs. • Undertake a review of our premises to consider how we can reduce energy consumption and improve energy efficiency.
Circular Economy	• Continue to monitor waste from our offices, considering ways to reduce overall waste and increase the proportion of recyclable waste. • Review purchased products across the Group to determine which other items can be switched to recycled or sustainable products. • Where we have excess furniture as a consequence of the reduction of our property footprint we will continue to donate to local schools, colleges, and charities.

Climate-related financial disclosures

Scope 3 CO_2e emissions

The Group has assessed the relevance and materiality for each category of Scope 3 emissions within the table below.

Scope 3 Category	Status
1 Purchased goods and services	Supply chain analysis underway, area of focus in 2024.
2 Capital goods	Supply chain analysis underway, area of focus in 2024.
3 Fuel and energy-related activities (not included in Scope 1 or Scope 2)	Included in Scope 3 reporting.
4 Upstream transportation and distribution	Enhanced reporting has been made in 2023.
5 Waste generated in operations	Included for the first time in 2023.
6 Business travel	Included in Scope 3 reporting.
7 Employee commuting	Under review in 2024.
8 Upstream leased assets	All material emissions from leased assets are included in Scope 1 and 2 emissions.
9 Downstream transportation and distribution	Not applicable for the Group.
10 Processing of sold products	Not applicable for the Group.
11 Use of sold products	Not applicable for the Group.
12 End-of-life treatment of sold products	Not applicable for the Group.
13 Downstream leased assets	Not applicable for the Group.
14 Franchises	Not applicable for the Group.
15 Investments (Financed emissions)	See below for further details.

Financed emissions

In 2023, the Group continued its work to validate the baseline for Financed emissions associated with our key lending portfolios. Financed emissions are the indirect emissions attributable to the Group due to the financing we provide to our customers. In line with Partnership for Carbon Accounting Financials ('PCAF') methodology, we have established the data for Financed emissions across the vehicles we finance. The Group intends to develop further its data and reporting capabilities in 2024.

The Financed emissions analysis for all vehicles financed follows the formula prescribed in the PCAF standard.

$$\boxed{\text{Financed Emissions}} = \sum \underbrace{\textbf{Attribution Factor}}_{\frac{\text{Outstanding loan value}}{\text{Original vehicle value}}} \times \underbrace{\textbf{Vehicle Emissions}}_{\text{Annual Km} \times CO_2\text{Kg/Km}}$$

	As at 31 December 2023	As at 31 December 2022
Vehicle Finance loan book (£m) (excluding Stock Funding)	435.4	351.8
Average CO_2e tonnes per annum per vehicle[1,2]	1.87	1.99
Total annual CO_2e tonnes[1,2]	108,054	101,000
Total annual Scope 3: Financed emissions CO_2e tonnes	71,911	64,600

The Strategic Report was approved by the Board on 20 March 2024 and signed on its behalf by:

David McCreadie
Chief Executive Officer

1. Internal combustion engine (Scope 1: direct emissions from fuel combustion in vehicles), EVs (Scope 2: indirect emissions from electricity consumed) and plug-in hybrid and EVs (Scope 1 and 2) estimates based on the annual mileage provided in the contract, or where not available based on an estimate from the Department of Transport data (2019). Internal combustion engine, plug-in hybrid and EVs tailpipe emissions use recognised manufacturer data for all vehicles. EV emission data uses Government averages for CO_2/km.
2. The official figures for grammes of CO_2/km are from the regulatory testing either older New European Driving Cycle ('NEDC') or phased in from c2017 'Worldwide harmonised Light-Vehicle Testing Procedure ('WLTP'). An uplift is applied to the emission figure on vehicles on the earlier test to reflect better 'real world' CO_2 emissions.

Chairman's introduction

> The Board is satisfied that STB's governance structure remains appropriate to the size and complexity of its business."

Lord Forsyth
Non-Executive Chairman

On behalf of the Board, I am pleased to present our Corporate Governance Report.

The Board is satisfied that STB's governance structure remains appropriate to the size and complexity of its business and enables the Board to oversee the delivery of its strategy as a regulated bank.

The Corporate Governance Report in its entirety, pages 65 to 113, explains how the Group has applied and complied with the provisions of the UK Corporate Governance Code 2018 and the Companies (Miscellaneous Reporting) Regulations 2018 for the year to 31 December 2023.

The Report includes a statement disclosing compliance with the UK Corporate Governance Code 2018, which can be found on page 69, and a disclosure of how the Company engages with its stakeholders, which can be found on pages 44 to 54.

The Board has a skilled group of Non- Executive Directors, who are independent under the Code and who, bring considerable experience across a number of specialisms. The Non-Executive Directors' role is to challenge management and to participate in the development of a clear strategy for the Group. The Executive Directors responsibilities include implementing the agreed , delivering growth and managing the portfolio of businesses through the Groups Executive Committee.

The Board met both physically and virtually on a regular basis during 2023, to collaborate and maintain control of its governance processes and activities.

The Board is required to confirm that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable, and provides the information necessary for shareholders to assess the Group's performance, business model and strategy.

Lord Forsyth
Chairman

Board leadership
Board of Directors

Committee membership
- Nomination
- Remuneration
- Risk
- Audit
- Executive
- C Chair

Strong leadership

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

C

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

Skills and experience
Lord Forsyth is a former Chairman of Hyperion Insurance Group, and former Deputy Chairman of JP Morgan UK and Evercore Partners International. He was appointed to the Privy Council in 1995, knighted in 1997, and joined the House of Lords in 1999. He was a member of the House of Commons for 14 years and served in Government for 10 years, latterly as a Cabinet Minister.

Long term contributions
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. His experience enables him to provide valuable insights at committee meetings and to chair the Board effectively.

Other appointments include
Lord Forsyth is a Director of J&J Denholm Limited, Denholm Enterprise Limited and Denholm Logistics Group Limited. He served a full term of four years as Chairman of the House of Lords Economic Affairs Committee and stepped down in January 2022. He was elected as Chairman of the Association of Conservative Peers in September 2021. In January 2024 he became Chairman of the House of Lords Financial Services Regulation Committee.

David McCreadie FCBI
Chief Executive Officer ('CEO')

Appointed to the Board on 17 December 2019 and appointed as CEO on 5 January 2021.

Skills and experience
David McCreadie has many years of banking experience and is a Fellow of the Chartered Banking Institute. He spent more than 20 years at The Royal Bank of Scotland ('RBS') (now Natwest Group plc) holding roles in Branch Banking, Consumer Finance and several Group central functions. From 2004 to 2008, David was appointed the CEO of Kroger Personal Finance, a joint venture between RBS and Kroger Co, based in Cincinnati, USA. David joined Tesco Personal Finance in 2008 and was a member of the executive team that built Tesco Bank. David was an Executive Director and Managing Director of Tesco Bank, with responsibility for the banking and insurance businesses, from 2015 to 2019.

Long term contributions
His executive career and wealth of experience in banking, risk management, governance, consumer facing businesses and retailing provide David with the skills required to manage the day-to-day activities of the Group. His strong leadership and strategic expertise enable him to lead the Group in a sustainable way and create shareholder value.

Rachel Lawrence ACMA
Chief Financial Officer ('CFO')

Appointed to the Board on 23 September 2020.

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

Long term contributions
Rachel's considerable experience in finance and banking which proves invaluable in her role as Chief Financial Officer. She has a deep understanding of the Group's businesses and strategy and has a strong track record of creating shareholder value.

Board leadership
Board of Directors

Committee membership

- Nomination
- Remuneration
- Risk
- Audit
- Executive
- C Chair

Ann Berresford ACA
Senior Independent Director

C

Appointed to the Board on 22 November 2016, appointed Chairman of the Audit Committee on 23 September 2017. Member of the Risk and Nomination Committees. Ann was appointed as the Senior Independent Director following the close of the Annual General Meeting on 24 June 2020.

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.

Long-term contributions
Her career has given Ann experience in mortgages, pensions, operations, accounting, finance and risk. Her previous experience in the renewable sectors gives her a long-term outlook. The insights she has gained from her career mean that she is a strong Senior Independent Director and member of the Board and committees she serves. Her financial background makes her an excellent Chairman of the Audit Committee.

Other appointments include
Ann is the Senior Independent Director and Chairman of the Audit Committee of Albion Venture Capital Trust PLC.

Victoria Mitchell
Independent Non-Executive Director

Appointed to the Board on 1 November 2023. Member of the Nomination and Remuneration Committees.

Skills and experience
Victoria has many years of banking experience, gained predominantly during a twenty-year career with Capital One (Europe) plc, during which she served as Chief Legal Counsel, Chief Risk Officer and Chief Operating Officer. She sits on the Board and is a member of the Remuneration and Risk Committees of the West Bromwich Building Society. She is also a member of the Audit & Risk Committee, Nomination and Governance Committee and is Chair of the Financial Services Board at N Brown Group plc. Victoria has recently joined the Board of Vocalink Limited, where she chairs the Risk Committee and is a member of the Audit Committee.

Victoria was previously a Non-Executive Director at Lookers plc, which gave her considerable insight into the Motor Finance industry. She was a member of the Audit and Risk, Remuneration and Nomination Committees throughout her tenure at Lookers plc, was Chairman of the Remuneration Committee from April 2021 to September 2022 and was Chairman of Lookers Motor Group Limited. She is a graduate of Birmingham University

Long-term contributions
Her background has given Victoria vast experience in risk, remuneration, governance, corporate strategy, and finance, particularly motor finance. Additionally, her experience in remuneration and governance make her a valuable addition to both the Remuneration Committee and the Nomination Committee.

Other appointments include
Victoria is a Non-Executive Director of Vocalink Limited, N Brown Group plc and West Bromwich Building Society.

Paul Myers ACIB
Independent Non-Executive Director

C

Appointed to the Board on 28 November 2018 and as Chairman of the Risk Committee on 31 March 2020. Member of the Remuneration and Nomination Committees. Paul is the Non-Executive Director designated for workforce engagement and the Chairman of the Employee Council.

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

Long-term contributions
Paul's career has given him a wide range of experiences and responsibilities, including IT, operations, transformation, marketing and digital as well as building and developing retail and SME savings operations. His insight into banking and particularly IT and operations provide a unique viewpoint that complements the Board and the Committee he serves well. His broad experience positions him well as Chairman of the Risk Committee.

Other appointments include
Paul is currently a Non-Executive Director at Ashman Finance Limited, a new bank start-up.

Board leadership
Board of Directors

Committee membership

Nomination	Audit
Remuneration	Executive
Risk	C Chair

Victoria Stewart
Independent Non-Executive Director

Appointed to the Board on 22 November 2016. Appointed Chairman of the Remuneration Committee on 21 July 2017 and Member of the Nomination and Audit Committees.

Skills and experience
Victoria Stewart has over 30 years' experience in the financial services sector, and was for many years a fund manager and investor in UK small companies. She is an experienced non-executive director, specialising in banking and investment. Victoria has knowledge of corporate structures and capital markets, with particular experience in smaller companies listed on the Main Market and the Alternative Investment Market. She has held a number of positions at Royal London Group and Chiswell Associates.

Long-term contributions
Her background has given Victoria vast experience in remuneration, governance, corporate strategy, investor relations, accounting, finance and risk. Her investor relations experience provides her with valuable insight from a shareholder perspective from which the Board benefits. Her experience in remuneration, finance and governance make her a suitable choice for the Chairman of the Remuneration Committee and member of the Nomination and Audit Committees.

Other appointments include
Victoria is the Senior Independent Director of Artemis Alpha Trust plc. She is a Non-Executive Director of Aberforth Smaller Companies Trust PLC, Alpha Securities Trading Limited and JP Morgan Claverhouse Investment Trust plc, where she is also Chairman of the Remuneration Committee. She is a member of the ICAEW Investment Committee and former member of the ICAEW Corporate Governance Committee.

Finlay Williamson CA FCIBS
Independent Non-Executive Director

Appointed to the Board on 30 June 2021 and as Consumer Duty Champion on 27 October 2022. Member of the Audit, Risk and Nomination Committees.

Skills and experience
Finlay Williamson is a qualified accountant with many years of banking experience, gained initially at The Royal Bank of Scotland Group PLC (now NatWest Group plc) and then at Virgin Money Holdings (UK) plc, where he was Chief Financial Officer prior to the IPO. Finlay was previously a Non-Executive Director at Paragon Banking Group PLC, where he was a member of the Audit Committee and chaired the Group and Bank Risk Committees.

Long-term contributions
His career has given Finlay experience in retail, SME and auto finance banking, as well as real estate domain experience. He also has experience of corporate acquisitions and subsequent integrations, with significant experience of change and transformation. Finlay has developed good relationships with the Financial Conduct Authority and Prudential Regulatory Authority during his career and is up to date with their priorities and processes. He also has prior appointments on plc Boards and Committees. The skills and experience he has gained from his career mean that he is a strong addition to the Board and committees he serves.

Other appointments include
Finlay is currently the Chairman of the Audit Committee and Senior Independent Director of Hampden & Co PLC.

Independent Non-Executive Director and Chairman designate, to be appointed to the Board on 31 March 2024, and succeed as Chairman on 16 May 2024 subject to regulatory approval.

Jim Brown

Skills and experience
Jim Brown is a banking professional with many years' experience, gained through a number of executive positions. He was CEO, Sainsbury's Bank and a member of the Sainsbury's Group Operating Board until his retirement from these roles, at the end of March 2024. He is also a Non-Executive Director on the Board of Just Group plc.

Before this, Jim was the CEO at Future Williams & Glyn within the RBS Group and prior to this he was CEO, Ulster Bank Group. He held a number of senior appointments within RBS and ABN AMRO in Asia and earlier in his career with Citibank and Chase AMP Bank.

Long-term contributions
Jim Brown has extensive experience and a proven track record as a banking executive and brings substantial wholesale, commercial and retail banking experience to the Board. He has held roles at the executive level managing both retail and commercial banking for over 35 years at country and regional level across multiple markets and various sized businesses. Much of his career has involved starting, growing and/or restructuring banks and businesses, as well as mergers and acquisitions. Jim also has significant stakeholder management experience including boards, regulators, rating agencies, investors, suppliers, industry bodies, professional firms, unions, politicians and media. The Board considers that Jim's background makes him an ideal candidate for election to the Board and as Chairman designate.

Other appointments include
Jim is a Non-Executive Director of Just Group plc.

Corporate Governance report

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

Throughout the year under review, the Board confirms that the Group has complied with the provisions and applied the principles of the Code, with the exception of provision 19 which is explained below.

Board Chairman tenure and succession

The Chairman, Lord Forsyth, who was independent upon his appointment as Chairman in October 2016, has served as a Director for more than nine years since his appointment in March 2014 and will step down at the forthcoming Annual General Meeting in May 2024. Noting the recommendation of Code Provision 19 that provides that a chair should not remain in post beyond nine years from the date of their first appointment to the Board. Following engagement with major shareholders to understand their views on the Chairman's tenure, it was concluded that the short period of non-compliance with the code was appropriate to facilitate the effective succession planning and ensure the identification of a skilled successor with the right skills, experience and fit with the Board. The Board were comfortable that the knowledge and experience that the Chairman brought to the Board outweighed the need for mandated time independence and was content that the Chairman remained independent in character and judgement.

Following a thorough and extensive recruitment process led by the Senior Independent Director, the Company has announced that Jim Brown will join the Board as a Non-Executive Director with effect from 31 March 2024, and subject to regulatory approval, will succeed Lord Forsyth as Chairman following the conclusion of the 2024 Annual General Meeting. Further details can be found in the Nomination Committee report on pages 72 to 75.

The governance sections of this report describe the Group's governance arrangements and how the Board has applied the principles of the Code. A copy of the Code can be found on the Financial Reporting Council's website.

Board leadership and Company culture

The corporate purpose, values and strategy of STB are set out at the beginning of the Annual Report and are embedded into employee objectives aligned to STB's strategy of Grow, Sustain and Care. Every year, an all-employee opinion survey is issued and the feedback is reviewed by the Board to assess how well these aims are understood and followed by the workforce. The result of this year's survey, conducted by Great Place to Work®, indicated a continued improvement for the fourth consecutive year on what were already positive scores, demonstrating that the culture and values of STB are understood and ingrained in the organisation (please see page 47 for more information).

The Board believes it is important that colleagues can raise concerns in confidence and, if they wish, anonymously. Information on the Group's whistleblowing arrangements can be found on page 80. Regular interaction with key stakeholders takes place via the Chairman, the Non-Executive Director designated for workforce engagement and each of the committee chairmen. This enables stakeholder impact to be fully considered in Board discussions across a range of topics. In addition, workforce engagement remains a standing item on the Board agenda. Further information on this and how the Group Employee Council operates can be found on page 47.

The Chairman of the Board, Chief Executive Officer ('CEO') and Chief Financial Officer ('CFO') meet with analysts and institutional investors to seek and understand their views and report back to the Board. The committee chairmen and the Senior Independent Director are available to engage with shareholders on significant matters relating to their areas of responsibility. Further detail on stakeholder engagement can be found in the Managing our Business Responsibly section, starting on page 41. The Chairman meets with the Non-Executive Directors without the Executive Directors, or other members of senior management present, at least annually.

The Board delegates 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 STB's corporate website. Two members of executive management, the CEO and the CFO, are Executive Directors of the Board. The CEO is the Chairman of the STB Group Executive Committee.

Board attendance and composition

Members	No. of scheduled meetings eligible to attend	Attended
Lord Forsyth	15	15
Ann Berresford	15	15
Rachel Lawrence	15	15
David McCreadie	15	15
Paul Myers	15	15
Victoria Stewart	15	15
Finlay Williamson	15	15
Victoria Mitchell	1	1

iNED	6
ED	2

Corporate Governance report

The Board sets the Group's risk appetite and oversees risk management practices by management. The Board meets regularly and, both as a Board and through its various committees, provides oversight of and direction to management through constructive challenge, strategic guidance and specialist advice. Regular confirmation is sought from management that the necessary resources are in place to enable STB to meet its objectives and measure performance.

Division of responsibilities

The Board is led by the Chairman who is responsible for the Board's overall effectiveness and who encourages a culture of openness and debate. The Board provides strategic leadership to the Group, sets its long-term strategic objectives, risk appetite, and exercises oversight over the implementation of the strategy and the activities of management. The Board is aware of its responsibilities to all its stakeholders and is mindful of this in Board discussions as set out on pages 44 to 54. The Board has appointed a Senior Independent Director, Ann Berresford, who is available to shareholders if they have concerns, where contact through the normal channels of Chairman, CEO or other Executive Directors has failed or is inappropriate. The Senior Independent Director was appointed in June 2020 and fulfilled this role throughout 2023 (please see the Board biographies on pages 66 to 68).

The responsibilities of the Chairman, CEO and Senior Independent Director are outlined in writing and a brief summary of their roles can be found on STB's corporate website. The role of each of the Non-Executive Directors is to hold management to account by providing constructive challenge and strategic guidance at Board and committee meetings. The Board has delegated specific authorities to its four committees; Audit, Risk, Remuneration and Nomination, via each committee's respective terms of reference which are available to view on the STB website. There is a schedule of matters reserved for consideration by the Board. These include, amongst other matters, approving the Group's strategy, the determination of dividends, material acquisitions or disposals and the issue of new shares. The Board exercises oversight of the work of its committees via formal updates from committee chairmen. 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. Directors have access to the necessary information and resources to be able to effectively discharge their responsibilities. The Company Secretary provides support and acts as a first point of contact for the Chairman and Non-Executive Directors. The Company Secretary is also responsible for the induction of new independent Non-Executive Directors.

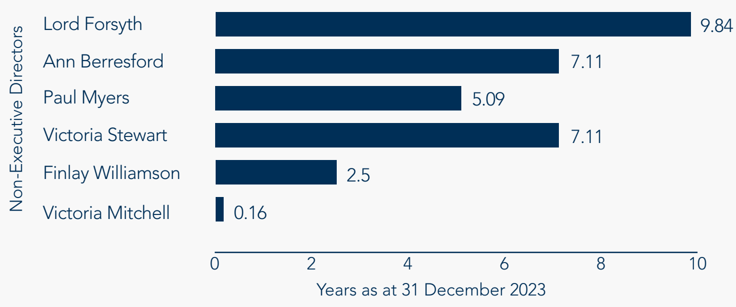
Delegation of authority within limits set by the Board

Subject to certain matters reserved for the Board, the CEO has been delegated authority limits and powers within which to manage the day-to-day affairs of the Group. Each Executive Committee member has authority delegated from the CEO within which they manage the day-to-day affairs of the business or function for which they are accountable, and the Group and Business Unit Executive Committees and other Committees assist them in assessing and controlling risk.

Composition, succession and evaluation

Information on Board and Committee succession planning can be found within the Nomination Committee Report starting on page 72. The length of service for each Non-Executive Director in years as at 31 December 2023 is outlined on the right. The Nomination Committee considers the membership and tenure of the Board as a whole and considered proposals for refreshing membership during the year. Please see the Nomination Committee report starting on page 72 for more information, including on matters of evaluation.

Non-Executive Director Tenure



Board Diversity

The Board confirms that as at the 31 December 2023 and throughout the financial year the Board comprised of over 40 percent women and upon the appointment of Vicky Mitchell in November 2023 achieved gender parity. Also, as at 31 December 2023 and throughout the financial period, women occupied two of the senior board positions, including the Senior Independent Director and CFO.

No members of the Board were from a minority ethnic background. During the Chair and NED recruitment undertaken during the year, a number of candidates, who would likely have met this criterion, were considered in line with the Board policy on diversity, but ultimately based on the recruitment process outlined within the Chairman and Director recruitment section on page 74, were unsuccessful.

Numerical data on the sex or gender identity and ethnic diversity of the Board, senior Board positions (Chair, CEO, SID and CFO) and executive management is outlined in the tables on page 50. All individuals reported on within these tables were contacted as part of the year end disclosure process and requested to individually confirm their Gender from the following options (Male, Female, other and not specified/prefer not to say) and Ethnicity (white british/other white, mixed/multiple ethnic groups, asian/asian british, black/african/caribbean/black british, other ethnic group, including arab and not specified/prefer not to say).

Corporate Governance report

Conflicts of interest

All Directors are required to disclose to the Board any outside interests which may conflict with their duties to the Group (including any related party transactions). 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 they have sufficient time to discharge their duties to the Group. Additional external appointments require prior authorisation by the Chairman and an internal schedule of conflicts is maintained.

Financial reporting

A description of the responsibilities of the Directors for the preparation of the Annual Report and Accounts is set out on page 104. The approach taken by the Board to ensure that the Annual Report and Accounts are fair, balanced and understandable is set out on page 79 and the information necessary for shareholders to assess the Company's position and performance is set out in the Strategic Report, starting on page 1. An explanation of the business model and the strategy for delivering the objectives of the Company is set out on pages 1 to 3. A statement of the responsibility of the External Auditors for the Annual Report and Accounts is set out on page 111. The basis on which the Board reached its decision to adopt the going concern basis of accounting is described on pages 39 to 40.

Internal control

The Board has overall responsibility for maintaining the Group's system of internal control, including financial, operational and compliance controls, and for reviewing its effectiveness. This system is designed to manage risk of failure to achieve business objectives and to provide reasonable assurance against the risk of material misstatement or loss. The system of internal control was in place throughout the financial year, and up to the date of the approval of the Annual Report and Accounts, and was reviewed by the Board and its Committees. The Board, through the Risk Committee, confirms that in reviewing the Annual Report, it has completed a robust assessment of the Group's emerging and principal risks and has included a description of its principal risks as set out on pages 28 to 38.

The key risk management principles include the following:

Risk appetite

The Board has adopted a Group risk appetite statement which sets out the Board's attitude to risk and internal control.

Risk management framework

The Group has adopted a 'Three Lines of Defence' model to control and manage risks in line with the Group's risk appetite. Please see the description of principal risks and uncertainties on pages 28 to 38 for a description on how the Three Lines of Defence operates at STB Group. Each of the second line functions that set policy, provide guidance and oversee risk management or compliance has the appropriate expertise in order to fulfil its responsibilities and this is overseen by the Board Committees.

Risk identification and monitoring

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 28 to 38. Key risks identified by the Directors are formally reviewed and assessed annually by the Board and the Risk Committee. 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.

Review of the effectiveness of the Internal Control System

The Board, through the Audit and Risk Committees, reviews the effectiveness of the Internal Control System. The Audit Committee receives reports of reviews undertaken by the Internal Audit function as well as reports from the External Auditors, Deloitte LLP, which include details of internal control matters they have identified as part of their external audit. Other key elements of the Group's system of internal control include regular meetings of the Executive and business unit Risk Committees and monthly financial and operational reporting.

The reports of the Audit Committee and Risk Committee starting on pages 76 and 81 respectively set out further details of how those responsibilities are discharged.

Nomination Committee report
Statement by Chairman of the Nomination Committee

All our appointments are made on merit."

Lord Forsyth
Non-Executive Chairman

The Committee's focus in 2023 has been on recruiting a new Chairman and overseeing the planned changes to the senior management team following the retirement of Nick Davies, Managing Director, V12 Retail Finance. In addition the Committee also sought a replacement for Baroness Neville-Rolfe, who previously served as a Non-Executive Director.

The process to recruit a new Chairman has been run by Ann Berresford our Senior Independent Director ('SID') and I want to thank her and the other members of the Chair Recruitment Panel for overseeing the search culminating in the proposed appointment of Jim Brown as a Non-Executive Director and Chairman designate.

Until Baroness Neville Rolfe stepped down, the Board was gender balanced and I am delighted that Victoria Mitchell has joined the Board and become a member of the Remuneration Committee and restored the equilibrium. All our appointments continue to be made on merit and Victoria's skills and experience complements the other directors and provides a fresh insight into our deliberations. Diversity and inclusion plays an important part in our workforce engagement and succession planning and more detail can be found in our S172 report on pages 44 to 54.

The Board and Committee evaluation concluded that the Board and its Committees remain effective and have the right level of challenge to and oversight of Senior Management.

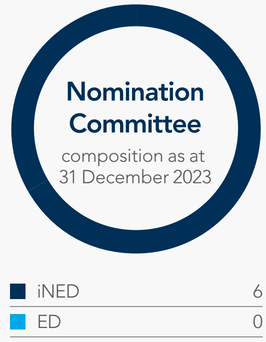
As we progress into 2024, I would like to express my thanks to the Committee members for their continued support and I am sure they will welcome Jim as he leads them into a new chapter at STB.

Lord Forsyth
Chairman

Nomination Committee report

Nomination Committee attendance and composition

Members	No. of scheduled meetings eligible to attend	Attended
Lord Forsyth	6	6
Ann Berresford	6	6
Paul Myers	6	6
Victoria Stewart	6	6
Finlay Williamson	6	6
Vicky Mitchell	1	1



Membership and meetings

As at 31 December 2023, the Nomination Committee comprised six members, as set out in the attendance table above, and was compliant with the Code provision regarding its composition throughout 2023. Lord Forsyth recused himself for discussions relating to the recruitment of his successor, during which meetings were chaired by the SID.

The Committee meets at least twice a year or as frequently as its Chairman may require, and held six meetings in 2023. A Chair Recruitment Panel ('Panel') was established in the period, led by the SID and comprising all the Non-Executive Directors except the Chairman, to run the Chair succession process. The Company Secretary, or their alternate, acts as Secretary to the Committee and other Directors or members of the senior management team attend at the request of the Committee Chairman. During the year the Chief Executive Officer ('CEO') attended a meeting by invitation.

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

Role and activities of the Nomination Committee

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

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

Composition and independence

The Committee confirmed to the Board that it is satisfied that all Non-Executive Directors are independent and that Lord Forsyth, who was considered to be independent upon his appointment in March 2014 and upon his appointment as Chairman in 2016 remained independent, meeting the independence criteria set out in the Code.

The Committee reviewed the Board's composition during 2023 and concluded that it had the right balance of skills, knowledge and experience but would benefit from the recruitment of a further Non-Executive Director, culminating in the appointment of Vicky Mitchell. The Committee continues to be mindful of the composition of each of the Board Committees and the Board and to have at least half of the Board members as independent non-executive directors.

Succession

General succession planning

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

The Committee, when considering the succession plans for individuals on the Board and in Senior Management, reviews the contingency (immediate), medium (one to two year) and longer-term (two to three year) proposals. The Committee also receives updates on the mentoring programmes for 'High Potential' individuals identified by the Executive Committee.

Nomination Committee report

Chairman and Director recruitment

Following the announcement that Lord Forsyth would retire in 2024, the Committee established a Chairman Recruitment Panel ('Panel') which conducted a competitive tender process to select an independent recruitment consultant to assist in the selection of a prospective Chairman. The process assessed the consultants' ability to understand the candidate profile and assist the Panel in refining the key skills required; the consultants' understanding of the market and regulatory environment; and the approach to equity, diversity and inclusion when recruiting in the financial services sector. The process culminated in the appointment of Per Ardua Associates Limited ('Per Ardua'), a leadership consulting and executive search firm operating at Board and Senior Executive level across Financial Services. Per Ardua is a member of the Association of Executive Search Consultants ('AESC') and is committed to the AESC's Code of Professional Practice. Per Ardua had no other connections to the Company, Senior Management or the individual Directors prior to their appointment.

The candidate profile was developed by the Panel with input from Per Ardua, the Chairman and Executive Directors and feedback from shareholders who met with the SID in H1 2023. The profile followed the Board Policy on Diversity (see below) and was reviewed for gender bias by Per Ardua.

The recruitment process involved devising a list of candidates who were initially interviewed by the SID, then by the remaining members of the Panel with a short list being interviewed by the Executive Directors and the Chairman, culminating in the appointment of Jim Brown as announced on 25 January 2024.

Having successfully devised a candidate profile for the Chairman's replacement, the Committee also agreed to engage Per Ardua to conduct a search for a further Non-Executive Director, as Per Ardua had obvious synergy in identifying suitable candidates and an understanding of the Board's requirements as they simultaneously conducted a search for the Chairman. The search commenced in July 2023 and culminated in the appointment of Victoria Mitchell in November 2023. The Committee is content that the Board currently has the right mix of skills and experience in the short term and mindful of the tenure of the remaining members of the Board will consider further recruitment during the short to medium term as part of the normal succession planning process.

Board policy on diversity

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

Any appointments made to the Board are made on merit, against objective criteria and having regard to long-term planning in relation to Board composition and strategy. The Committee has not set quotas or targets for the Board's composition. The Board had a 3:4 split of women:men throughout the majority of 2023, which is in excess of the 33% target set by the Hampton- Alexander review and an equal representation of men and women at the 31 December 2023. Diversity will continue to be a factor taken into consideration during future appointments and as part of refreshing the Board.

Board effectiveness and Non-Executive Director evaluation

Following an externally facilitated review in 2022, the 2023 effectiveness review was conducted by way of an internal review facilitated by Independent Audit Limited ('IAL'). IAL had no other connections to the Company, Senior Management or the individual Directors prior to their appointment.

The internal review comprised an externally hosted questionnaire, but did not include interviews, observations or a review of papers by IAL. IAL attended a meeting of the Committee during discussion of the report on the outcomes to answer Directors' questions. As part of the conclusion of those discussions an internally facilitated conclusion and action plan was created. Having completed the reports in early 2024, the Board and Nomination Committee concluded that the Board and Committees remain effective and have the right level of challenge to and oversight of Senior Management and that Directors are not just comfortable with the status quo.

Nomination Committee report

Approach and methodology

The externally facilitated questionnaire addressed matters relevant to STB as well as items laid down in the Code and associated guidance. The core areas addressed for the Board were 'Strategy, Risk & Finance', 'People, Culture, Stakeholders', 'Mix, Information, Development' and 'Meetings, Dynamics, Committees'. Core questions and themes were consistent across the Board and Committee evaluations to enable a broader action plan to be developed, with each Committee having a tailored questionnaire addressing the key areas of their responsibilities and oversight. The 2022 Board effectiveness review noted the evolving Board dynamic following changes to both the Board and the Executive Committee and the Committee noted that these would continue to change as members of the Board and Executive Committee retired from the business and were succeeded during the course of 2023 and 2024. The key themes that were identified from the 2023 self-evaluation review were:

- Devoting additional time to strategic discussions and monitoring strategic performance;
- Working at the right level of detail; and
- Talent management processes.

The Board will be reviewing these themes over the course of 2024.

Individual evaluation

The Chairman conducts a formal evaluation of the overall performance of the CEO and reviews and agrees the CEO's evaluation of the Chief Financial Officer against the goals agreed by the Board which form the measures under the company's annual bonus scheme. Further information can be found on page 92. The Chairman also conducts an individual evaluation of each Non-Executive Director addressing both their core competencies and their Senior Managers Regime responsibilities.

In assessing the contribution of each Director, the Chairman has confirmed that each continues to make a valuable contribution to the business and deliberations of the Board.

Progress on previous evaluations

Focus area or discussion point	Response or action taken
Focus on Board succession planning and recruitment	The Committee constituted a Chair Recruitment Panel to lead the process for the selection of a successor to the current Chairman, which culminated in the proposed appointment of Jim Brown as a Non-Executive Director and Chairman Designate. In addition, the recruitment of a further Non-Executive Director was undertaken, with the appointment of Victoria Mitchell during the year.
Ongoing focus on the provision of Management information and the link to clear KPIs	Strategic KPIs were already reported to the Board in the Finance Dashboard and more focus on expanding the MI pack, including the provision of more forward looking information linked to the medium-term targets, Consumer Duty and People, was discussed with the Board. A pack addressing elements of this reporting has been developed and work is ongoing to refine this.
Continued focus on the execution of strategy aligned to the medium-term targets and the allocation of capital in support of the delivery of strategy.	The Board discussed these topics on a regular basis and further refinement to the Management pack and forward looking forecasts was made to the budgeting process in late 2023. Work in this area continues to evolve and is ongoing.

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, on the recommendation of the Committee, adopted a training programme during 2023 for 2023/24 and received training on the implementation of the Consumer Duty requirements, Model Governance and Regulatory developments and Financial Crime matters. This training was delivered through both internal experts and external consultants. Directors are 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 2024 has been approved and reflects business, regulatory and governance matters.

On her appointment Vicky Mitchell received a comprehensive and tailored induction programme.

Audit Committee report
Statement by the Chairman of the Audit Committee

"Our focus this year has been on rigorous review and challenge of impairment provisions and management judgements underpinning the accounts, on overseeing the external audit processes, and on ensuring that the internal audit plan addresses the Group's context and evolving risks."

Ann Berresford
Chairman of the Audit Committee

I am pleased to present the report of the Audit Committee for the financial year ended 31 December 2023 and this report sets out the role of the Committee, and some of the key matters on our agenda over that period.

The Committee has spent significant time in 2023 considering Secure Trust Bank's key accounting judgements and the reporting and presentation of a number of exceptional items. An important part of this has been the Committee's rigorous review and challenge of STB's expected credit loss IFRS 9 models and the validation of those models' outputs. The Committee has also reviewed the macroeconomic scenarios which underpin them and the model's impact on STB's impairment provisions.

The Committee has continued to receive valued support from internal and external stakeholders including the Chief Internal Auditor, Chief Financial Officer, senior members of the Finance team, and the External Auditors. The Committee follows a standing agenda and receives an update at every meeting from Finance, governance matters as well as on internal audit activity. In 2023, I met with the Chief Internal Auditor for a monthly update on progress against the internal audit annual plan.

I have also regularly met with the External Audit Partner. Following the completion of Matthew Perkin's fifth year appointed as External Audit Partner, he rotated off and Neil Reed has succeeded him as External Audit Partner. Deloitte LLP are approaching the conclusion of their sixth year of appointment and the Committee has assessed the quality and effectiveness of the external audit process. The Committee remain satisfied that it continues to be effective and therefore recommend their reappointment as Auditor for 2024 to the Board at the 2024 Annual General Meeting ('AGM').

On a final note, I would like to acknowledge the substantial effort from the financial reporting team in 2023 and express the Committee's gratitude for their commitment and dedication to improving the interim and annual reporting process.

Ann Berresford
Chairman of the Audit Committee

Audit Committee report
Statement by the Chairman of the Audit Committee

Committee governance

The Audit Committee met five times during the year. Members' attendance is summarised in the table below.

Meetings of the Committee were regularly attended during the year by the Chief Executive Officer, Chief Internal Auditor, the Chief Financial Officer and senior members of the Finance team, as well as the External Audit Lead Partner and other senior members of the External Audit team and other members of the Board at the invitation of the Committee. The Committee maintains a close and open dialogue with the External Auditor and Chief Internal Auditor, routinely holding private sessions with them following Committee meetings and as required between meetings.

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

The Committee membership complied with the Code provision for independence throughout 2023. Both Ann Berresford and Finlay Williamson are considered by the Board to have recent and relevant financial experience and the Audit Committee, as a whole, has competence relevant to the sector in which the Group operates.

Role of the Audit Committee

The Audit Committee assists the Board in, amongst other matters, discharging its responsibilities with regard to regulatory reporting, financial reporting, including monitoring and reviewing the integrity of the Company's annual and interim 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 including the Company's whistleblowing framework. The ultimate responsibility for reviewing and approving the Annual Report and Accounts and the Interim Report remains with the Board. The Audit Committee reviews the Annual Report before submission to the Board for approval, and will consider whether taken as a whole, it 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 its conclusions by reviewing significant financial reporting judgements, including the going concern assumption and long-term viability of the business and any material uncertainties, and assessing whether the narrative reporting in the Strategic Report accurately reflects the financial statements.
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.

Matters discussed at Audit Committee meetings since 1 January 2023

Meetings of the Audit Committee are scheduled to align with key dates in the Group's financial reporting cycle. The Committee maintains a schedule of meetings with a forward look agenda that facilitates the even distribution of items and the effective management of Committee time. Additionally, the Committee also deals with other matters as they arise.

Audit Committee attendance and composition

Members	No. of scheduled meetings eligible to attend	Attended
Ann Berresford	5	5
Victoria Stewart	5	5
Finlay Williamson	5	5

iNED	3
ED	0

Audit Committee report

During the year, the Audit Committee reviewed its Terms of Reference, the forward-look agenda, the Internal Audit Charter, and the engagement contract with the External Auditors. Other principal matters considered are set out as follows:

Financial and regulatory 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 in 2023:

Accounting policies, key judgements and assumptions used in preparing interim and annual financial statements	The Audit Committee reviewed the key accounting policy changes and judgements proposed by the Executive in preparing the financial statements for the year ended 31 December 2023, the interim financial statements for the six months ended 30 June 2023, the stock exchange announcements and investor presentations that accompanies those statements. The Audit Committee reviewed the change in accounting policy relating to land and buildings, which are now presented at historical cost. In August 2023, the Audit Committee considered whether STB had sufficient distributable reserves to pay a dividend and confirmed to the Board that the Board could pay an interim dividend on that basis. External factors have continued to evolve and the Committee has considered updates and overlays to judgements and assumptions to take account of developments in the macroeconomic environment and demonstrated impacts on STB including to customer affordability and the cost of living. In 2023, the Committee reviewed the outputs from the Group's IFRS 9 models and considered the quantum and rationale for post-model adjustments in ensuring the adequacy of the levels of impairment provision. An economic advisory firm was engaged in 2023 to support the Assumptions Committee in formulating the macro-economic scenarios and weightings prior to recommendation to the Committee and the Audit Committee has continued to use their outputs for this purpose. The Committee considered the appropriate accounting treatment and presentation of exceptional items. Exceptional items relate to costs incurred as part of the FCA's thematic review regarding borrowers in financial difficulty ('BiFD') and corporate activities. It further considered and approved the quantum of any provision to be held for BiFD. The Committee also considered the accounting treatment for the Group's position relating to the FCA's review of historical motor finance commission arrangements, where the Group operated some discretionary commission arrangements until June 2017, and agreed that the Group should not recognise a provision but disclose a contingent liability. The Committee has approved the inclusion of expert credit judgements regarding loss given default and probability of default in the Vehicle Finance business, and cost of living/affordability in both Consumer Finance businesses; and considered the regulatory and accounting impact of these on the financial statements. The Audit Committee undertook horizon scanning of future accounting changes, including as a consequence of audit reform and the implementation of a new UK Corporate Governance Code to understand changes or voluntary measures STB may, or will be required to, implement. Following the transition in 2022 of the review of climate related disclosures to the Audit Committee from the Risk Committee, the Committee has reviewed STB's climate related disclosures and received updates on the progress made to align with TCFD expectations. In making its recommendations to the Board to approve the annual and interim financial statements, the Committee has considered matters raised by the External Auditor on matters of judgement.

Audit Committee report

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 Audit Committee has reviewed and challenged the basis for assessing long-term viability, including the period by reference to which viability is assessed, the principal risks to long-term viability and actions taken or planned to manage those risks. This included consideration of specific stress tests and the Committee's conclusions are taken into account in the Board's viability statement on page 39 to 40.
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 Strategic Report 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 2023 Annual Report and Accounts include a 'fair, balanced and understandable' assessment of the Group and Company's businesses.
Regulatory reporting	The Committee has monitored regulatory reporting processes and oversees developments in the overall control environment for regulatory reporting.

External Audit

Deloitte LLP has continued in their position as External Auditor since their appointment at the 2018 AGM following the audit tender conducted in 2017.

During the year, the Committee reviewed and approved the external audit terms of engagement, the scope of the external audit, timetable, materiality and audit strategy as well as the letter of representation.

The Audit Committee reviews reports prepared by the External Auditor setting out their audit approach and conclusions on matters of judgement impacting the financial statements, any internal control findings identified during the external audit, their independence, and approves additional services and related fees. The External Auditor also highlighted upcoming areas of interest to the Committee to assist with their horizon scanning. The principal matters that the Committee discussed with Deloitte are set out in their report starting on page 105.

During 2023, the Committee assessed the effectiveness of the external audit process for 2022. The capabilities of the external audit team, their independence and challenge of management, the scope of the work, the quality of their communications and fees were all considered. The assessment also considered the views of the Finance team, Chief Risk Officer and Chief Internal Auditor. The Committee concluded that the external audit process was satisfactory and that the External Auditor was performing well. The review did not highlight any reason for the Audit Committee not to recommend their reappointment. The Committee has considered and duly agreed to recommend the reappointment of Deloitte as External Auditor to shareholders at the 2024 AGM.

The Audit Committee agreed a fee increase with the External Auditor in 2023. After significant discussion, the Committee was satisfied that the level of audit fees payable in respect of the audit services provided, being £968,000 (2022: £757,000) was appropriate and that an effective audit could be conducted for such a fee. The existing authority for the Audit Committee to determine the remuneration of the External Auditor is derived from shareholder approval granted at the AGM held in May 2023 and a similar resolution is proposed at the AGM to be held in May 2024.

Independence of the External Auditor, fees and non-audit services

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

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

Having been appointed for five years, our former lead audit partner, Matthew Perkins, rotated off STB's external audit and the Committee has agreed that Neil Reed be appointed as the lead partner for 2023.

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

Audit Committee report

The total of audit and non-audit fees paid to Deloitte during the period is set out in Note 6 on page 131. The non-audit services fee of £185,000 (2022: £110,000) were in respect of, but not limited to, the review of the interim financial statements 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 of the organisation. Non-audit fees represented 19% of audit fees in 2023.

Internal audit

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

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

The Committee reviews and approves the internal audit plan each year, and during the year it oversaw internal audit activity, including adjustments to the approved plan to respond to external and internal events and priorities. In approving the internal audit plan, the Committee was satisfied that the team has the appropriate resource to deliver its plans.

The Committee received and considered all reports issued by the internal audit team. Key themes addressed in 2023 included:

- the effectiveness of executive governance and of the second line of defence in areas such as credit risk oversight and model governance;
- Customer and Product Lifecycles, with a particular focus on changes made to address the requirements of the Consumer Duty;
- Operational Resilience including IT resilience;
- Financial Crime Risk Management and Oversight; and
- Finance, Treasury and Prudential risks.

The Committee also reviewed the Internal Audit function's assessment of the overall effectiveness of the governance and risk and control framework and Internal Audit's conclusions on employee behaviours in the context of the Group's framework of values and culture.

Internal Audit quality and independence

During the year the Committee reviewed the performance and independence of the Internal Audit function and was satisfied as to the effectiveness, quality, experience, expertise and independence of the function and the Chief Internal Auditor.

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 71.

During 2023, 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. The financial reporting process is operated by suitably qualified and experienced accountants and designed to provide assurance regarding the reliability of financial reporting and preparation of financial statements through documented procedures and accounting policies. It operates under the Group's Enterprise-Wide Risk Management framework, where controls are in place to provide assurance over the preparation of the financial statements. The Annual Report and Accounts are reviewed throughout the financial reporting process by relevant senior managers prior to submitting to the Audit Committee, which provide review and challenge, before recommending to the Board for approval. The Audit Committee also discusses any control recommendations arising from the External Audit.

Whistleblowing

The Audit Committee assumes responsibility for oversight of the effectiveness of whistleblowing arrangements and the Chairman of the Audit Committee is the Whistleblowers' Champion. The Committee receives reports on the effectiveness of whistleblowing arrangements from the Chief Compliance Officer during the year as well as quarterly reports on any issues raised in the period.

There were three new cases during the year (2022: one). Cases are assessed and, where required, subject to investigation in accordance with the Group's Whistleblowing Policy. An annual report on whistleblowing incidents is received by the Board.

Audit Committee effectiveness evaluation

During the reporting period, an externally facilitated internal assessment was conducted which considered the Committee's performance as part of the wider Board effectiveness review. The result of the evaluation confirmed that the Committee and other participants considered that the Committee was performing effectively. Please see the Nomination Committee report (starting on page 72) for more information.

Looking ahead

The Committee's priorities for 2024 will include a continuing focus on financial reporting in the context of wider market conditions and responding to developments in Corporate Governance standards and changes for the future of the UK external audit market.

Risk Committee report
Statement by Chairman of the Risk Committee

> The Committee has continued to monitor the full range of risks facing the Group."

Paul Myers
Chairman of the Risk Committee

I am pleased to present the report of the Risk Committee for the financial year ended 31 December 2023. The UK continued to experience heightened geo-political instability, elevated energy prices, high levels of inflation and a rapidly rising interest rate environment, all of which continued to contribute to a significant cost of living challenge for UK consumers. We also saw the impacts on our business customers from higher interest rates, weaker consumer demand and a softer property market. While we saw a welcome easing of inflation and more stable interest rates as the year progressed, the Committee remained focused on the consequential impact to the Group's risk profile, with continued review and challenge of existing models and close monitoring of credit performance. Given the cost of living challenges, much Committee time was devoted to reviewing customer affordability and the fair treatment of vulnerable customers, including the review of the Group's collections processes, procedures and policies.

The Committee has continued to monitor the full range of risks facing the Group and has overseen the maturing and updating of risk appetites to support the Group's medium-term strategy. Particular focus was given to overseeing the roll out of the Consumer Duty principles within the Group's processes, and the impact these have had on risk appetite. The Board appointed Finlay Williamson as its Consumer Duty Champion, and Finlay also remains a valued member of the Risk Committee.

The Group has continued to operate the hybrid working model it successfully adopted in 2020. The Committee continually assesses both the risk challenges and opportunities this presents for customers, employees and the Group's businesses. The Committee receives reports regarding the Group's current information security practices and policies to make sure that the Group is abreast of challenges in a continually changing threat landscape.

Climate risk remained a key area of focus for the Committee. Discussions on the Group's climate exposure, both for the Group and to individual business areas, have been held with challenges made to metrics and thresholds presented by management. The Committee is mindful of both the direct and indirect impact the Group has on climate risk and receives a regular and comprehensive dashboard of climate-related metrics.

The Committee heard directly from the business Managing Directors, to discuss performance and risks/challenges relevant to their business area, as well as receiving regular updates on key topics from other key executives and risk subject matter experts from across the business.

The Risk and Compliance teams have continued to provide the Committee with effective oversight of the changing risk landscape of the Group. Regulatory updates and ongoing horizon scanning of emerging regulatory requirements and consequential impacts on the Group were also considered. Throughout 2023, the Committee maintained its focus on financial crime and received regular reports on the Group's financial crime framework. Outputs of the compliance monitoring programme were also received and reviewed regularly by the Committee.

Formal reporting from the Executive Risk Committee ('ERC') and Assets & Liabilities Committee ('ALCO') is incorporated into each Committee agenda and the Chief Risk Officer ('CRO') provides a detailed update on the full spectrum of risk performance and any emerging issues. The Committee also meets periodically with the CRO without other members of management being present.

As we look ahead to 2024 and beyond, ongoing macroeconomic challenges remain a key focus. Close monitoring, clear escalation and early warning triggers enables early identification of emerging issues and rapid judgements on any necessary changes to risk appetites or lending policies. The Group continues to strive to provide clear and consistent borrowing experiences to our consumer and business customers, including extending support where required by changing customer circumstances. Further information on the activities of the Committee during the year is provided in the following report and additional information about risk-related matters can be found in the Principal Risks and uncertainties section on pages 28 to 38.

Finally, I would again like to thank my Board colleagues for their expert input on risk matters through what has been another busy period for the Committee.

Paul Myers
Chairman of the Risk Committee

Risk Committee report

Composition

The Group has had separate Audit and Risk Committees for over a decade and both Committees continued to oversee the development and evolution of the risk management and internal control frameworks in 2023, as they have done since inception. The Code provides that where a company has a separate risk committee, it should be comprised of independent non-executive directors. The Company considers that it has complied with this provision throughout 2023. The Risk Committee is required to meet formally at least four times a year and otherwise, as required. The Committee had six scheduled meetings during the year, the chart and table below summarises attendance of members during the year. The Company Secretary, or their alternate, acts as Secretary to the Risk Committee. Other individuals attend at the request of the Committee. During the year, the Chief Executive Officer ('CEO'), CRO, Chief Financial Officer ('CFO'), Chief Operating Officer, Chief Internal Auditor, Chief Compliance Officer, Group Head of Operational Risk, Chief Information Security Officer, Group Treasurer, Head of Financial Crime, the Managing Directors of Commercial Finance, Vehicle Finance & Savings and Real Estate Finance and other senior managers attended meetings to present their reports and answer questions from the Committee. The Chairman of the Risk Committee reports to the Board on the outcome of each Committee meeting and any recommendations arising from the Committee. The CRO is invited to attend sessions with the Committee members without Executive Directors present.

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. It considers the Group's risk appetite in relation to the current and future strategy of the Group; confirms the Group's Recovery Plan, Internal Capital Adequacy Assessment Process ('ICAAP') and Internal Liquidity Adequacy Assessment Process ('ILAAP') scenario selection, and principal risks (see pages 28 to 38 for more information) whilst overseeing the processes and outputs from these; and oversees the risk and credit exposures of the Group. The Committee exercises its internal control and risk management role through the comprehensive management information and reporting it receives across all risk disciplines. This includes regular updates from the ERC (via the CRO), the ALCO (via the CFO) and the Executive Committee, as well as other reports via the Chief Internal Auditor, the CEO, other members of management. The Committee assesses emerging trends impacting the Group's inherent risks with particular focus on operational resilience and model risk.

Risk Committee attendance and composition

Members	No. of scheduled meetings eligible to attend	Attended
Paul Myers	6	6
Ann Berresford	6	6
Finlay Williamson	6	6

iNED	3
ED	0

Risk Committee report

Matters discussed at Risk Committee meetings since 1 January 2023

The Risk Committee has a forward look agenda that details standing agenda items for discussion at each of the scheduled meetings. The forward look agenda is presented at each scheduled meeting with a 12-month look ahead. It is updated in real time to include any new or emerging issues pertinent to the Group. The principal matters discussed during the year and up to the date of this report were:

Subject area	Matters considered
Group risk appetite statement and key risk indicators	The Group's key risk appetite metrics, which are reviewed annually and recommended for approval to the Board. The Committee reviewed performance against agreed risk appetites by reference to the key risk indicator metrics and supporting management information provided to each meeting. A number of changes and enhancements were made, reflecting latest views on local and macro risk environments.
Strategic and operational risks	The Committee oversees the management of strategic and operational risk across the Group. The Head of Operational Risk presented the outcomes of the Strategic and Operational Risk Review to the Committee and responded to challenges raised on the robustness of the approach taken. Strategic risks were discussed and challenged throughout the year. In assessing strategic risks, the Committee considers 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. When reviewing the strategic and operational risks the Committee also considered emerging risks, including the likelihood and impact upon the Group. During the year, the consequential impact of the trading environment for our customers has been considered against existing risk appetites. Risk assessments for growth opportunities have also taken place. More information on this process can be found on page 38 and in the Internal Control section on page 71.
Climate risk	The Committee received reports from management on the Group's direct and indirect exposure to climate risk. Risk appetite thresholds, such as flood risk for the Real Estate Finance business, have been challenged and approved by the Committee during the year. For further information on the Group's response to climate risk please see the Group's climate-related financial disclosures on pages 55 to 64 for more information.
Macro risk	Updates from the CRO were provided to the Committee on the impacts of customer affordability, the geopolitical environment, monetary and fiscal policy on the Group.
Credit risk	The Committee receives reports on key risk indicators for credit risk, together with quarterly assessments of each portfolio's credit profile, including impairments, bad debts, watch-lists, collections data and any policy exceptions. Credit risk performance for all businesses was kept under regular scrutiny and the changing trading environment of businesses was considered along with concentration risk. The Committee were presented with reviews of debtor concentration across the Commercial Finance portfolio as well as credit performance within Vehicle Finance.

Risk Committee report

Subject area	Matters considered
Operational resilience and risk, including cyber, information security resilience risk and business continuity	The Committee oversees the operational risk policy, including metrics and key risk indicators reporting and business unit management risk and control self-assessment. To assist in understanding how the risk framework is embedded within the Group and to challenge the effectiveness of the risk management function, the Committee receives a quarterly review of material operational risk events/losses, performance against the key operational risk appetite metrics, together with the key findings from annual Risk and Control Self Assessments. This includes a key focus on the effectiveness of the Operational resilience control framework and plan. The Committee received updates on the strategies undertaken within the Group to understand, identify, monitor and respond to current and upcoming cyber threats and received regular reporting from the Head of Information Security on the Group's cyber resilience profile. The Committee reviewed ongoing progress on development of the Operational Resilience Plan and frameworks against agreed tolerances. The Committee challenges Management on the ratings recommended in reporting to assess whether the tolerances applied remain appropriate. Please see page 54 in Managing our Business Responsibly for further information on how this has factored into our supplier relationships.
Capital and liquidity risk	The Committee has primary responsibility for reviewing and making a recommendation to the Board on the Group's ICAAP, ILAAP and the Recovery Plan and Resolution Pack. The Committee also reviewed key assumptions, stress test scenarios and outputs used in these processes. The Committee also reviewed and approved the Group's annual Pillar 3 disclosures.
Regulatory and conduct risk	The Committee receives regular reports on key risk indicators for regulatory, reputational and conduct risk, regulatory incidents and key advisory activities of note, horizon scanning and actions to implement new and revised regulations or legislation and the outputs of the 2023 Compliance Monitoring Plan. Any exceptions were discussed and challenged with management, including effectiveness and resourcing of the Compliance function. The Committee reviewed the Data Protection Officer's Report, as well as six-monthly complaints data. The Committee challenged and approved the Compliance Monitoring Plan for 2024 and reviewed the Group's Consumer Duty implementation plan. The Committee received and considered reports related to collections processes, procedures and policies, following the FCA's review of Borrowers in Financial Difficulty ('BiFD') across the industry. The Committee oversees the management of regulatory risk for the Group. Conduct risk and culture remain a key focus within the Group, particularly with the continued hybrid working model.
Financial crime	The Committee received regular reports from the Financial Crime Team, including the Annual Report from the Money Laundering Reporting Officer and updates on the progress of the Financial Crime Transformation Programme, which is expected to completed in the first half of 2024, and approved the Financial Crime Monitoring Plan, as part of the wider Compliance Monitoring Plan for 2024.
Governance	During the year, the Risk Committee reviewed its terms of reference and various policies. A full copy of the terms of reference for the Risk Committee can be obtained via the Group's website. During the reporting period, the Committee undertook an internal review of its performance, facilitated by the use of third party system provided by Independent Audit Limited. The result of the evaluation, reviewed in early 2024, was that the Committee and other participants considered that the Committee was performing effectively. Please see the Nomination Committee report, starting on page 72 for more information.

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. For more information on the framework for managing risks within the business please see the Principal risks and uncertainties section on pages 28 to 38.

Directors' Remuneration Report
Statement by Chairman of the Remuneration Committee

The Committee has continued to focus on aligning remuneration with Secure Trust Bank's corporate strategy."

Victoria Stewart
Chairman of the Remuneration Committee

On behalf of the Remuneration Committee, I am pleased to present the Directors' Remuneration Report for the year ended 31 December 2023.

This has been another busy year for the Committee and at our 2023 Annual General Meeting ('AGM') we renewed our three-year Directors' Remuneration Policy. We thank our shareholders for their continued support. Towards the end of the year, we also welcomed Victoria Mitchell as a member of the Committee (with effect from 1 November 2023).

In the first quarter of 2023, the Committee reviewed the bonus pool and staff pay increases for the employee population. Pay increases were focused on lower salary banded individuals for both 2023 and 2024, average pay increases across the Group for 2024 will be 5%.

As part of the annual deep dive of remuneration for the wider workforce, we considered the performance linkage to bonus assessments and pay reviews for those employees outside of Senior Management. In addition, the Committee received updates on the Gender Pay Gap actions and Equity, Diversity & Inclusion progress and initiatives being undertaken across the Group. The Committee also approved an increase to the employer pension contributions from the Group to 5% for lower paid colleagues.

The 2020 Sharesave grant matured in November 2023 and the majority of participants have exercised their options. Employees were offered education in financial wellbeing to inform them of each of their choices and the potential implications of these.

Executive remuneration – pay and performance

In October 2023, our 2020 Long Term Incentive Plan ('LTIP') award (the grant of which had been delayed in 2020) matured and this award vested at 15% representing partial attainment on our risk management metric (which had a 25% weighting). The other metrics, all of which were based on Total Shareholder Return ('TSR') performance, did not attain the threshold performance levels set. The assessment for the risk management condition reflected performance over the full three year period, including the positive management of challenges which arose when COVID-19 required new ways of working. Further details are available on page 93.

In the first quarter of 2024, the Committee determined the out-turn against the agreed metrics for the 2023 annual bonus.

The Committee approved the out-turn of 17.29% (out of a possible 65%) for financial performance metrics. The out-turn for non-financial metrics was 23.75% (out of a possible 35%) for the Chief Executive Officer ('CEO') and 25.00% (out of a possible 35%) for the Chief Financial Officer ('CFO') which resulted in an overall bonus of 41.04% (out of a possible 100% of base salary) and 42.29% (out of a possible 100% of base salary) for the CEO and CFO respectively. Further details are shown on pages 91 and 92. In accordance with the Directors' Remuneration Policy, 50% of bonus outcomes for Executive Directors are deferred into shares under the Deferred Bonus Plan ('DBP'). Deferred shares will vest in equal tranches after one, two and three years following deferral. While the business has faced a number of challenges in the year, these outcomes for the 2023 annual bonus were considered appropriate and reflected good underlying business performance in the year and the contributions of the CEO and CFO. Risk related matters were considered fully before confirming all 2023 annual bonus outcomes and, where appropriate, adjustments were made.

Statement by Chairman of the Remuneration Committee

The 2021 LTIP award, in which both of the Executive Directors participate, is due to mature in April 2024. In Q1 2024, the Committee has assessed the extent to which the performance conditions have been met over the three year performance period measured to 31 December 2023. Again there is partial vesting under the risk management metrics (15% of 25% weighting). Under the TSR metrics (75% weighting in total), we achieved a partial vesting for that element which measured our TSR performance against a group of selected smaller banks (6.25% vesting from a total 25% weighting). The remaining TSR elements which measured absolute TSR growth and our performance against the FTSE SmallCap (ex IT) constituents on a relative basis lapsed in full. Combining the partial vesting under the risk management condition and the partial vesting under the TSR condition gave an overall vesting of 21.25%, which the Committee considered appropriate given overall performance across the performance period.

Use of discretion during 2023

During the year, the Committee did not exercise discretion in assessing performance for any incentive plans. When calculating the number of shares to be included in the March 2023 LTIP awards, the Committee used its judgement to reduce the number of shares awarded to reflect share price performance in the preceding year; awards were more than 33% lower than the number of shares that would have been granted had awards been calculated using share prices in March 2023.

Forward look

The Committee has taken time to carefully consider both the annual bonus metrics and LTIP performance metrics for awards due to be granted this year. Please see page 99 for more information. These metrics are substantially similar to the metrics which we applied for our incentive plans in 2023, and are considered to remain appropriate for the business.

One change which has been approved for Executive Directors' remuneration for 2024 relates to the salary of our CFO, Rachel Lawrence. When Rachel was appointed as our CFO in September 2020, Rachel's salary was set at a level below that of the prior CFO. This was considered appropriate at that time given that this was Rachel's' first role as a CFO within a public limited company.

In the now over 3-year period since appointment, Rachel has demonstrated performance and progression as our CFO and we have accordingly repositioned Rachel's salary to £495.000 p.a., with effect from 1 April 2024, (£432,848 p.a. from April 2023). We regard the new salary as being at a level which is appropriate for a CFO within our sector who is now experienced in the role. We have taken account of Rachel's continuing strong contribution to the business in approving this change of base salary.

We are aware that increases of this nature can sometimes be 'phased' across two financial years. However, this was not considered appropriate given the length of time that Rachel has now been our CFO, Rachel's growth in this business-critical role and our stated remuneration principles where we aim to be simple and transparent.

Concluding thoughts

I would like to thank all of the Committee members for their contributions this year.

Going forwards into 2024, as the Group continues to execute its strategy, the Committee will continue to seek to ensure that the management team is aptly incentivised and retained. The Committee welcomes all input on remuneration and if you have any comments or questions on any element of the Annual Report regarding remuneration please email me via the Company Secretary at companysecretariat@securetrustbank.co.uk.

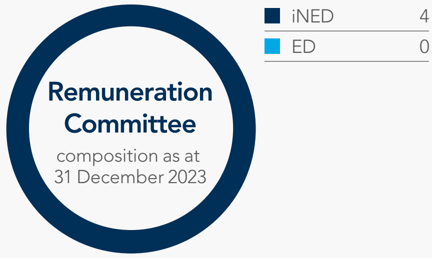
Finally, I would like to thank our shareholders for their continued support throughout the year.

Victoria Stewart
Chairman of the Remuneration Committee

Directors' Remuneration Report

Remuneration Committee attendance and composition

Members	No. of scheduled meetings eligible to attend	Attended
Victoria Stewart	7	7
Lord Forsyth	7	7
Victoria Mitchell	2	2
Paul Myers	7	7



Executive Directors: Remuneration at a glance

Executive Director	Pay as at 31 December 2023
David McCreadie Appointed CEO 5 January 2021	• Base salary – £689,585 per annum • Pension contribution – 5% base salary • Annual bonus – 100% base salary maximum bonus • LTIP – to participate in 2024 LTIP; annual award 100% base salary
Rachel Lawrence Appointed CFO 7 September 2020	• Base salary – £432,848 per annum (£495,000 from 1 April 2024) • Pension contribution – 5% base salary • Annual bonus –100% base salary maximum bonus • LTIP – to participate in 2024 LTIP; annual award 100% base salary

As at 31 December 2023, the Remuneration Committee comprised four members and was compliant with the Code provision, to be formed of at least two independent Non-Executive Directors, throughout the year. The Company Chairman was also a member of the Committee, as he was considered independent on appointment as Chairman.

The Remuneration Committee meets ordinarily four times a year and when required to address non-routine matters. The Committee held four scheduled and three ad hoc meetings during the course of 2023.

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 CEO, HR Director, Chief Internal Auditor, Chief Risk Officer, other senior managers and the external 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.

A copy of the Committee's terms of reference can be obtained via the Group's website.

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 the individual remuneration and benefits packages of the Executive Directors and the Senior Management below Board level. The Committee also reviews workforce remuneration, related policies and how executive and wider workforce pay are aligned to the culture of the Group.

Directors' Remuneration Report

Key matters considered by the Committee from 1 January 2023 to 31 December 2023 were:

Subject area	Matters considered
Executive Directors' remuneration	The Committee reviewed the recommendations and approved the annual bonus outcomes for both the CFO and CEO for the 2022 performance year, as well as their respective salary increases for 2023, which were made broadly in line with the average senior employee salary increase and at a lower percentage than the average all-employee increase. The Committee reviewed and approved the financial and non-financial performance criteria for the 2023 financial year bonus of both the Executive Directors and the LTIP criteria.
Senior Managers' remuneration	The Committee identified and approved individual remuneration for Material Risk Takers ('MRTs') using benchmarking data and assessed the outcomes of scorecards used to assess performance for bonuses. The Committee approved the quantum of awards used for the LTIP and DBP grants. The Committee reviewed and approved remuneration packages for several MRT roles within the business, balancing the need for packages to remain competitive whilst appropriate for a group the size of Secure Trust Bank PLC.
Chairman's remuneration	The Committee considered the Chairman's fee during the year. A mechanical process was implemented in 2019 to increase the Chairman's and Non-Executive Directors' fees in line with employees' average salary increases in the prior year. The Committee, at the request of the Board Chairman, considered and approved a proposal to deviate from this process, in the current year, and agreed a reduced increase in line with the Executive Director and Senior Managers average salary increase, which was below that for the wider workforce.
Wider workforce remuneration	In March 2023, the Committee reviewed the proposed Group bonus pool to be paid in April 2023 in respect of performance for the 2022 financial year. The Committee, having regard to the guidelines issued by institutional investors regarding reward, guidance from the Group's regulators, as well as the review of the going concern and viability assessments conducted by the Audit Committee and conduct review by the Chief Risk Officer, concluded that the payment of a bonus to all employees was appropriate and in the best interests of the Company. The Committee reviewed and agreed the proposed distribution and quantum of the Group bonus pool. Pay rises were focused towards lower salaried employees. The Committee also considered and approved a proposal to increase employee pension contributions for lower salaried employees to take effect in Q2 2024. The Committee reviewed dashboard information, processes and guidelines for annual remuneration for the entire employee workforce, including the Compliance and Risk functions. The Committee reviewed the Group's benefits package and recommended approvals to the Board. The Committee also reviewed the outcomes of the Group's Gender Pay Gap reporting which, whilst not where we would seek it to be, has improved year-on-year.
Discretionary share plans	The Committee reviewed and agreed the updated metrics for the 2023 LTIP grant. The Committee considered and agreed to reintroduce metrics on core Earnings Per Share ('EPS') and introduce Return on Average Equity ('ROAE') whilst retaining TSR and risk management performance conditions. The change in performance metrics was considered appropriate, given the market conditions at the time of grant, as well as being stretching and in line with shareholders' interests, please see page 93 for more details. The Committee reviewed and approved the participants under the DBP 2023 grant and agreed the quantum of share options to be granted relative to the portion of bonus to be deferred into shares. The Committee further agreed the vesting of tranches of the DBP under the 2020, 2021 and 2022 grants. Malus and clawback provisions were reviewed, with relevant clauses being included in all LTIP and DBP standard documentation. The Committee reviewed the outcome of the performance metrics for the 2020 LTIP grant, which matured in October 2023 with a 15% vesting. The Committee elected not to utilise its discretion to modify the formulaic outcome of the vesting of the awards. The 2024 LTIP grant performance conditions were also discussed during the year. The Committee agreed to use the same metrics as those for the 2023 LTIP grant as these remained appropriate and in line with strategy. The awards are subject to a performance condition underpin. The Committee discussed the dilution impact to shareholders as a result of settling awards via issuance of new shares. Following creation of the Employee Benefit Trust ('EBT') in October 2022, exercises under discretionary awards can be satisfied from shares purchased in the market by the EBT which will not impact dilution levels. Dilution limits will continue to be monitored.
All-Employee Sharesave plan and dilution	The Committee reviewed and approved the 2023 Sharesave plan invitation to all eligible employees in line with recommendations for managing dilution to existing shareholders with respect to the number of shares in issue. The 2020 Sharesave grant matured in November 2023, with the majority of participants electing to exercise their share options following vesting.

Directors' Remuneration Report

Subject area	Matters considered
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 and recommended its approval to the Board. The Committee received advice from the Company Secretary, HR Director and FIT Remuneration Consultants LLP ('FIT') when compiling the DRR and the additional disclosures in the Annual Report and Accounts.
Governance matters	The Committee received and reviewed the outcomes of the annual internal audit of the implementation of the remuneration policy. During the reporting period an externally facilitated internal assessment considered the Committee's performance as part of the wider Board effectiveness review. The result of the evaluation confirmed that the Committee was considered to be performing effectively. Please see the Nomination Committee report (starting on page 72) for more information. The Committee has reviewed a number of workforce policies, including the Application of Proportionality and Material Risk Takers policies, as well as the All-Employee Remuneration Policy. The Remuneration Policy Statement was also approved. The Committee agreed a forward-looking agenda for 2024. Four meetings are scheduled to be held in 2024 to address routine matters. A review of the effectiveness of FIT, as remuneration advisers, took place in February 2024, and it was concluded that they remained appropriate advisers for STB.

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.

Remuneration Consultant and Committee advice

During the year, the Committee received external advice from FIT. The appointment of FIT to advise the Committee was made in September 2020 following a competitive tender process.

FIT 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. FIT 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 fee paid for the provision of advice to the Committee during the year was £105,442 (excluding VAT) (2022: £104,221). FIT also provided support to the HR and Legal teams on remuneration implementation. The Committee is satisfied that the advice provided in the year by FIT on remuneration matters is objective and independent.

The Committee received advice on specific matters from internal advisers, management and the Company Secretary.

The Committee is satisfied that the Committee has exercised independent judgement when evaluating the advice received from all its advisers.

Directors' Remuneration Report

The information contained in the Directors' Remuneration Report is subject to audit, where indicated in the Report, in accordance with The Large and Medium- sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended). The Directors' Remuneration Report contains the Annual Remuneration Report, which explains the operation of remuneration-related arrangements for 2023.

A full copy of the existing Directors' Remuneration Policy, which was approved by shareholders at the 2023 AGM, can be found on the Group's website as part of our 2022 Annual Report and Accounts.

How we link executive remuneration to our strategy

The key principles behind the Directors' Remuneration Policy are to:

- be simple and transparent in order to reflect the Group's purpose;
- promote the long-term success of the Group, with transparent and demanding performance conditions;
- provide alignment between executive reward and the Group's values, risk appetite and shareholder returns; and
- 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 returns.

In developing and implementing the Directors' 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. This means that the Group is not required to satisfy in full all elements of the FCA and PRA remuneration codes.

Directors' Remuneration Report

Notwithstanding this, in formulating and applying the Directors' Remuneration Policy the Committee has had regard to the remuneration codes when considering existing and proposed remuneration and also the remuneration related provisions of the UK Corporate Governance Code. The Committee has been compliant with the existing Directors' Remuneration Policy approved by shareholders at the 2023 AGM.

Single figure table (audited information)

The following table sets out total remuneration earned for each Director in respect of the year ended 31 December 2023 and the prior year.

	Salary and fees[1]		Benefits		Annual bonus[2]		Pension		Shares[3, 4]		Total remuneration		Total fixed remuneration		Total variable remuneration	
	2023 £'000	2022 £'000	**2023 £'000**	2022 £'000	**2023 £'000**	2022 £'000	**2023 £'000**	2022 £'000	**2023 £'000**	2022 £'000	**2023 £'000**	2022 £'000	**2023 £'000**	2022 £'000	**2023 £'000**	2022 £'000
Executive Directors																
David McCreadie	685	665	1	1	283	362	35	32	75	–	1,079	1,060	721	698	358	362
R Lawrence	430	417	22	22	183	227	21	21	57	–	713	687	473	460	240	227
Non-Executive Directors[5]																
M Forsyth	230	224	3	2	–	–	–	–	–	–	233	226	233	226	–	–
A Berresford	120	118	1	1	–	–	–	–	–	–	121	119	121	119	–	–
V Mitchell[6]	13	–	–	–	–	–	–	–	–	–	13	–	13	–	–	–
P Myers[7]	105	98	–	–	–	–	–	–	–	–	105	98	105	98	–	–
V Stewart	100	98	1	1	–	–	–	–	–	–	101	99	101	99	–	–
F Williamson[8]	90	79	1	1	–	–	–	–	–	–	91	80	91	80	–	–
Total	**1,773**	**1,699**	**29**	**28**	**466**	**589**	**56**	**53**	**132**	**–**	**2,456**	**2,369**	**1,858**	**1,780**	**598**	**589**

1. The 2023 base salary figures are based on 3 months of salaries approved in April 2022 (David McCreadie £669,500 and Rachel Lawrence £420,240), and 9 months of salaries approved in April 2023 (David McCreadie £689,585 and Rachel Lawrence £432,848). The 2022 base salary figures are based on 3 months of salaries approved in April 2021 (David McCreadie £650,000 and Rachel Lawrence £408,000), and 9 months of salaries approved in April 2022 (David McCreadie £669,500 and Rachel Lawrence £420,240).
2. In respect of the 2023 financial year, David McCreadie received an annual bonus of £283,006 of which £141,502 will be deferred into share awards and Rachel Lawrence received an annual bonus of £183,051 of which £91,525 will be deferred into share awards.
3. The Shares values for David McCreadie and Rachel Lawrence reflect the performance vesting of the 21 April 2021 LTIP award where performance was measured to 31 December 2023. This award partially vested giving David McCreadie 11,755 vested shares and Rachel Lawrence 7,378 vested shares which for the purpose of providing an estimated value for this table was multiplied by the average share price in the 3 month period to 31 December 2023 (637.52p). The value for Rachel Lawrence also includes value from the 2020 LTIP award which partially vested on 23 October 2023 giving 1,530 vested shares and when the share price was 608p. No element of the values shown represent share price growth as the share prices at vesting for the 2020 awards and the 2021 awards were lower than the share prices at the respective dates of award (22 October 2020: 732p; 21 April 2021: 1175p). Details of awards made under the LTIP and DBP can be found on pages 93 and 94.
4. This includes the value of the Sharesave option granted to Rachel Lawrence on 25 September 2023 (calculating the number of shares in the option (1,708 shares) multiplied by the difference in the option price (543.0p) and the market value of the shares on 25 September 2023 (630.0p)).
5. Non-Executive Directors are reimbursed expenses that are incurred for business reasons. Any tax that arises on these reimbursed expenses is paid by the Company. These expenses and the related tax have not been included in benefits listed in the table above.
6. Victoria Mitchell was appointed as a Non-Executive Director on 1 November 2023 and was appointed to the Remuneration and Nomination Committees.
7. Paul Myers was appointed as the Non-Executive Director designated for workforce engagement on 27 October 2022 and his fee was increased accordingly (please see page 98 for more information).
8 Finlay Williamson was appointed to the Audit Committee and appointed as the Consumer Duty Champion with effect from 27 October 2022 and his fee was increased accordingly (please see page 98 for more information).

Directors' Remuneration Report

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

Salary and fees	The amount of salary/fees received in the year.
Benefits	The taxable value of benefits received in the year. These are principally private medical health insurance and travel allowances.
Annual bonus	The value of the bonus earned in respect of the financial year (including the proportion of the amount earned which is subject to deferral).
Pension	The amount of payments in lieu of Company pension contributions received in the year.
Shares	The value of LTIP awards vesting in relation to performance periods ending in 2023 received in the year and also the value of Sharesave options granted during 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 2022 and 31 December 2023 are as follows:

	2023 base salary £'000	2022 base salary £'000
David McCreadie	690	670
R Lawrence	433	420

The Executive Director base salaries are the annual salaries as agreed by the Remuneration Committee for each year.

Bonus arrangements

For the financial year ended 31 December 2023, Executive Directors were eligible for an annual bonus award of up to 100% of salary; 65% of the bonus was subject to financial metrics and risk performance metrics and 35 % of the bonus was subject to a mixture of strategic, customer, operational and employee performance ('Non-financial') metrics.

Financial and risk performance metrics

The financial and risk performance metrics were based on the delivery of Board agreed key performance indicators in accordance with the schedule below.

Objective[1]	Threshold (0% payable)	On-target (50% payable)	Stretch (100% payable)	Achieved	Weight	Bonus payable
Grow						
Group continuing profit before tax	£40.04m	£44.49m	£48.94m	£42.6m	25%	7.23%
Group net interest margin	5.38%	5.63%	5.88%	5.40%	10%	0.47%
Sustain						
Costs[2]	104.37	99.40	94.43	99.65	10%	4.74%
Cost of risk	1.52%	1.38%	1.24%	1.38%	10%	4.85%
Adjusted common equity tier 1 ratio[3]	13.34%	13.68%	14.02%	12.92%	10%	0.0%
Total					**65%**	**17.29%**

1. Please refer to the key performance indicators on pages 6 and 7 for an explanation of why these are measured and how they are linked to our strategy.
2. Figures include continuing operations only, which exclude exceptional items (see Note 8 to the Financial Statements).
3 Adjusted for exceptional items, discontinued operations, and own shares.

Directors' Remuneration Report

Non-financial metrics

	Objective	Targets (summary)	Achievement	Weight	Bonus payable CEO	Bonus payable CFO
CEO	Stakeholder engagement	• Maintain effective and constructive relationships with the Group's various stakeholders; • Deliver the initiatives for 2023 in the Environmental Strategy that are required to deliver the 2025 Scope 1 and 2 CO_2 equivalent (CO_2e) emissions reduction targets; • Communicate progress against the Environmental, Social and Governance ('ESG') strategy to colleagues and external stakeholders; • Customer satisfaction - maintain Feefo ratings at targeted levels in Retail Finance, Vehicle Finance and Savings; • Develop an action plan following feedback from the employee survey and maintain the Colleague Trust score.	• November 2023 Capital Markets Day. Positive relationships with PRA and FCA supervisory teams; • Total emissions in 2023 reduced by c100 tonnes CO_2e. • ESG strategy fully communicated in 2022 Annual Report and Accounts; internal TeamBrief meeting on environmental strategy; • Maintained Feefo ratings for Retail Finance and improved for Vehicle Finance and Savings; • 2023 Trust Score ahead of target. Survey responses scores ahead of Financial Services benchmark levels;	5%	3.75%	N/A
	Leadership and Development	• Leadership development and talent programme.	• Programmes for development to build the talent pool of internal candidates for senior roles.	5%	2.5%	N/A
CFO	Develop the Group's medium to long-term capital plan in line with Group strategy	• Complete the refinancing of Tier 2 Debt during H1 2023; • Develop plan of activity and resource requirements to build securitisation requirements for the Group.	• Tier 2 debt refinanced optimally in volatile markets; ensured continued capital funding credibility with investors; • Securitisation capability developed and explored with external arrangers.	10%	N/A	7.5%
Shared objectives	Strategic Development	• Oversight and leadership of initiatives to deliver medium term financial targets both through growth initiatives and cost savings.	• Appropriate leadership and oversight of all strategic initiatives in the year including providing clear and timely analysis to the Board to allow required and efficient decision taking, management of external resources (including as to costs) and liaison with regulators as required; • Financial focus through property costs savings and growth encouraged by two app launches for customers.	20%	15%	15%
	Diversity and inclusion	• Develop and implement effective strategies to recruit and attract a more diverse applicant pool for all role vacancies; • Develop plans to improve diverse talent pipeline for senior levels.	• Senior recruits and senior internal promotions in 2023 were majority female; • Diversity dashboard developed to track diversity of interviewed candidates and those receiving placements; • First Women in Finance submission completed with five targets achieved.	5%	2.5%	2.5%
Totals:				**35%**	**23.75%**	**25%**

Directors' Remuneration Report

2020 LTIP awards maturing by reference to 2023 performance

LTIP awards were granted on 22 October 2020, and were capable of vesting by reference to performance conditions measured to 30 September 2023. Within the current Executive Directors, only Rachel Lawrence received these awards as David McCreadie was not appointed as CEO until January 2021. The 2020 awards were subject to four metrics:

- Relative TSR vs FTSE SmallCap (excluding investment trusts)- 25% weighting;
- Relative TSR vs selected banks – 25% weighting;
- Absolute TSR growth of 20% to 40% Compound Annual Growth Rate ('CAGR') – 25% weighting; and
- Risk management – 25% weighting.

Only the risk management objective was achieved (15% of 25% weighting). In assessing this element, the Committee considered risk practices over the performance period reflecting the longer- term strategic risk management of the Group including:

- customer complaints performance and proactive management regarding complaints resolution;
- regulatory capital limits performance which was maintained throughout;
- management of issues identified as material risks;
- credit losses and adherence to risk appetite; and
- the positive management of risk issues associated with the COVID-19 pandemic in the period, including the rapid implementation of payment deferrals across both consumer businesses.

Recipient	Date of grant	Basis of award	Number of shares	Vested	Performance period
Rachel Lawrence	22-Oct-20	25% of salary	10,204	1,530	1 October 2020 to 30 September 2023

Awards are subject to a further two-year holding period from vesting.

2021 LTIP awards maturing by reference to 2023 performance

LTIP awards were granted on 26 April 2021 which are capable of vesting by reference to performance conditions measured to 31 December 2023. Both David McCreadie and Rachel Lawrence received these awards. The 2021 awards were subject to four metrics:

- Relative TSR vs FTSE SmallCap (excluding investment trusts) – 25% weighting;
- Relative TSR vs selected banks – 25% weighting;
- Absolute TSR growth of 10% to 30% CAGR – 25% weighting; and
- Risk management – 25% weighting.

Performance outcomes were determined as follows:

Measurement basis and % weighting	Relative TSR vs comparator group* (25%)	Relative TSR vs FTSE SmallCap (ex. investment trusts) (25%)	Absolute TSR Growth (25%)	Risk management (25%)
Performance Range	Median (25% vests) to upper quartile (100% vests).	Median (25% vests) to upper quartile (100% vests).	10% to 30% 3-year CAGR	Maintaining appropriate risk practices over the performance period reflecting the longer- term strategic risk management of the Group
Vesting Outcome	Median ranking 6.25% vesting of this part (25% of total award)	Below median ranking. Nil vesting of this part	Below threshold Nil vesting of this part	Vesting at 15% of this part (25% of total award) See further details below

In assessing the Risk management condition, the Committee considered risk practices over the performance period reflecting the longer- term strategic risk management of the Group including risk management of the Group including the items outlined above for the vesting of the 2020 LTIP. There had been no material deterioration in risk management performance in the period from the assessment of this metric which was carried out for the 2020 LTIP in October 2023.

Recipient	Date of Grant	Basis of award	Number of shares	Vested	Performance period
David McCreadie	26 April 2021	100% of salary	55,319	11,755	1 January 2021 to 31 December 2023
Rachel Lawrence	26 April 2021	100% of salary	34,723	7,378	1 January 2021 to 31 December 2023

Awards are subject to a further two-year holding period from vesting.

Directors' Remuneration Report

Awards exercised during the financial year (audited information)

Neither Executive Director exercised an award during 2023.

Awards granted during the financial year (audited information)

2017 Long Term Incentive Plan ('LTIP')

Nominal-cost share options were granted to Executive Directors on 31 March 2023 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
David McCreadie	31-Mar-23	100% of salary	66,306	690	1 January 2023 to 31 December 2025
Rachel Lawrence	31-Mar-23	100% of salary	41,619	433	1 January 2023 to 31 December 2025

1. Based on a share price of £10.40 being the average mid-market price determined between 1 January 2022 and 31 December 2022.

Vesting of the share options is subject to a blend of a TSR, ROAE, EPS and risk management performance metrics, assessed over a three-year performance period as summarised below.

Measurement basis and % weighting	Core EPS (25%)	Relative TSR vs FTSE SmallCap (ex. investment trusts) (25%)	ROAE (25%)	Risk management (25%)
Target range	Core diluted earnings per ordinary share of the Company for the relevant financial year of the Group as determined by the Board. There is a range of 20% to 30% CAGR over three financial years.	Median to upper quartile vesting range. Measured against constituents of FTSE SmallCap (excluding investment trusts)	Return on average equity for the financial year ending 31 December 2025. There is a range of 14% to 16% ROAE.	• Maintaining appropriate risk practices over the performance period reflecting the longer-term strategic risk management of the Group, including consideration of: • the number of customer complaints received; • the number and nature of material risk events within the Group; • credit losses compared to the Board's assessment of the Group's risk appetite; and • management of regulatory capital limits.
Underpin	Vesting for each of the elements is also subject to an underpin as follows: (a) the Board's assessment of the Group's general financial performance and shareholder experience over the performance period; (b) the Board's assessment of the Group's risk management performance over the performance period; and (c) the Board's assessment of progress against, in particular growth in responsible lending, progress on balance sheet management and customer satisfaction.			

For each metric, threshold attainment is 25% of that part, with vesting on a straight-line basis to 100% for maximum attainment.

For the TSR element, TSR will be measured using a market normal three-month average TSR to the beginning and end of the performance period (which is the three year period from 1 January 2023).

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 31 March 2023 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]
D McCreadie	31-Mar-23	17,410	5,803	5,803	5,804	181
R Lawrence	31-Mar-23	10,928	3,642	3,642	3,644	114

1. Based on a share price of £10.40 being the average mid-market price determined between 1 January 2022 and 31 December 2022.

Directors' Remuneration Report

Statement of Directors' shareholding and share interests (audited information)

A formal shareholding guideline requires Executive Directors to build up and maintain a shareholding of at least 200% of base salary, over time, by retaining shares from awards granted under the Group's share plans 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 2023 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 2023	Shares purchased during the year	Options granted during the year[4,5]	Options (exercised) during the year	Options (lapsed) during the year	Total as at 31 December 2023	Owned outright	Vested but unexercised	Unvested, not subject to performance conditions	Unvested, subject to performance conditions
D McCreadie[1,2]	Shares[3]	10,847	28,587	–	–	–	39,434	39,434	–	–	–
	2017 LTIP	108,384	–	66,306	–	–	174,690	–	–	–	174,690
	2017 DBP	19,216	–	17,410	–	–	36,626	–	6,405	30,221	–
	2017 SAYE	1,683	–	–	–	–	1,683	–	–	1,683	–
R Lawrence[1,2]	Shares[6]	3,648	3,500	–	–	–	7,148	7,148	–	–	–
	2017 LTIP	78,235	–	41,619	–	(8,674)	111,180	–	1,530	–	109,650
	2017 DBP	12,062	–	10,928	–	–	22,990	–	4,020	18,970	–
	2017 SAYE[7]	3,388	–	1,708	–	–	5,096	–	3,388	1,708	–
M Forsyth	Shares	6,500	1,000	–	–	–	7,500	7,500	–	–	–
A Berresford	Shares	–	–	–	–	–	–	–	–	–	–
V Mitchell	Shares	–	–	–	–	–	–	–	–	–	–
P Myers	Shares	5,500	3,466	–	–	–	8,966	8,966	–	–	–
V Stewart	Shares	–	–	–	–	–	–	–	–	–	–
F Williamson	Shares	–	–	–	–	–	–	–	–	–	–
		249,463	**36,553**	**137,971**	**–**	**(8,674)**	**415,313**	**63,048**	**15,343**	**52,582**	**284,340**

1. Executive Directors are required to hold shares not purchased on the open market post their employment in line with the minimum shareholding requirements policy.
2. Neither David McCreadie nor Rachel Lawrence have achieved the required 200% of base salary shareholding requirement based on shares owned outright. Both are calculated using the number of shares owned outright, the Group's Sharesave and 53% of unvested and vested share awards that are not subject to performance conditions (2017 DBP). Shares held by David McCreadie (60,528 shares), are worth £416,433 when using the 2023 year end share price of £6.88 (60.39% of 2023 annual base salary). Shares held by Rachel Lawrence (24,428 shares) are worth £168,065 when using the 2023 year end share price of £6.88 (38.83% of base salary).
3. On 13 June 2023, a person closely associated with David McCreadie purchased, through an automated Dividend Reinvestment Plan attached to their ISA, 86 shares. On 9 August 2023 David, and a person closely associated to him, collectively purchased 17,316 shares. David McCreadie purchased 11,185 shares on 17 August 2023.
4. Awards granted under LTIP rules on 31 March 2023 are set out on page 94.
5. Awards granted under DBP rules on 31 March 2023 are set out on page 94.
6. On 9 August 2023, Rachel Lawrence purchased 3,500 shares.
7. Rachel Lawrence participated in the 2023 SAYE scheme, granted on 25 September 2023, to the maximum monthly saving amount.

There have not been any changes to the above interests since 31 December 2023 and the date of this report.

Payments made to former Directors during the year (audited information)

No payments were made to former Directors during 2023.

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.

Directors' Remuneration Report

Performance graph and historical CEO remuneration outcomes

Total shareholder return

The graph below shows the TSR performance for the Company's shares in comparison to the FTSE SmallCap Index (excluding investment trusts) for the period from 1 January 2012 to 31 December 2023. For the purpose 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 2023, 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 market 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 ten financial years.

	Total remuneration £'000	Bonus as a % of maximum opportunity[1]	LTIP as a % of maximum opportunity[2]
2023[3]	**1,079**	**41.04**	**21.25**
2022[3]	1,060	53.1	N/A
2021[3]	1,170	74.6	N/A
2020	1,045	nil	nil
2019	1,804	45	15
2018	1,857	50	N/A
2017	1,657	33.3	N/A
2016	5,542	N/A	100
2015	1,459	N/A	N/A
2014	3,671	N/A	100

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 2015, 2017, 2018, 2021 and 2022.
3. 2021,2022 and 2023 reflects David McCreadie as CEO.

Directors' Remuneration Report

Directors' pay increase in relation to all employees

The table below shows the percentage change in remuneration of the Directors and employees of the business between 2020, 2021, 2022 and 2023 financial years. Over time, this table will show five years' worth of information.

	2023 Salary or base fee %	2023 Benefits %	2023 Bonus %	2022 Salary or base fee %	2022 Benefits %	2022 Bonus %	2021 Salary or base fee %	2021 Benefits %	2021 Bonus %
Employees[1]	**4.9**[2]	**0.0**	**7.6**	2.9	0.0	(3.3)	2.9	0.0	6.9
Executive Directors:[3]									
D McCreadie[4]	**3.0**	**0.0**	**(21.9)**	3.0	0.0	(25.4)	N/A	N/A	N/A
R Lawrence[5]	**3.0**	**0.0**	**(19.5)**	3.0	0.0	(25.3)	2.0	N/A	N/A
Non-Executive Directors:[3,6]									
M Forsyth	**3.0**	**50.0**[7]	**N/A**	2.9	0.0	N/A	3.0	0.0	N/A
A Berresford	**3.0**	**0.0**	**N/A**	2.9	0.0	N/A	3.0	0.0	N/A
V Mitchell	**N/A**	**N/A**	**N/A**	N/A	N/A	N/A	N/A	N/A	N/A
P Myers	**3.0**	**0.0**	**N/A**	2.9	0.0	N/A	3.0	0.0	N/A
V Stewart	**3.0**	**0.0**	**N/A**	2.9	0.0	N/A	3.0	0.0	N/A
F Williamson	**3.0**	**0.0**	**N/A**	2.9	0.0	N/A	N/A	N/A	N/A

1. The strict legal requirement is to only provide details of employees of Secure Trust Bank plc, however we have decided to voluntarily disclose in respect of all Group employees.
2. The calculation is prepared on a full time equivalent basis.
3. Where figures are shown as N/A it reflects that the individual commenced a role part way through the relevant year or left during the relevant year; and accordingly, there is no comparable previous year figure. In addition N/A it also stated as Non-Executive Directors are not eligible for bonuses.
4. David McCreadie was appointed as CEO with effect from 5 January 2021 therefore no increase in salary, benefits or bonus was awarded for 2021.
5. Rachel Lawrence received an increase to salary in line with employees for 2021, adjusted to reflect her joining the Group part way through the year.
6. Each of the Non-Executive Directors received a 2.9% increase to their base fee with effect from 1 January 2023 which was based on the employee salary increase for 2022.
7. Represents an increase in the cost of renewing existing private medical insurance.

2023 CEO pay ratio

Our finalised CEO pay ratio for 2023 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
2023	**Option A**	**35:1**	**26:1**	**17:1**
2022	Option A	40:1	29:1	17:1
2021	Option A	43:1	31:1	17:1
2020	Option A	47:1	36:1	19:1
2019	Option A	96:1	71:1	36:1

Total UK employee pay and benefits figures used to calculate the CEO pay ratio for 2023:

	25th percentile pay ratio	Median pay ratio	75th percentile pay ratio
Salary	**£26,677**	**£34,650**	**£54,595**
Total pay and benefits	**£27,328**	**£42,639**	**£63,963**

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 2023, 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 2023 that is disclosed in the above table is consistent with the pay, reward and progression policies for the Group's UK employees taken as a whole.

Directors' Remuneration Report

Spend on pay

The following table sets out the percentage change (from the financial year ended 31 December 2022) in dividends and the overall expenditure on pay (as a whole across the organisation).

	2023 £million	2022 £million	Change %
Dividends, excluding special dividends, and share buybacks	**6.1**	8.4	(27.4)
Dividends, including special dividends, and share buybacks	**6.1**	8.4	(27.4)
Overall expenditure on pay[1]	**56.9**	55.7	2.2

1. Further information can be found in Note 6 to the Financial Statements.

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[1,2,3]	Notice period
D McCreadie	5 January 2021	12 months
R Lawrence	11 May 2020	12 months
M Forsyth[4]	6 October 2016	6 months
A Berresford	22 November 2016	6 months
P Myers	28 November 2018	6 months
V Stewart	22 November 2016	6 months
F Williamson	30 June 2021	6 months
V Mitchell	1 November 2023	6 months

1. Each of the Non-Executive Directors' letter of appointment was amended in 2024 by a side letter confirming their respective Committee membership and their total fee. No other changes were made to their existing letter of appointment.
2. All Directors are subject to annual re-election by shareholders.
3. Those Non-Executive Directors who are members of the Remuneration Committee are set out on page 87.
4. Entered into new letters of appointment prior to the Company's transition from AIM to the Main Market.

Implementation of Directors' Remuneration Policy for the financial year ending 31 December 2024

Details on how Secure Trust Bank intends to implement the 2023 Directors' Remuneration Policy for the financial year ending 31 December 2024 are set out as follows.

Salary

As at the date of this report, David McCreadie receives an annual base salary of £689,585.

The annual salary review date is 1 April 2024, and if any increase is made to David McCreadie's base salary, this will be in line with firm-wide employee level salary increases.

As was explained in the Committee Chair's statement introducing this report, Rachel Lawrence's salary is being increased to £495,000 with effect from 1 April 2024 (2023: £432,848).

Pensions

David McCreadie and Rachel Lawrence will each receive a 5% of base salary pension contribution, being aligned to the rate of pensions contribution for the majority of Group employees.

Directors' Remuneration Report

Fees

The following table sets out the Non-Executive Director fee structure effective from 1 January 2024.

Role	2023 fee £'000
Chairman[1]	237
Non-Executive Director (basic fee)[2]	77
Senior Independent Director and Committee Chairman	20
Member of Audit, Risk or Remuneration Committee	5
Designated Non-Executive Director with responsibility for workforce engagement	5
Consumer Duty Champion	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 Non-Executive Directors increases in line with the average increase of remuneration for employees implemented within the annual review of remuneration in the previous year. The increase takes effect from 1 January each year in respect of the preceding employee level salary increase.

Annual bonus

The proposed maximum annual bonus opportunity for the year ending 31 December 2024 will be equal to 100% of salary. The bonus will be subject to stretching performance metrics based on a balanced scorecard. 65% of the bonus will be subject to financial and risk performance metrics and 35% of the bonus will be subject to a mixture of non-financial strategic, customer, operational and employee performance metrics. The financial metrics will include underlying continuing profit before tax (25%), net interest margin (10%), costs (10%), capital ratios (10%) and cost of risk (10%). The shared non-financial metrics will include strategic development, diversity and inclusion and personal objectives.

The Committee is able to consider corporate performance on ESG issues when setting Executive Director remuneration and has considered whether the incentive structure for senior management raises ESG risks by inadvertently motivating irresponsible behaviour.

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 2024 or at such time when the targets are no longer considered commercially sensitive.

50% of any bonus earned will be deferred into shares under the DBP. Deferred shares will vest in equal tranches after one, two and three years following deferral.

LTIP

The Company proposes to grant LTIP awards to the Executive Directors in the form of nominal share options at the level of up to 100% of salary for the CEO and CFO. For the 2024 LTIP grant, similar to those for 2023 LTIP awards, the performance metrics are:

- 25% relative TSR (measured vs the constituents of the FTSE SmallCap (Ex IT);
- 25% ROAE (14% to 16% target range);
- 25% growth in EPS (20% to 30% CAGR, measured using underlying diluted EPS for continuing business); and
- 25% risk management

Statement of voting at AGM

The Directors' Remuneration Policy was approved by shareholders at the AGM in 2023. The most recent Directors' Remuneration Report was approved at the AGM in 2023; the votes cast were as detailed below.

Resolution	Proxy votes for	% of proxy votes cast	Proxy votes against	% of proxy votes cast	Votes withheld
To approve the Directors' Remuneration Policy (2023 AGM)	15,157,928	95.88	650,863	4.12	1,055
To receive and approve the Directors' Remuneration Report (2023 AGM)	15,130,960	95.71	677,831	4.29	1,055

Approval

This Report was approved by the Board on 20 March 2024 and signed on its behalf by:

Victoria Stewart
Chair of the Remuneration Committee

Directors' Report

The Directors submit their report, the related Strategic Report and Corporate Governance Report, and the audited financial statements of Secure Trust Bank PLC and its subsidiaries (the 'Group') for the year ended 31 December 2023.

Relevant information required to be included in the Directors' Report includes disclosures required by the FCA's Disclosure and Transparency Rules and Listing Rules (LR 9.8.4) and is incorporated by reference into this report as well as the following sections:

Item	Page/Note reference	Further detail
Strategic report	Pages 1 to 64	Includes particulars of important events affecting the Company to have occurred since the end of the financial year.
Business review and information about future development	Pages 3 to 27	Describes the principal activity as a bank (including deposit taking and secured and unsecured lending).
Key performance indicators	Pages 6 to 7	
Principal risks	Pages 28 to 38	
Corporate Governance Report	Pages 65 to 113	Contains information about the Group's corporate governance arrangements.
Statement of compliance with UK Corporate Governance Code in respect of the year	Page 69	
Results	Pages 10 to 15	The Group made a total profit before tax of £33.4 million (2022: £44.0 million). For the purposes of DTR 4.1.5R2 and DTR 4.1.8 this Directors' report and the Strategic Report on pages 1 to 64 comprise the management report.
Share capital	Note 32, Page 160	Details of the Company's share capital and movements in the Company's issued share capital during the year.
Allotments of cash or equity securities otherwise than to shareholders in proportion to their holdings	Note 32, Page 160	In accordance with LR 9.8.4R.
Share plans	Note 34, Pages 161 to 164	The Company operates a Long Term Incentive Plan, Sharesave Plan and a Deferred Bonus Share Plan. Upon exercise, shares awarded under these plans have the same rights and rank pari passu with existing ordinary shares.
Details of any long-term incentive plans	Pages 85 to 99 and Note 34, Page 162	In accordance with LR 9.8.4R.
Directors in office during the year	Pages 66 to 68	All Directors will be retiring and standing for either election or re-election at the Annual General Meeting to be held on 16 May 2024, with the exception of Lord Forsyth who is stepping down from the Board.
Directors' interests in share capital	Pages 85 to 99	Including connected persons.
Related party transactions	Note 42, Pages 172 to 173	
Going concern and viability	Pages 39 to 40	
Future developments	Pages 3 to 27	
Financial risk management objectives and policies	Page 28	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
Climate-related financial disclosures	Pages 55 to 64	Required under the Companies Act 2006 (Strategic Report and Directors' Report) Regulation 2013 and LR 9.8.6R.
Engagement with stakeholders	Pages 44 to 54	Relevant information related to s.172 of the Companies Act 2006, Companies (Miscellaneous Reporting) Regulations 2018.
TCFD disclosures	Pages 55 to 64	Explains how we have complied and details any non-compliance under Taskforce on Climate-Related Financial Disclosures ('TCFD').

Directors' Report

Dividends

The Board recommends the payment of a final dividend of 16.2 pence per share, which represents total dividends for the year of 32.2 pence per share (2022: 45.1pence per share). The final dividend, if approved by shareholders at the Annual General Meeting, will be paid on 23 May 2024 to shareholders on the register at the close of business on 26 April 2024.

Dividend Policy

The Board maintained a dividend policy for the year ended 31 December 2023 that took into account the Company's capital requirements, earnings and cash flow that resulted in the distribution of 25% of its annual earnings.

The Board has, subsequent to the year end, adopted a new dividend policy, whereby the Company will implement a progressive dividend policy with effect from the 2024 Annual General Meeting. 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 2023, the Company had 19,017,795 ordinary shares in issue. Each ordinary share entitles the holder to one vote.

An additional 326,361 ordinary shares of 40 pence each were issued during 2023 (2022: 43,629) subsequent to requests to exercise under STB's employee share schemes and as authorised by shareholders at the 2023 Annual General Meeting. Since 1 January 2024 and until the date of the report, a further 18,680 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.

Powers to issue shares and buy back shares

The Directors were granted authority at the 2023 AGM to allot shares in the Company and to grant rights to subscribe for or convert any securities into shares in the Company up to an aggregate nominal amount of £2,493,046 in any circumstances. This amount represented approximately one-third of the Company's issued share capital prior to that meeting. The Directors were also authorised to allot shares and to grant rights up to an aggregate nominal amount of £4,986,092 in connection with a fully pre-emptive offer (but such amount to be reduced by any allotments made under the first limb of the authority). This amount represented approximately two-thirds of the Company's issued share capital prior to the meeting.

At the same time, the Directors were also granted authority to allot shares in the Company and to grant rights to subscribe for or convert any securities into shares up to an aggregate nominal amount of £2,493,046 in relation to any issue of Additional Tier 1 Securities. This amount represented approximately one-third of the Company's issued share capital prior to that meeting.

The Directors were also empowered at the 2023 AGM to allot shares for cash on a non-pre-emptive basis, both in connection with a rights issue or similar pre-emptive issue and, otherwise than in connection with any such issue, up to a maximum aggregate nominal amount of £747,913 of the Company's issued share capital (representing approximately 10% of the Company's issued share capital prior to the meeting). The Directors were further empowered to allot shares for cash on a non-pre-emptive basis representing approximately 2% of issued ordinary share capital, to be used only for the purposes of a follow-on offer as prescribed by the most recent version of the Pre-Emption Group's Statement of Principles. As permitted by those Principles, the Directors were also empowered to allot shares for cash on a non-pre-emptive basis up to the same amount for use only in connection with an acquisition or specified capital investment. The Directors were also empowered to allot shares for cash on a non-pre-emptive basis specifically in relation to the issue of Additional Tier 1 Securities.

The Directors were also authorised at the 2023 AGM to repurchase shares in the capital of the Company up to a maximum aggregate number of 1,869,784 shares. This represented approximately 10% of the Company's issued share capital prior to the meeting.

These share capital authorities and powers are due to lapse at the 2024 AGM, at which time the Board intends to seek fresh authorities and powers.

Shares held by the Company's Employee Benefit Trust

In October 2022, the Company established an Employee Benefit Trust ('EBT'), to acquire and hold ordinary shares of the Company in trust for the benefit of employees who exercise their options under the Group's share options schemes. The purchase of shares by the EBT is funded by way of a loan from the Company. Full details of the EBT's holdings are outlined in Note 33.1.

Shareholder Rights

Ordinary shareholders have the right to receive notice of, attend, vote and speak at general meetings of the Company (whether in person or by proxy). On a show of hands, each ordinary shareholder has the right to one vote at general meetings. On a poll, each ordinary shareholder is entitled to one vote for every share held.

Shareholders also have the right to receive a dividend, if recommended and declared. The ordinary shares carry no rights to fixed income. Shareholders may transfer all or any of their certificated or uncertificated shares in the Company. All such rights are subject to certain exceptions and restrictions provided in the Company's Articles and in any applicable legislation. These include where rights are suspended for non-disclosure of an interest in shares, where share transfers do not comply with specific requirements, and where any amounts on shares owing by a shareholder to the Company remain unpaid.

Directors' Report

The rights and obligations of shareholders, and restrictions on transfer, are set out in full in the Articles. No person has any special rights of control over the Company's share capital. The Company is not aware of any agreements between shareholders that may result in restrictions on the transfer of securities and/or voting rights.

Substantial shareholders

In accordance with Disclosure and Transparency Rules DTR5, as at 31 December 2023, the Company has been notified of disclosable interests in its issued ordinary shares as set out in the table below.

Substantial shareholders	No. of ordinary shares	%
Fidelity Worldwide Investment	1,784,097	9.38
Mr Steven A Cohen	1,510,412	7.94
Wellington Management	1,494,349	7.86
Invesco	1,326,860	6.98
Ameriprise Financial	1,315,476	6.92
Ennismore Fund Management	1,119,992	5.89
Unicorn Asset Management Limited	1,103,530	5.80
Premier Miton Group plc	975,119	5.13
Affiliated Managers Group	919,823	4.84
Hargreaves Lansdown plc	896,090	4.71

Following the year end on 31 December 2023 and up to the date of this report, the Company has been notified that Ennismore Fund Management increased their holding, resulting in 1,191,222 shares held (6.26% of issued share capital) and Premier Miton Group plc reduced their holding, resulting in 820,877 shares held (4.32% of issued share capital).

Powers of Directors

The Directors' powers are conferred on them by UK legislation and the Company's Articles of Association.

Appointment and replacement of directors

The Company's Articles of Association empower the Board to appoint as a Director any person who is willing to act as such. Such person shall hold office only until the next Annual General Meeting, but shall then be eligible for reappointment by the shareholders. The Articles also provide that the Company may fill any vacancies on the Board.

The Articles provide that the Company may by ordinary resolution of which special notice is given, remove any Director from office and elect another person in his or her place. The Articles also set out the specific circumstances in which a Director shall vacate office.

The Articles require that at each Annual General Meeting one-third of the Directors (or, if their number is not a multiple of three, the number nearest to but not exceeding one-third) shall retire from office by rotation. Notwithstanding the provisions of the Articles, it is the Company's practice that all Directors retire and stand for reappointment in accordance with the recommendations of the UK Corporate Governance Code.

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 2023.

The letters of appointment of the Non-Executive Directors incorporate by reference the provisions of the Articles of Association in relation to the indemnity of Directors into the contract established by the letter of appointment between the Non-Executive Director and the Company.

Conflicts of interest

Directors are invited to declare new conflicts of interest at each Board meeting, and where an actual or potential conflict of interest has been identified, appropriate steps are taken to deal with the conflict.

A separate register of Directors' conflicts of interest is maintained by the Company.

Significant contracts

There are no contracts of significance in which a Director is interested.

There are no agreements between any Group company and any of its employees or any Director of any Group company that 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.

Directors' Report

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.

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 41.

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 (2022: £nil).

Post balance sheet events

For details of post balance sheet events see Note 45 to the Financial Statements on page 173.

Disclosure of information to Auditor

Each Director in office at the date of this Directors' report confirms that so far as the Director is aware, there is no relevant audit information of which the Company's Auditor is unaware and each Director has taken all reasonable steps that they ought to have taken as a Director to make themselves aware of any relevant audit information and to establish that the Company's Auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of the Companies Act 2006.

Fair, balanced and understandable

The Directors are satisfied that the Annual Report and Accounts, taken as a whole, are fair, balanced and understandable, and provide the information necessary for members and other stakeholders to assess the Group's position and performance, strategy and business model.

Internal control and risk management

The Directors confirm 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. The Board considers that the information it receives enables it to review the effectiveness of the Group's internal controls in accordance with the FRC's Guidance on Risk Management, Internal Control and Related Financial and Business Reporting. Areas where financial control can be improved are identified and appropriate actions agreed as part of our internal control systems. Senior management, the Board and the Risk Committee regularly monitor progress towards completion of these actions. The Board considers that none of the identified areas for improvement constitute a significant failing or weakness.

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 other regulatory requirements, as applicable.

Auditor

Deloitte LLP was reappointed as Auditor at the Annual General Meeting held in 2023. As detailed on page 79 in the Audit Committee report, the Board is recommending the reappointment of Deloitte LLP as Auditor at the 2024 Annual General Meeting.

Annual General Meeting

The 2024 Annual General Meeting will be held at 3pm on 16 May 2024 at the office of Freshfields Bruckhaus Deringer, 100 Bishopsgate, London EC2P 2SR. For more information, please see the Notice of Meeting.

This Directors Report was approved by the Board of Directors on 20 March and is signed on its behalf by:

David McCreadie
Chief Executive Officer
20 March 2024

Director's responsibility statement

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

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

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

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

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

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

Responsibility statement

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

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

This responsibility statement was approved by the Board of Directors on 20 March and is signed on its behalf by:

Lord Forsyth
Chairman
20 March 2024

David McCreadie
Chief Executive Officer
20 March 2024

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 2023 and of the Group's profit for the year then ended;
- the Group Financial Statements have been properly prepared in accordance with United Kingdom adopted international accounting standards and International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB);
- the Company Financial Statements have been properly prepared in accordance with United Kingdom adopted international accounting standards 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.

We have audited the Financial Statements which comprise:

- the Consolidated statement of comprehensive income;
- the Consolidated and Company statements of financial position;
- the Consolidated and Company statements of changes in equity;
- the Consolidated and Company statements of cash flows; and
- the related Notes 1 to 45.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom adopted international accounting standards and as regards the Company financial statements, as applied in accordance with the provisions of the Companies Act.

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 we have not provided any non-audit services prohibited by the FRC's Ethical Standard 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.

Independent Auditor's Report to the members of Secure Trust Bank PLC

3. Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were: • Impairment of loans and advances to customers; and • Regulatory matters. Within this report, key audit matters are identified as follows: Newly identified Similar level of risk
Materiality	The materiality that we used for the Group Financial Statements and Company Financial Statements was £2.6 million (2022: £2.4 million) and £2.4 million (2022: £2.3 million) respectively. This was determined on the basis of 0.75% of net assets (2022: 0.75% of net assets).
Scoping	We have performed a full scope audit on the Company, with the remaining entities in the Group subject to testing of specific account balances.
Significant changes in our approach	As a result of the specific feedback received by the Group following the Financial Conduct Authority's ('FCA') thematic review of processes relating to Borrowers in Financial Difficulty ('BiFD'), as well as the FCA current industry-wide review of historic discretionary motor commission arrangements, we have identified a new key audit matter relating to regulatory matters.

4. Conclusions relating to going concern

In auditing the Financial Statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the Financial Statements is appropriate.

Our evaluation of the Directors' assessment of the Group's and Company's ability to continue to adopt the going concern basis of accounting included:

- Obtaining an understanding of relevant controls around the going concern assessment including Board approval;
- With the involvement of prudential regulation specialists, we read the most recent Internal Capital Adequacy Assessment Process ('ICAAP') and Internal Liquidity Adequacy Assessment Process ('ILAAP') documents, assessed the capital and liquidity projections, assessed the results of the capital and liquidity stress testing, evaluating key assumptions and methods used in the capital and liquidity stress testing models, and tested the mechanical accuracy of the forecasts;
- Read correspondence with regulators to understand the capital and liquidity requirements imposed by the Group's regulators during the year;
- Obtained the capital and liquidity forecasts and assessed key assumptions and their projected impact on capital and liquidity ratios, particularly with respect to loan book growth and potential credit losses;
- Evaluated the impact of the regulatory matters outlined in section 5.2 on the Group's capital and liquidity position over the planning horizon;
- Assessed the historical accuracy of forecasts; and
- Assessed the appropriateness of the disclosures made in the Financial Statements in view of the FRC guidance.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group's and Company's ability to continue as a going concern for a period of at least twelve months from when the Financial Statements are authorised for issue.

In relation to the reporting on how the Group has applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the Directors' statement in the Financial Statements about whether the Directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

Independent Auditor's Report to the members of Secure Trust Bank PLC

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. Impairment of loans and advances to customers

Key audit matter description	The Group held allowances for impairment of loans and advances to customers of £88.1 million (2022: £78.0 million) against loans and advances to customers of £3,403.4 million (2022: £2,997.5 million). For financial assets measured at amortised cost, IFRS 9 Financial Instruments requires the carrying value to be assessed for impairment using unbiased forward-looking information. The measurement of expected credit losses ('ECL') is complex and involves judgements and estimates relating to probability of default ('PD'), exposure at default ('EAD'), loss given default ('LGD') including collateral valuations and vehicle recovery rates ('VRR'), significant increases in credit risk ('SICR') and macroeconomic scenario modelling. Where model or other limitations exist, Expert Credit Judgements ('ECJs') are applied to the model output. These assumptions are prepared using historical behaviour and the Director's experience. We identified three specific areas in relation to the ECL that require significant judgement or relate to assumptions to which the overall ECL provision is particularly sensitive: • The accuracy of macroeconomic scenarios ('MES') and weightings applied to the Consumer Lending portfolio. The Group obtains its scenarios from an external economic provider; • The appropriateness of the PD rates applied to the near prime Vehicle Finance portfolio; and • The accuracy of components used in determining the LGD on the near prime Vehicle Finance portfolio. Given the material effect of the significant judgements taken in deriving the above, we also considered that there is a potential for fraud through possible manipulation of this balance. Impairment of loans and advances to customers, including associated accounting policies is included in Note 16 of the Financial Statements. The corresponding area in the Audit Committee report is on page 78.
How the scope of our audit responded to the key audit matter	Our audit procedures included obtaining an understanding of the relevant controls over the impairment provision with particular focus on controls over significant assumptions and judgements used in the calculation of ECL. To challenge the accuracy of macroeconomic scenarios and weightings applied to the Consumer Lending portfolio we: • Assessed the scenarios and weightings adopted by the Directors, with support from our economic specialists. The forecasts and weightings were compared against external sources and historic macroeconomic trends to assess their reasonableness; and • Evaluated the competence, capabilities and objectivity of the external economic provider. To assess the appropriateness of the PD rates applied to the near prime Vehicle Finance portfolio we: • Performed a full methodology review and independent re-code of the near prime Vehicle Finance PD model, with support from our credit risk specialists; and • Assessed the rationale and appropriateness of the methodology applied to release previously recognised ECJs that addressed previous model limitations. To challenge the accuracy of components used in determining the LGD on the near prime Vehicle Finance portfolio we: • Assessed the historical data used to support the VRR applied and considered how the forecast rate may be impacted by both internal and external factors; • Following the FCA's formal discussions with the Group, assessed the impact on recovery rates of changes in collections processes, procedures and policies for BiFD, including the associated ECJ recognised by the Group; and • Tested the mathematical accuracy of the calculations used to develop the BiFD ECJ. As part of our wider assessment of impairment of loans and advances to customers we: • Assessed the accuracy and completeness of source data and report logic used to extract source data from the underlying lending systems for input into the impairment models; • With support from our real estate valuation specialists, assessed a sample of collateral valuations used in the LGD calculation for the Real Estate Finance portfolio; • Reconciled the impairment models to the general ledger and substantively tested a sample of loans to assess whether the data used in the provision calculation was complete and accurate; • Assessed the quantitative and qualitative factors used in the SICR assessment by reference to standard validation metrics including the proportion of transfers to stage two driven solely by being 30 days past due, the volatility of loans in stage two and the proportion of loans that spend little or no time in stage two before moving to stage three; • Tested the completeness and accuracy of data used in applying the quantitative and qualitative criteria in the SICR assessment on whether loans are assigned to the correct stage; and • As a stand back test, considered potential contradictory evidence, assessed changes in the overall coverage ratios and the completeness of key judgements and ECJs adopted by the Directors through comparison to industry peers.
Key observations	Based on the evidence obtained, we found that the judgements and assumptions underpinning the allowances for impairment of loans and advances to customers are determined and applied appropriately, and therefore that the recognised provision is reasonable.

Independent Auditor's Report to the members of Secure Trust Bank PLC

5.2. Customer redress (!)

Key audit matter description	In the current year, the Group has been impacted by two regulatory matters which may result in customer redress or goodwill payments (collectively 'redress'): Borrowers in Financial Difficulty ('BiFD') As disclosed on page 12 and Note 29, during the year, the Group engaged in formal discussions with the FCA on their consumer finance collections processes, procedures and policies for BiFD. The Directors have subsequently recognised a provision for costs of £4.7 million (comprising £2.7 million costs and £2.0 million redress for vehicle finance customers). The review is ongoing and there is significant judgement required in determining the redress approach, including the customer cohorts potentially impacted and average level of any redress. Our key audit matter is focused on the accuracy and completeness of the provision recognised. Discretionary commissions On 11 January 2024, the FCA announced a review of historical motor finance commission arrangements. The Group operated some discretionary commission arrangements until June 2017. The Directors do not consider that a legal or constructive obligation exists that would require a provision to be recognised at this stage. However, a contingent liability has been disclosed in relation to the matter in Note 31. Given the varied response of the industry to the FCA announcement and the uncertainty of any scope, extent and timing of the potential redress arising from the FCA's review, we have identified the judgements involved in determining whether a provision should be recognised as a key audit matter. In respect of both these matters, significant judgement is required by the Group in determining whether, under IAS 37 'Provisions, Contingent Liabilities and Contingent Assets': • The recognition criteria for provisions and contingent liabilities are met; • Amounts recorded are representative of the Group's best estimate to settle the obligation based on the information available to the Group; and • Any contingent liabilities and underlying significant estimation uncertainties are adequately disclosed. Details of the BiFD provision and accounting estimate is included in Note 29, and the contingent liability in relation to motor finance commissions and critical accounting judgement is disclosed in Note 31. The corresponding area in the Audit Committee report is on page 78.
How the scope of our audit responded to the key audit matter	Our audit procedures included obtaining an understanding of the relevant controls around the two regulatory matters identified. BiFD To assess the accuracy and completeness of the provision recognised, we performed the following procedures: • Inquired directly with independent third parties involved in the review, and inquired directly with the FCA; • Challenged whether it was appropriate to recognise a provision with reference to IAS 37 requirements; • With support from our internal regulatory specialists, assessed management's approach to quantifying the £2.0 million redress provision, including the redress approach, customer cohorts impacted and average level of redress; • Tested the accuracy and completeness of input data supporting management's provision calculation; • Tested the accuracy and completeness of the £2.7 million costs incurred or provided for in relation to the FCA's review, including their disclosure as exceptional items; and • Recognising that the review is still ongoing and the provision may therefore be subject to change, challenged the completeness of disclosures including sensitivity analysis included in Note 29. Discretionary commissions To challenge whether a provision is required in relation to the FCA's review of historical motor finance commission arrangements, we involved our internal regulatory and accounting specialists and: • Assessed whether the IAS 37 provision recognition criteria had been met, including whether the Group has a legal or constructive obligation. We inspected the Group's historic and current levels of complaints including the outcome of complaints settlements to date, as well as the limited number of decisions made by the Financial Ombudsman Service and the FCA announcements; • Assessed the likelihood of any potential outflows arising and the ability to estimate reliably any outflows based on the current status of the FCA's review; and • Considered the adequacy of disclosures included in Note 31.
Key observations	Based on the evidence obtained, we found that the judgements and assumptions underpinning the conclusions reached for the BiFD provision were appropriate. In respect of the FCA's industry review of historical motor finance commission arrangements, we do not consider it unreasonable for the Directors to conclude that, at this stage, the IAS 37 provision recognition criteria is not met. We concur that it is appropriate to disclose a contingent liability due to the possibility of future redress.

Independent Auditor's Report to the members of Secure Trust Bank PLC

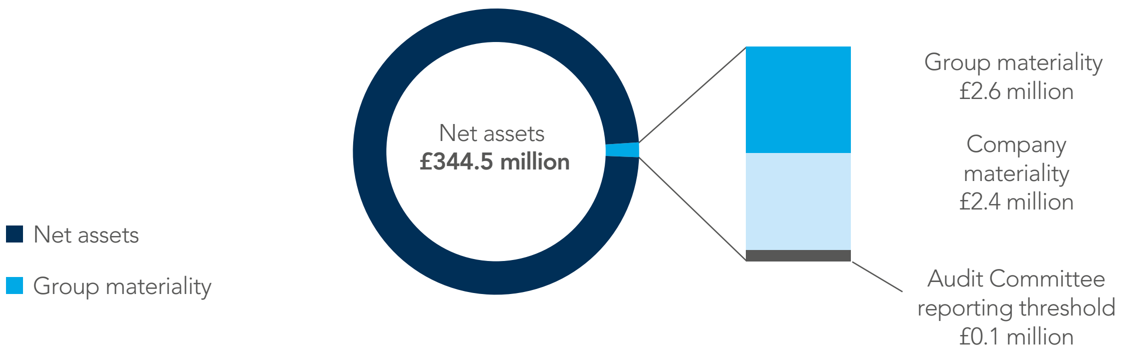
6. Our application of materiality

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	£2.6 million (2022: £2.4 million)	£2.4 million (2022: £2.3 million)
Basis for determining materiality	0.75% of net assets (2022: 0.75% of net assets)	0.75% of net assets (2022: 0.75% of net assets)
Rationale for the benchmark applied	We have chosen net assets as it is considered a key metric for users of the Financial Statements given the capital requirements which arise from being a regulated bank. As most of the Group's operations are carried out by the Company, the same materiality basis was used for both.	



6.2. Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the Financial Statements as a whole.

	Group Financial Statements	Company Financial Statements
Performance materiality	70% (2022: 70%) of Group materiality	70% (2022: 70%) of Company materiality
Basis and rationale for determining performance materiality	In determining performance materiality, we considered a number of factors, including: • our understanding of the control environment and whether we were able to rely on controls; • our understanding of the business; and • the number of corrected and uncorrected misstatements identified in the prior year.	

6.3. Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £0.1 million (2022: £0.1 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 to the members of Secure Trust Bank PLC

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, we performed a full scope audit on the Company which accounts for over 98% (2022: 98%) of the Group's net assets. For the remaining entities, we have performed testing of specific account balances.

Audit testing to respond to the risks of material misstatement was performed directly by the Group audit engagement team. We have also performed testing over the consolidation process of Group entities.

7.2. Our consideration of the control environment

We identified relevant IT systems for the Group in respect of the financial reporting system, lending systems for Vehicle Finance, Real Estate Finance, Commercial Finance, Retail Finance, and the deposits system. With involvement of our IT specialists, we performed testing of the general IT controls ('GITCs') associated with these systems and relied upon IT controls in respect of these systems.

We planned to take a controls reliance approach in relation to both the lending and deposits business cycles. We tested relevant automated and manual controls for these business cycles and were able to adopt a controls reliance approach. We did not plan to obtain controls reliance over impairment of loans and advances to customers.

7.3. Our consideration of climate-related risks

We have obtained an understanding of the process for considering the impact of climate-related risks and controls and assessed whether the risks identified are complete and consistent with our understanding of the entity as part of our own risk assessment procedures. These risks and Task Force on Climate-Related Financial Disclosures ('TCFD') are contained within pages 55 to 64 of the Annual Report.

In conjunction with our climate risk specialists, we have held discussions with the Group to understand the process for identifying affected operations, including the governance and controls over this process, and the subsequent effect on the financial reporting for the Group and the long-term strategy to respond to climate change risks as they evolve.

Our audit work has involved assessing the completeness of the physical and transition risks identified and considered in the Group's climate risk assessment. The conclusion is that there is no material impact of climate change risk on current year financial reporting.

As set out in Note 16, the Directors do not consider that climate change risk is currently a key source of estimation uncertainty nor that it presents a material impact to the judgements made in the financial statements.

We performed our own risk assessment of the potential impact of climate change on the Group's account balances and classes of transactions and did not identify any additional risks of material misstatement.

8. Other information

The other information comprises the information included in the Annual Report, other than the Financial Statements and our Auditor's Report thereon. The Directors are responsible for the other information contained within the Annual Report.

Our opinion on the Financial Statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Financial Statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the Financial Statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

9. Responsibilities of Directors

As explained more fully in the directors' responsibilities statement, the Directors are responsible for the preparation of the Financial Statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of Financial Statements that are free from material misstatement, whether due to fraud or error.

In preparing the Financial Statements, the Directors are responsible for assessing the Group's and the Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the Company or to cease operations, or have no realistic alternative but to do so.

10. Auditor's responsibilities for the audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the Financial Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an Auditor's Report that includes our opinion. Reasonable assurance is a high level of assurance,

Independent Auditor's Report to the members of Secure Trust Bank PLC

but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Financial Statements.

A further description of our responsibilities for the audit of the Financial Statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our Auditor's Report.

11. Extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

11.1. Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, we considered the following:

- the nature of the industry and sector, control environment and business performance including the design of the Group's remuneration policies, key drivers for Directors' remuneration, bonus levels and performance targets;
- the Group's own assessment of the risk that irregularities may occur either as a result of fraud or error;
- results of our enquiries of the Directors, Internal Audit, the Directors and the Audit Committee about their own identification and assessment of the risks of irregularities, including those that are specific to the Group's sector;
- 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;
- the matters discussed among the audit engagement team and relevant internal specialists, including tax, real estate valuation, economic advisory, climate risk, regulatory, 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 relation to impairment of loans and advances to customers. 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 FCA and Prudential Regulation Authority ('PRA') 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 impairment of loans and advances to customers as a key audit matter related to the potential risk of fraud. The key audit matters section of our report explains the matter in more detail and also describes the specific procedures we performed in response to that key audit matter.

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 the Directors, 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, FCA and PRA; 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.

Independent Auditor's Report to the members of Secure Trust Bank PLC

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 44 to the Financial Statements for the financial year ended 31 December 2023 has been properly prepared, in all material respects, in accordance with the Capital Requirements (Country-by Country Reporting) Regulations 2013.

14. Corporate Governance Statement

The Listing Rules require us to review the Directors' statement in relation to going concern, longer-term viability and that part of the Corporate Governance Statement relating to the Group's compliance with the provisions of the UK Corporate Governance Code specified for our review.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Statement is materially consistent with the Financial Statements and our knowledge obtained during the audit:

- the Directors' statement with regards to the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified set out on pages 39 and 40;
- the Directors' explanation as to its assessment of the Group's prospects, the period this assessment covers and why the period is appropriate set out on pages 39 and 40;
- the Directors' statement on fair, balanced and understandable set out on page 104;
- the Board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on pages 28 to 38;
- the section of the Annual Report that describes the review of effectiveness of risk management and internal control systems set out on page 71; and
- the section describing the work of the Audit Committee set out on pages 76 to 80.

Independent Auditor's Report to the members of Secure Trust Bank PLC

15. Matters on which we are required to report by exception

15.1. Adequacy of explanations received and accounting records

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Company Financial Statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

15.2. Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of Directors' remuneration have not been made or the part of the Directors' remuneration report to be audited is not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

16. Other matters which we are required to address

16.1. Auditor tenure

Following the recommendation of the Audit Committee, we were appointed by the Board of Directors on 16 May 2018 to audit the Financial Statements for the year ending 31 December 2018 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is six years, covering the years ending 31 December 2018 to 31 December 2023.

16.2. Consistency of the audit report with the additional report to the Audit Committee

Our audit opinion is consistent with the additional report to the audit committee we are required to provide in accordance with ISAs (UK).

17. Use of our report

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an Auditor's Report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

As required by the FCA's Disclosure Guidance and Transparency Rule (DTR) 4.1.15R – DTR 4.1.18R, these Financial Statements form part of the Electronic Format Annual Financial Report filed on the National Storage Mechanism of the FCA in accordance with DTR 4.1.15R – DTR 4.1.18R. This Auditor's Report provides no assurance over whether the Electronic Format Annual Financial Report has been prepared in compliance with DTR 4.1.15R – DTR 4.1.18R.

Neil Reed FCA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor

Birmingham, United Kingdom

20 March 2024

Consolidated statement of comprehensive income

For the year ended 31 December

	Note	2023 £million	Restated[1] 2022 £million
Income statement			
Continuing operations			
Interest income and similar income	4.1	304.0	203.0
Interest expense and similar charges	4.1	(136.5)	(50.4)
Net interest income	4.1	**167.5**	**152.6**
Fee and commission income	4.2	17.3	17.4
Fee and commission expense	4.2	(0.1)	(0.4)
Net fee and commission income	4.2	**17.2**	**17.0**
Operating income		**184.7**	**169.6**
Net impairment charge on loans and advances to customers	16	(43.2)	(38.2)
Gains on modification of financial assets		0.3	1.1
Fair value and other gains/(losses) on financial instruments	5	0.5	(0.3)
Operating expenses	6	(99.7)	(93.2)
Profit before income tax from continuing operations before exceptional items		**42.6**	**39.0**
Exceptional items	8	(6.5)	–
Profit before income tax from continuing operations		**36.1**	**39.0**
Income tax expense	9	(9.7)	(9.4)
Profit for the year from continuing operations		**26.4**	**29.6**
Discontinued operations			
(Loss)/profit before income tax from discontinued operations	10	**(2.7)**	**5.0**
Income tax credit/(expense)	10	0.6	(0.9)
(Loss)/profit for the year from discontinued operations	10	**(2.1)**	**4.1**
Profit for the year		**24.3**	**33.7**
Other comprehensive income			
Items that may be reclassified to the income statement			
Cash flow hedge reserve movements		–	(0.8)
Reclassification to the income statement		0.6	0.1
Taxation		(0.1)	0.2
Other comprehensive income/(loss) for the year, net of income tax		**0.5**	**(0.5)**
Total other comprehensive income		**24.8**	**33.2**
Profit attributable to equity holders of the Company		**24.3**	**33.7**
Total comprehensive income attributable to equity holders of the Company		**24.8**	**33.2**
Earnings per share for profit attributable to the equity holders of the Company during the year (pence per share)			
Basic earnings per ordinary share	11.1	**129.6**	**180.5**
Diluted earnings per ordinary share	11.2	**126.1**	**174.7**
Basic earnings per ordinary share – continuing operations		**140.8**	**158.5**
Diluted earnings per ordinary share – continuing operations		**137.0**	**153.4**

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

The Notes on pages 121 to 173 are an integral part of these consolidated financial statements.

Consolidated statement of financial position

As at 31 December

	Note	**2023 £million**	Restated[1] 2022 £million	Restated[1] 2021 £million
ASSETS				
Cash and Bank of England reserve account		351.6	370.1	235.7
Loans and advances to banks	13	53.7	50.5	50.3
Debt securities		–	–	25.0
Loans and advances to customers	14, 15	3,315.3	2,919.5	2,530.6
Fair value adjustment for portfolio hedged risk	17	(3.9)	(32.0)	(3.5)
Derivative financial instruments	17	25.5	34.9	3.8
Assets held for sale		–	–	1.3
Investment property	18	–	–	4.7
Property, plant and equipment	19	10.8	9.7	8.8
Right-of-use assets	20	1.8	1.5	2.2
Intangible assets	21	5.9	6.6	6.9
Current tax assets		0.1	–	0.8
Deferred tax assets	23	4.3	5.6	7.2
Other assets	24	12.9	13.4	11.9
Total assets		**3,778.0**	**3,379.8**	**2,885.7**
LIABILITIES AND EQUITY				
Liabilities				
Due to banks	25	402.0	400.5	390.8
Deposits from customers	26	2,871.8	2,514.6	2,103.2
Fair value adjustment for portfolio hedged risk	17	(1.4)	(23.0)	(5.3)
Derivative financial instruments	17	22.0	26.7	6.2
Liabilities directly associated with assets held for sale		–	–	2.0
Current tax liabilities		–	0.8	–
Lease liabilities	27	2.3	2.1	3.1
Other liabilities	28	37.7	78.1	31.3
Provisions for liabilities and charges	29	6.0	2.5	1.3
Subordinated liabilities	30	93.1	51.1	50.9
Total liabilities		**3,433.5**	**3,053.4**	**2,583.5**
Equity attributable to owners of the parent				
Share capital	32	7.6	7.5	7.5
Share premium		83.8	82.2	82.2
Other reserves	33	(1.7)	(1.1)	(0.3)
Retained earnings		254.8	237.8	212.8
Total equity		**344.5**	**326.4**	**302.2**
Total liabilities and equity		**3,778.0**	**3,379.8**	**2,885.7**

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

The consolidated financial statements on pages 114 to 173 were approved by the Board of Directors on 20 March 2024 and were signed on its behalf by:

Lord Forsyth
Chairman

David McCreadie
Chief Executive Office

The Notes on pages 121 to 173 are an integral part of these consolidated financial statements.

Company statement of financial position

As at 31 December

	Note	2023 £million	Restated[1] 2022 £million	Restated[1] 2021 £million
ASSETS				
Cash and Bank of England reserve account		351.6	370.1	235.7
Loans and advances to banks	13	53.0	48.9	47.4
Debt securities		–	–	25.0
Loans and advances to customers	14, 15	3,315.3	2,919.5	2,450.3
Fair value adjustment for portfolio hedged risk	17	(3.9)	(32.0)	(3.5)
Derivative financial instruments	17	25.5	34.9	3.8
Investment property	18	0.9	1.0	5.7
Property, plant and equipment	19	6.3	4.9	3.9
Right-of-use assets	20	1.6	1.3	1.5
Intangible assets	21	3.5	4.4	5.4
Investments in group undertakings	22	5.9	5.7	4.3
Current tax assets		–	–	1.5
Deferred tax assets	23	4.3	5.3	6.9
Other assets	24	14.4	15.1	99.8
Total assets		**3,778.4**	**3,379.1**	**2,887.7**
LIABILITIES AND EQUITY				
Liabilities				
Due to banks	25	402.0	400.5	390.8
Deposits from customers	26	2,871.8	2,514.6	2,103.2
Fair value adjustment for portfolio hedged risk	17	(1.4)	(23.0)	(5.3)
Derivative financial instruments	17	22.0	26.7	6.2
Current tax liabilities		0.3	0.6	–
Lease liabilities	27	2.1	1.9	2.3
Other liabilities	28	44.7	85.9	43.8
Provisions for liabilities and charges	29	5.6	2.0	1.3
Subordinated liabilities	30	93.1	51.1	50.9
Total liabilities		**3,440.2**	**3,060.3**	**2,593.2**
Equity attributable to owners of the parent				
Share capital	32	7.6	7.5	7.5
Share premium		83.8	82.2	82.2
Other reserves	33	(1.7)	(1.1)	(0.3)
Retained earnings		248.5	230.2	205.1
Total equity		**338.2**	**318.8**	**294.5**
Total liabilities and equity		**3,778.4**	**3,379.1**	**2,887.7**

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

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

The consolidated financial statements on pages 114 to 173 were approved by the Board of Directors on 20 March 2024 and were signed on its behalf by:

Lord Forsyth
Chairman

David McCreadie
Chief Executive Officer

Registered number: 00541132

The Notes on pages 121 to 173 are an integral part of these consolidated financial statements.

Consolidated statement of changes in equity

	Share capital £million	Share premium £million	Other reserves: Cash flow hedge reserve £million	Other reserves: Revaluation reserve £million	Other reserves: Own shares £million	Retained earnings £million	Total £million
Balance at 1 January 2022	**7.5**	**82.2**	**(0.3)**	**1.3**	**–**	**211.7**	**302.4**
Land and buildings prior year restatement net of tax (see Note 1.3)	–	–	–	(1.3)	–	1.1	(0.2)
Balance at 1 January 2022 (restated)	**7.5**	**82.2**	**(0.3)**	**–**	**–**	**212.8**	**302.2**
Total comprehensive income for the year							
Profit for 2022	–	–	–	–	–	33.7	33.7
Total other comprehensive income, net of income tax							
Cash flow hedge reserve movements	–	–	(0.7)	–	–	–	(0.7)
Tax on cash flow hedge reserve movements	–	–	0.2	–	–	–	0.2
Total other comprehensive loss	**–**	**–**	**(0.5)**	**–**	**–**	**–**	**(0.5)**
Total comprehensive income for the year	**–**	**–**	**(0.5)**	**–**	**–**	**33.7**	**33.2**
Transactions with owners, recorded directly in equity							
Contributions by and distributions to owners							
Purchase of own shares	–	–	–	–	(0.3)	–	(0.3)
Dividends paid	–	–	–	–	–	(10.7)	(10.7)
Share-based payments	–	–	–	–	–	2.0	2.0
Total contributions by and distributions to owners	**–**	**–**	**–**	**–**	**(0.3)**	**(8.7)**	**(9.0)**
Balance at 31 December 2022	**7.5**	**82.2**	**(0.8)**	**–**	**(0.3)**	**237.8**	**326.4**
Total comprehensive income for the year							
Profit for 2023	–	–	–	–	–	24.3	24.3
Total other comprehensive income, net of income tax							
Cash flow hedge reserve movements	–	–	0.6	–	–	–	0.6
Tax on cash flow hedge reserve movements	–	–	(0.1)	–	–	–	(0.1)
Total other comprehensive income	**–**	**–**	**0.5**	**–**	**–**	**–**	**0.5**
Total comprehensive income for the year	**–**	**–**	**0.5**	**–**	**–**	**24.3**	**24.8**
Transactions with owners, recorded directly in equity							
Contributions by and distributions to owners							
Purchase of own shares	–	–	–	–	(1.2)	–	(1.2)
Sale of own shares	–	–	–	–	0.1	–	0.1
Issue of shares	0.1	1.6	–	–	–	–	1.7
Dividends paid	–	–	–	–	–	(8.4)	(8.4)
Share-based payments	–	–	–	–	–	1.1	1.1
Total contributions by and distributions to owners	**0.1**	**1.6**	**–**	**–**	**(1.1)**	**(7.3)**	**(6.7)**
Balance at 31 December 2023	**7.6**	**83.8**	**(0.3)**	**–**	**(1.4)**	**254.8**	**344.5**

The Notes on pages 121 to 173 are an integral part of these consolidated financial statements.

Company statement of changes in equity

	Share capital £million	Share premium £million	Other reserves: Cash flow hedge reserve £million	Other reserves: Revaluation reserve £million	Other reserves: Own shares £million	Retained earnings £million	Total £million
Balance at 1 January 2022	**7.5**	**82.2**	**(0.3)**	**0.7**	**–**	**204.1**	**294.2**
Land and buildings prior year restatement net of tax (see Note 1.3)	–	–	–	(0.7)	–	1.0	0.3
Balance at 1 January 2022 (restated)	**7.5**	**82.2**	**(0.3)**	**–**	**–**	**205.1**	**294.5**
Total comprehensive income for the year							
Profit for 2022	–	–	–	–	–	33.8	33.8
Total other comprehensive income, net of income tax							
Cash flow hedge reserve movements	–	–	(0.7)	–	–	–	(0.7)
Tax on cash flow hedges reserve movements	–	–	0.2	–	–	–	0.2
Total other comprehensive loss	**–**	**–**	**(0.5)**	**–**	**–**	**–**	**(0.5)**
Total comprehensive income for the year	**–**	**–**	**(0.5)**	**–**	**–**	**33.8**	**33.3**
Transactions with owners, recorded directly in equity							
Contributions by and distributions to owners							
Own shares	–	–	–	–	(0.3)	–	(0.3)
Dividends paid	–	–	–	–	–	(10.7)	(10.7)
Share-based payments	–	–	–	–	–	2.0	2.0
Total contributions by and distributions to owners	**–**	**–**	**–**	**–**	**(0.3)**	**(8.7)**	**(9.0)**
Balance at 31 December 2022	**7.5**	**82.2**	**(0.8)**	**–**	**(0.3)**	**230.2**	**318.8**
Total comprehensive income for the year							
Profit for 2023	–	–	–	–	–	25.6	25.6
Total other comprehensive income, net of income tax							
Cash flow hedge reserve movements	–	–	0.6	–	–	–	0.6
Tax on cash flow hedge reserve movements	–	–	(0.1)	–	–	–	(0.1)
Total other comprehensive income	**–**	**–**	**0.5**	**–**	**–**	**–**	**0.5**
Total comprehensive income for the year	**–**	**–**	**0.5**	**–**	**–**	**25.6**	**26.1**
Transactions with owners, recorded directly in equity							
Contributions by and distributions to owners							
Purchase of own shares	–	–	–	–	(1.2)	–	(1.2)
Sale of own shares	–	–	–	–	0.1	–	0.1
Issue of shares	0.1	1.6	–	–	–	–	1.7
Dividends paid	–	–	–	–	–	(8.4)	(8.4)
Share-based payments	–	–	–	–	–	1.1	1.1
Total contributions by and distributions to owners	**0.1**	**1.6**	**–**	**–**	**(1.1)**	**(7.3)**	**(6.7)**
Balance at 31 December 2023	**7.6**	**83.8**	**(0.3)**	**–**	**(1.4)**	**248.5**	**338.2**

The Notes on pages 121 to 173 are an integral part of these consolidated financial statements.

Consolidated statement of cash flows

For the year ended 31 December

	Note	2023 £million	2022 £million
Cash flows from operating activities			
Profit for the year		24.3	33.7
Adjustments for:			
Income tax expense	9	9.1	10.3
Depreciation of property, plant and equipment	19	0.9	1.2
Depreciation of right-of-use assets	20	0.7	0.7
Amortisation of intangible assets	21	1.2	1.4
Loss on disposal of property, plant and equipment, right of use assets and intangible assets		0.2	1.4
Impairment charge on loans and advances to customers		43.2	39.0
Share-based compensation	34	1.1	2.0
Gain on disposal of loan books	10	–	(8.9)
Provisions for liabilities and charges	29	8.5	–
Other non-cash items included in profit before tax		(0.8)	1.0
Cash flows from operating profits before changes in operating assets and liabilities		88.4	81.8
Changes in operating assets and liabilities:			
– loans and advances to customers		(439.0)	(497.1)
– loans and advances to banks		(1.3)	0.6
– other assets		0.4	(1.5)
– deposits from customers		357.2	411.4
– provisions for liabilities and charges utilisation		(4.7)	(1.1)
– other liabilities		(37.8)	45.6
Income tax paid		(8.6)	(7.0)
Net cash (outflow)/inflow from operating activities		**(45.4)**	**32.7**
Cash flows from investing activities			
Consideration on sale of loan books	10	–	81.9
Sale of investment property	18	–	3.3
Maturity and sales of debt securities		–	80.0
Purchase of debt securities		–	(80.0)
Purchase of property, plant and equipment and intangible assets	20, 21	(2.7)	(2.7)
Net cash (outflow)/inflow from investing activities		**(2.7)**	**82.5**
Cash flows from financing activities			
Issue of subordinated debt	30	70.0	–
Redemption of subordinated debt	30	(28.8)	–
(Repayment)/drawdown of amounts due to banks		(0.9)	7.0
Purchase of own shares		(1.2)	(0.3)
Issue of shares		1.7	–
Dividends paid	12	(8.4)	(10.7)
Repayment of lease liabilities	21	(0.9)	(1.0)
Net cash inflow/(outflow) from financing activities		**31.5**	**(5.0)**
Net (decrease)/increase in cash and cash equivalents		**(16.6)**	**110.2**
Cash and cash equivalents at 1 January		416.9	306.7
Cash and cash equivalents at 31 December	35	**400.3**	**416.9**

The Notes on pages 121 to 173 are an integral part of these consolidated financial statements.

Company statement of cash flows

For the year ended 31 December

	Note	2023 £million	2022 £million
Cash flows from operating activities			
Profit for the year		25.6	33.8
Adjustments for:			
Income tax expense	9	6.7	6.9
Depreciation of property, plant and equipment	19	0.6	0.7
Depreciation of right-of-use assets	20	0.6	0.4
Amortisation of intangible assets	21	1.0	1.1
Loss on disposal of property, plant and equipment		0.1	–
Impairment charge on loans and advances to customers		43.2	37.8
Share-based compensation	34	0.9	1.6
Dividends received from subsidiaries		(10.2)	(14.0)
Provisions for liabilities and charges	29	7.2	1.4
Other non-cash items included in profit before tax		1.4	(0.3)
Cash flows from operating profits before changes in operating assets and liabilities		77.1	69.4
Changes in operating assets and liabilities:			
– loans and advances to customers		(439.0)	(505.7)
– loans and advances to banks		(1.3)	0.6
– other assets		8.7	98.7
– deposits from customers		357.2	411.4
– provisions for liabilities and charges utilisation		(3.3)	(1.1)
– other liabilities		(38.6)	44.0
Income tax paid		(5.9)	(3.0)
Net cash (outflow)/inflow from operating activities		**(45.1)**	**114.3**
Cash flows from investing activities			
Sale of investment property	18	–	3.3
Purchase of subsidiary undertaking	22	–	(1.0)
Maturity and sales of debt securities		–	80.0
Purchase of debt securities		–	(80.0)
Purchase of property, plant and equipment and intangible assets	20, 21	(2.2)	(0.4)
Net cash (outflow)/inflow from investing activities		**(2.2)**	**1.9**
Cash flows from financing activities			
Issue of subordinated debt	30	70.0	–
Redemption of subordinated debt	30	(28.8)	–
(Repayment)/drawdown of amounts due to banks		(0.9)	7.0
Purchase of own shares	33	(1.2)	(0.3)
Issue of shares	32	1.7	–
Dividends paid	12	(8.4)	(10.7)
Repayment of lease liabilities	21	(0.8)	(0.7)
Net cash inflow/(outflow) from financing activities		**31.6**	**(4.7)**
Net (decrease)/increase in cash and cash equivalents		**(15.7)**	**111.5**
Cash and cash equivalents at 1 January		415.3	303.8
Cash and cash equivalents at 31 December	35	**399.6**	**415.3**

The Notes on pages 121 to 173 are an integral part of these consolidated financial statements.

Notes to the consolidated financial statements

1. Accounting policies

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

1.1. Reporting entity

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

1.2. Basis of presentation

The Group's consolidated financial statements and the Company's financial statements have been prepared in accordance with UK adopted International Accounting Standards in conformity with the requirements of the Companies Act 2006 and UK adopted International Financial Reporting Standards. The consolidated financial statements also comply with International Financial Reporting Standards ('IFRSs') as issued by the IASB, including interpretations issued by the IFRS interpretations Committee. They have been prepared under the historical cost convention, as modified by the valuation of derivative financial instruments and investment properties. 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 IFRSs that are issued but not yet effective that will have a material impact on the Group.

The preparation of consolidated 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 Viability and going concern section of the Strategic Report, starting on page 39.

The consolidated financial statements were authorised for issue by the Board of Directors on 20 March 2024.

1.3. Property, plant and equipment prior year adjustment

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

- The historical model or;
- The revaluation model.

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

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

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

Notes to the consolidated financial statements

1. Accounting policies continued

1.3. Property, plant and equipment prior year adjustment continued

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

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

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

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

1.4. Consolidation

Subsidiaries

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

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

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

Notes to the consolidated financial statements

1. Accounting policies continued

1.4. Consolidation continued

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

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

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

Discontinued operations

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

1.5. Financial assets and financial liabilities accounting policy

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

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

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

The Group's current business model for all financial assets, with the exception of derivative financial instruments, is to hold to collect contractual cash flows, and all assets held give rise to cash flows on specified dates that represent SPPI on the outstanding principal amount. All of the Group's financial assets are therefore currently classified as amortised cost, except for derivative financial instruments. Loans are recognised when funds are advanced to customers and are carried at amortised cost using the Effective Interest Rate ('EIR') method.

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

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

The Group currently has no financial instruments classified as FVOCI.

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

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

All other assets are classified as FVTPL.

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

Assessment whether contractual cash flows are SPPI

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

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

In making the assessment, the Group considers:

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

Notes to the consolidated financial statements

1. Accounting policies continued

1.5. Financial assets and financial liabilities accounting policy continued

Business model assessment

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

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

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

The Group currently has no financial instruments classified as FVTPL.

Amortised cost measurement

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

Derecognition of financial assets

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

Modification of loans

A customer's account may be modified to assist customers, who are in or have recently overcome financial difficulties, and have demonstrated both the ability and willingness to meet the current or modified loan contractual payments. Substantial loan modifications result in the derecognition of the existing loan, and the recognition of a new loan at the new origination EIR based on the expected future cash flows at origination. Determination of the origination Probability of Default ('PD') for the new loan is required, based on the PD as at the date of the modification, which is used for the calculation of the impairment provision against the new loan. Any deferred fees or deferred interest, and any difference between the carrying value of the derecognised loan and the new loan, is written off to the income statement on recognition of the new loan.

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

Financial liabilities (with the exception of derivative financial instruments)

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

Offsetting of financial assets and financial liabilities

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

1.6. Foreign currencies

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

Notes to the consolidated financial statements

2. Critical accounting judgements and key sources of estimation uncertainty

2.1. Judgements

Critical judgements are disclosed in

- Note 16.2.
- Note 31.1.2.

2.2. Key sources of estimation uncertainty

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

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

3. Operating segments

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

Continuing operations

Consumer Finance

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

Business Finance

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

Other

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

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

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

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

Discontinued operations

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

Notes to the consolidated financial statements

3. Operating segments continued

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

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

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

Notes to the consolidated financial statements

4. Operating income

All items below arise from financial instruments measured at amortised cost unless otherwise stated.

4.1 Net interest income

	2023 £million	2022 £million
Loans and advances to customers	267.0	201.1
Cash and Bank of England reserve account	17.5	4.6
Debt securities	–	0.1
	284.5	205.8
Income on financial instruments hedging assets	19.5	2.5
Interest income and similar income	**304.0**	**208.3**
Of which:		
Continuing	**304.0**	**203.0**
Discontinued (Note 10)	**–**	**5.3**
Deposits from customers	(88.2)	(38.4)
Due to banks	(18.7)	(5.7)
Subordinated liabilities	(10.7)	(3.4)
Other	(0.1)	(0.1)
	(117.7)	(47.6)
Expense on financial instruments hedging liabilities	(18.8)	(3.6)
Interest expense and similar charges	**(136.5)**	**(51.2)**
Of which:		
Continuing	**(136.5)**	**(50.4)**
Discontinued (Note 10)	**–**	**(0.8)**

Interest income and expense accounting policy

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

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

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

The calculation of the EIR includes all fees received and paid that are an integral part of the loan, transaction costs and all other premiums or discounts. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial instrument.

Notes to the consolidated financial statements

4. Operating income continued

4.1 Net interest income continued

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

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

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

4.2 Net fee and commission income

	2023 £million	2022 £million
Fee and disbursement income	16.4	19.8
Commission income	0.9	1.4
Other income	–	0.3
Fee and commission income	**17.3**	**21.5**
Of which:		
Continuing	**17.3**	**17.4**
Discontinued (Note 10)	**–**	**4.1**
Other expenses	(0.1)	(0.4)
Fee and commission expense - Continuing	**(0.1)**	**(0.4)**

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

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

Fee and commission accounting policy

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

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

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

Notes to the consolidated financial statements

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

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

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

As a part of its risk management strategy, the Group uses derivatives to economically hedge financial assets and liabilities. For further information on the Group's risk management strategy for market risk see page 33 of the Group's Strategic Report.

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

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

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

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

- differences between the expected and actual volume of prepayments, as the Group hedges to the expected repayment date taking into account expected prepayments based on past experience; or
- differences in the timing of cash flows for the hedged item and the hedging instrument.

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

Derivative financial instruments accounting policy

The Group enters into derivatives to manage exposures to fluctuations in interest rates. Derivatives are not used for speculative purposes. Derivatives are carried at fair value, with movements in fair value recognised in the income statement or other comprehensive income. Derivatives are valued by discounted cash flow models using yield curves based on Overnight Indexed Swap ('OIS') rates. All derivatives are carried as assets where fair value is positive and as liabilities when fair value is negative. Derivatives are not offset in the consolidated financial statements unless the Group has both a legally enforceable right and intention to offset. The Group does not hold contracts containing embedded derivatives.

Where cash collateral is received, to mitigate the risk inherent in the amounts due to the Group, it is included as a liability within the due to banks line within the statement of financial position. Where cash collateral is given, to mitigate the risk inherent in amounts due from the Group, it is included as an asset in the loans and advances to banks line within the statement of financial position.

Notes to the consolidated financial statements

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

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

Hedge accounting

Following the implementation of IFRS 9, the Group elected to apply IAS 39 for all of its hedge accounting requirements. When transactions meet specified criteria the Group can apply two types of hedge accounting:

- Hedges of the fair value of recognised assets or liabilities or firm commitments (fair value hedges).
- Hedges of highly probable future cash flows attributable to a recognised asset or liability (cash flow hedges).

The Group does not have hedges of net investments.

At inception of a hedge, the Group formally documents the relationship between the hedged items and hedging instruments, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values of the hedged items (i.e. the fair value offset between the hedged item and hedging instrument is within the 80% –125% range).

When the European Union adopted IAS 39 in 2004, it removed certain hedge accounting requirements, commonly referred to as the EU carve-out. The relaxed requirements under the carve-out allow the Group to apply the 'bottom up' method when calculating macro-hedge ineffectiveness. This option is not allowed under full IFRS. The Group has applied the EU carve-out accordingly.

Fair value hedge accounting

Fair value hedge accounting results in the carrying value of the hedged item being adjusted to reflect changes in fair value attributable to the hedged risk, thereby offsetting the effect of the related movement in the fair value of the derivative. Changes in the fair value of derivatives and hedged items that are designated and qualify as fair value hedges are recorded in the income statement.

In a one-to-one hedging relationship, in which a single derivative hedges a single hedged item, the carrying value of the underlying asset or liability (the hedged item) is adjusted for the hedged risk to offset the fair value movement of the related derivative. In the case of a portfolio hedge, an adjustment is included in the fair value adjustments for portfolio hedged risk line in the statement of financial position to offset the fair value movements in the related derivative. The Group currently only designates portfolio hedges.

If the hedge no longer meets the criteria for hedge accounting, expires or is terminated, the cumulative fair value adjustment to the carrying amount of a hedged item is amortised to the income statement over the period to maturity of the previously designated hedge relationship and recorded as net interest income. If the underlying item is sold or repaid, the unamortised fair value adjustment is immediately recognised in the income statement.

Cash flow hedge accounting

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in other comprehensive income and presented in the cash flow hedge reserve in equity. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in the income statement. Amounts recognised in the cash flow hedge reserve are subsequently reclassified to the income statement when the underlying asset or liability being hedged impacts the income statement, for example, when interest payments are recognised, and are recorded in the same income statement line in which the income or expense associated with the related hedged item is reported.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised in the periods when the hedged item affects the income statement. When a forecast transaction is no longer expected to occur (for example, the recognised hedged item is disposed of), the cumulative gain or loss previously recognised in other comprehensive income is immediately reclassified to the income statement.

The cash flow hedge reserve represents the cumulative amount of gains and losses on hedging instruments deemed effective in cash flow hedges. The cumulative deferred gain or loss on the hedging instrument is recognised in profit or loss only when the hedged transaction impacts the profit or loss or is included directly in the initial cost or other carrying amount of the hedged non-financial items (basis adjustment).

Notes to the consolidated financial statements

6. Operating expenses

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

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

Post-retirement obligations accounting policy

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

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

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

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

7. Average number of employees

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

Notes to the consolidated financial statements

8. Exceptional items

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

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

Corporate activity

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

Income tax on exceptional items

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

Exceptional items accounting policy

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

9. Income tax expense

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

	2023 £million	2022 £million
Tax reconciliation		
Profit before tax	33.4	44.0
Tax at 23.50% (2022: 19.00%)	7.8	8.4
Permanent differences on exceptional items	0.9	–
Other permanent differences	0.3	0.4
Rate change on deferred tax assets	0.1	1.2
Other adjustments including prior year adjustments	–	0.3
Income tax expense for the year	**9.1**	**10.3**

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

Notes to the consolidated financial statements

9. Income tax expense continued

Income tax accounting policy

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

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

10. Discontinued operations

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

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

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

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

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

Notes to the consolidated financial statements

11. Earnings per ordinary share

11.1 Basic

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

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

11.2 Diluted

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

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

12. Dividends

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

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

Dividends accounting policy

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

Notes to the consolidated financial statements

13. Loans and advances to banks

Moody's long-term ratings are as follows:

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

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

14. Loans and advances to customers

Group and Company

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

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

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

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

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

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

* based on gross development value.

All property valuations at loan inception, and the majority of development stage valuations, are performed by independent Chartered Surveyors, who perform their work in accordance with the Royal Institution of Chartered Surveyors Valuation – Professional Standards.

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

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

Notes to the consolidated financial statements

15. Finance lease receivables

Group and Company

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

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

Finance lease receivables include Vehicle Finance loans to consumers.

Lessor accounting policy

The present value of the lease payments on assets leased to customers under agreements that transfer substantially all the risks and rewards of ownership, with or without ultimate legal title, are recognised as a receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. Lease income is recognised over the term of the lease using the net investment method, which reflects a constant periodic rate of return.

16. Allowances for impairment of loans and advances

Group and Company

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

Notes to the consolidated financial statements

16. Allowances for impairment of loans and advances continued

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

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

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

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

Total provisions above include expert credit judgements as follows:

	2023 £million	2022 £million
Specific overlays held against credit-impaired secured assets held within the Business Finance portfolio	(1.0)	0.7
Management judgement in respect of:		
– Consumer Finance affordability	–	2.5
– Vehicle Finance used car valuations	–	1.3
– Vehicle Finance LGD on Stage 3 balances	(2.1)	–
Other	1.9	(1.6)
Expert credit judgements over the IFRS 9 model results	**(1.2)**	**2.9**

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

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

Notes to the consolidated financial statements

16. Allowances for impairment of loans and advances continued

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

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

Group

	Not credit-impaired		Credit-impaired	
	Stage 1: Subject to 12-month ECL £million	Stage 2: Subject to lifetime ECL £million	Stage 3: Subject to lifetime ECL £million	Total £million
At 1 January 2022	18.5	20.0	29.0	67.5
(Decrease)/increase due to change in credit risk				
– Transfer to Stage 2	(8.8)	46.3	–	37.5
– Transfer to Stage 3	(0.4)	(21.4)	29.5	7.7
– Transfer to Stage 1	2.3	(4.6)	-	(2.3)
Passage of time	(6.3)	(0.7)	(2.5)	(9.5)
New loans originated	23.2	–	–	23.2
Matured and derecognised loans	(2.9)	(3.8)	(5.2)	(11.9)
Changes to credit risk parameters	(2.9)	(7.2)	1.9	(8.2)
Other adjustments	2.4	–	–	2.4
Charge to income statement	6.6	8.6	23.7	38.9
Allowance utilised in respect of write-offs	(0.8)	–	(27.6)	(28.4)
31 December 2022	**24.3**	**28.6**	**25.1**	**78.0**

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

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

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

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

Notes to the consolidated financial statements

16. Allowances for impairment of loans and advances continued

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

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

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

Group and Company

	2023				2022			
	Stage 1 £million	**Stage 2 £million**	**Stage 3 £million**	**Total £million**	Stage 1 £million	Stage 2 £million	Stage 3 £million	Total £million
Business Finance:								
Strong	57.9	–	–	57.9	127.5	–	–	127.5
Good	1,087.8	4.5	–	1,092.3	962.4	28.5	–	990.9
Satisfactory	236.5	82.0	28.8	347.3	195.7	125.7	1.8	323.2
Weak	–	59.3	78.2	137.5	–	40.2	15.5	55.7
	1,382.2	**145.8**	**107.0**	**1,635.0**	**1,285.6**	**194.4**	**17.3**	**1,497.3**
Consumer Finance:								
Good	706.0	58.9	10.1	775.0	601.5	77.6	6.0	685.1
Satisfactory	596.5	54.4	18.4	669.3	495.3	60.5	9.3	565.1
Weak	266.8	38.7	18.6	324.1	197.4	38.2	14.4	250.0
	1,569.3	**152.0**	**47.1**	**1,768.4**	**1,294.2**	**176.3**	**29.7**	**1,500.2**

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

Notes to the consolidated financial statements

16. Allowances for impairment of loans and advances continued

Company

All Company allowances for impairment of loans and advances are the same as Group, except for the table below. For the Company disclosure, see the Group tables on pages 136 to 139 and Note 24.

	Not credit-impaired		Credit-impaired	
	Stage 1: Subject to 12-month ECL £million	Stage 2: Subject to lifetime ECL £million	Stage 3: Subject to lifetime ECL £million	Total £million
At 1 January 2022	18.6	20.3	22.0	60.9
(Decrease)/increase due to change in credit risk				
– Transfer to Stage 2	(8.8)	46.3	–	37.5
– Transfer to Stage 3	(0.4)	(21.4)	29.5	7.7
– Transfer to Stage 1	2.3	(4.6)	–	(2.3)
Passage of time	(6.4)	(1.0)	(1.8)	(9.2)
New loans originated	23.2	–	–	23.2
Matured and derecognised loans	(2.9)	(3.8)	(5.2)	(11.9)
Changes to credit risk parameters	(2.9)	(7.2)	1.0	(9.1)
Other adjustments	2.4	–	(0.2)	2.2
Charge to income statement	6.5	8.3	23.3	38.1
Allowance utilised in respect of write-offs	(0.8)	–	(20.2)	(21.0)
31 December 2022	**24.3**	**28.6**	**25.1**	**78.0**

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

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

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

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

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

Notes to the consolidated financial statements

16. Allowances for impairment of loans and advances continued

Impairment of financial assets and loan commitments accounting policy

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

Stage 1 assets

Stage 1 assets comprise of the following:

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

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

Stage 2 assets

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

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

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

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

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

Stage 3 assets

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

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

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

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

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

Notes to the consolidated financial statements

16. Allowances for impairment of loans and advances 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 in Vehicle Finance and three months in Retail Finance.

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

Calculation of expected credit loss ('ECL')

ECL are probability weighted estimates of credit losses that are measured as the present value of all cash shortfalls. Specifically, this is the difference between the contractual cash flows due and the cash flows expected to be received, discounted at the original effective interest rate. For undrawn loan commitments ECL is measured as the difference between the contractual cash flows due if the commitment is drawn and the cash flows expected to be received.

Lifetime ECL is the ECL that results from all possible default events over the expected life of a financial asset.

12-month ECL is the portion of lifetime ECL that results from default events on a financial asset that are possible within 12 months after the reporting date.

ECL are calculated by multiplying three main components: the Probability of Default ('PD'), Exposure At Default ('EAD') and Loss Given Default ('LGD') discounted at the original effective interest rate of an asset. These variables are derived from internally developed statistical models and historical data, adjusted to reflect forward-looking information and are discussed in turn further below. Management adjustments are made to modelled output to account for situations, where known, or expected risk factors that have not been reflected in the modelled outcome.

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

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

Emergence curves modelling is used in the production of forward-looking lifetime PDs. This method defines the way that debt emerges for differing quality accounts and their time on the books creating a clean relationship to best demonstrate the movement in default rates as macroeconomic variables are changed. These models are extrapolated to provide PD estimates for the future, based on forecasted economic scenarios.

Exposure at Default ('EAD')

EAD represents the expected exposure in the event of a default. EAD is derived from the current exposure and potential changes to the current amount allowed under the terms of the contract, including amortisation overpayments and early terminations. The EAD of a financial asset is its gross carrying amount. For loan commitments the EAD includes the amount drawn, as well as potential future amounts that may be drawn under the terms of the contract, estimated based on historical observations and forward-looking forecasts.

For Commercial Finance facilities that have no specific term, an assumption is made that accounts close 36 months after the reporting date for the purposes of measuring lifetime ECL. This assumption is based on industry experience of average client life. These facilities do not have a fixed term or repayment structure, but are revolving and increase or decrease to reflect the value of the collateral i.e. receivables or inventory. The Group can cancel the facilities with immediate effect, although this contractual right is not enforced in the normal day-to-day management of the facility. Typically, demand would only be made on the failure of a client business or in the event of a material event of default, such as a fraud. In the normal course of events, the Group's exposure is recovered through receipt of remittances from the client's debtors rather than from the client itself.

The ECL for such facilities is estimated taking into account the credit risk management actions that the Group expects to take to mitigate against losses. These include a reduction in advance rate and facility limits or application of reserves against a facility to improve the likelihood of full recovery of exposure from the debtors.

Notes to the consolidated financial statements

16. Allowances for impairment of loans and advances continued

Alternative recovery routes mitigating ECL would include refinancing by another funding provider, taking security over other asset classes or secured personal guarantees from the client's principals.

Loss Given Default ('LGD')

LGD is the magnitude of the likely loss in the event of default. This takes into account recoveries either through curing or, where applicable, through the auction sale of repossessed collateral and debt sale of the residual shortfall amount. For loans secured by real estate property, loan-to-value ratios are key parameters in determining LGD. LGDs are calculated on a discounted cash flow basis using the financial instrument's origination effective interest rate as the discount factor.

Incorporation of forward-looking data

The Group incorporates forward-looking information into both its assessment of whether the credit risk of a financial asset has increased significantly since initial recognition and its measurement of ECL. This is achieved by developing a number of potential economic scenarios and modelling ECLs for each scenario. To ensure material non-linear relationships between economic factors and credit losses are reflected in the calculation of ECL, a severe stress scenario is used as one of these scenarios. The outputs from each scenario are combined using the estimated likelihood of each scenario occurring to derive a probability weighted expected credit loss. The four scenarios adopted and probability weighting applied are set out on page 144.

The Group considers that the key drivers of credit risk and credit losses included in the macroeconomic scenarios are annual unemployment rate growth and annual house price index growth. Base case assumptions applied for each of these variables have been sourced from external consensus or Bank of England forecasts. Further details of the assumptions applied to other scenarios are presented on page 144.

Expert credit judgements

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

Presentation of loss allowance

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

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

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

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

Vehicle Finance voluntary termination provision

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

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

Write off

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

Intercompany receivables

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

Notes to the consolidated financial statements

16. Allowances for impairment of loans and advances continued

16.1. Key sources of estimation uncertainty

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

16.1.1. Incorporation of forward-looking data

The Group incorporates forward-looking information into both its assessment of whether the credit risk of a financial asset has increased significantly since initial recognition and its measurement of expected credit loss by developing a number of potential economic scenarios and modelling expected credit losses for each scenario. Further detail on this process is provided on page 143. The macroeconomic scenarios used were provided by external economic advisers. The scenarios and weightings applied are summarised below:

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

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

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

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

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

Notes to the consolidated financial statements

16. Allowances for impairment of loans and advances continued

16.1.2. ECL modelled output: Estimation of PDs

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

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

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

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

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

16.1.3. ECL modelled output: Vehicle Finance recovery rates

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

16.1.4. ECJ: Vehicle Finance used car values

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

16.1.5. Climate-risk impact

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

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

16.2. Critical judgments

16.2.1. ECJ: Consumer Finance customer affordability

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

Notes to the consolidated financial statements

17. Derivative financial instruments

Group and Company

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

	Notional 2023 £million	**Assets 2023 £million**	**Liabilities 2023 £million**	Notional 2022 £million	Assets 2022 £million	Liabilities 2022 £million
Interest rate derivatives designated in fair value hedges						
In less than one year	783.7	6.9	(3.0)	689.8	3.9	(6.0)
More than one year but less than three years	859.4	13.2	(9.0)	718.5	15.4	(16.1)
More than three years but less than five years	494.0	5.3	(9.3)	274.9	15.5	(3.3)
More than five years	-	-	-	7.5	–	–
	2,137.1	**25.4**	**(21.3)**	**1,690.7**	**34.8**	**(25.4)**
Interest rate derivatives designated in cash flow hedges						
In less than one year	4.7	–	(0.2)	–	–	–
More than one year but less than three years	9.4	–	(0.4)	14.1	–	(1.1)
More than three years but less than five years	2.4	0.1	–	2.4	0.1	–
	16.5	**0.1**	**(0.6)**	**16.5**	**0.1**	**(1.1)**
Foreign exchange derivatives						
In less than one year	28.0	–	(0.1)	16.7	–	(0.2)
	2,181.6	**25.5**	**(22.0)**	**1,723.9**	**34.9**	**(26.7)**

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

Notes to the consolidated financial statements

17. Derivative financial instruments continued

The following table sets out details of the hedged exposures covered by the Group's hedging strategies:

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

The accumulated amount of fair value hedge adjustments remaining in the statement of financial position for hedged items that have ceased to be adjusted for hedging gains and losses is £nil (2022: £0.2 million).

The following table shows the impact of financial assets and financial liabilities relating to transactions where:

- there is an enforceable master netting agreement in place, but the offset criteria are not otherwise satisfied, and
- financial collateral is paid and received.

	Gross amount reported on balance sheet £million	Master netting arrangements £million	Financial collateral £million	Net amounts after offsetting £million
31 December 2023				
Derivative financial assets				
Interest rate derivatives	25.5	(21.9)	(3.5)	0.1
	25.5	**(21.9)**	**(3.5)**	**0.1**
Derivative financial liabilities				
Interest rate derivatives	(21.9)	21.9	–	–
Foreign exchange derivatives	(0.1)	–	0.2	0.1
	(22.0)	**21.9**	**0.2**	**0.1**

Notes to the consolidated financial statements

17. Derivative financial instruments continued

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

Master netting arrangements do not meet the criteria for offsetting in the statement of financial position. This is because the arrangement creates an agreement for a right of set-off of recognised amounts, which is enforceable only following an event of default, insolvency or bankruptcy of the Group or counterparties. Furthermore, the Group and its counterparties do not intend to settle on a net basis or realise the assets and settle the liabilities simultaneously.

Financial collateral consists of cash settled, typically daily or weekly, to mitigate the credit risk on the fair value of derivatives.

18. Investment property

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

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

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

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

Investment property accounting policy

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

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

Notes to the consolidated financial statements

19. Property, plant and equipment

Group

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

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

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

Notes to the consolidated financial statements

19. Property, plant and equipment continued

Company

	Freehold property £million	Computer and other equipment £million	Total £million
Cost or valuation			
At 1 January 2022	2.1	6.4	8.5
Land and buildings prior year restatement (see Note 1.3)	0.3	–	0.3
At 1 January 2022 (as restated)	2.4	6.4	8.8
Additions	–	0.3	0.3
Disposals	–	(0.5)	(0.5)
Transfer from investment properties	1.4	–	1.4
At 31 December 2022	**3.8**	**6.2**	**10.0**
Additions	–	2.1	2.1
Disposals	–	(1.2)	(1.2)
At 31 December 2023	**3.8**	**7.1**	**10.9**
Accumulated depreciation			
At 1 January 2022	–	(4.8)	(4.8)
Land and buildings prior year restatement (see Note 1.3)	(0.1)	–	(0.1)
At 1 January 2022 (as restated)	(0.1)	(4.8)	(4.9)
Depreciation charge	–	(0.7)	(0.7)
Disposals	–	0.5	0.5
At 31 December 2022	**(0.1)**	**(5.0)**	**(5.1)**
Depreciation charge	(0.1)	(0.5)	(0.6)
Disposals	–	1.1	1.1
At 31 December 2023	**(0.2)**	**(4.4)**	**(4.6)**
Net book amount			
At 31 December 2022	**3.7**	**1.2**	**4.9**
At 31 December 2023	**3.6**	**2.7**	**6.3**

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

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

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

Notes to the consolidated financial statements

19. Property, plant and equipment continued

Property, plant and equipment accounting policy

Property, plant and equipment is stated at historical cost less any accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Pre-installed computer software licences are capitalised as part of the computer hardware it is installed on. Depreciation is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, which are subject to regular review:

Land	not depreciated
Freehold buildings	50 years
Leasehold improvements	shorter of life of lease or seven years
Computer equipment	three to five years
Other equipment	five to ten years

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

Gains and losses on disposals are determined by comparing proceeds with carrying amounts. These are included in the income statement.

The Group applies IAS 36 to determine whether property, plant and equipment is impaired.

20. Right-of-use assets

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

Notes to the consolidated financial statements

20. Right-of-use assets continued

Lessee accounting policy

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

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

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

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

21. Intangible assets

Group

	Goodwill £million	Computer software £million	Other intangible assets £million	Total £million
Cost or valuation				
At 1 January 2022	1.0	17.3	2.2	20.5
Additions	–	1.7	–	1.7
Disposals	–	(1.8)	–	(1.8)
At 31 December 2022	**1.0**	**17.2**	**2.2**	**20.4**
Additions	–	0.5	–	0.5
At 31 December 2023	**1.0**	**17.7**	**2.2**	**20.9**
Accumulated amortisation				
At 1 January 2022	–	(11.6)	(2.0)	(13.6)
Amortisation charge	–	(1.2)	(0.2)	(1.4)
Disposals	–	1.2	–	1.2
At 31 December 2022	**–**	**(11.6)**	**(2.2)**	**(13.8)**
Amortisation charge	–	(1.2)	–	(1.2)
At 31 December 2023	**–**	**(12.8)**	**(2.2)**	**(15.0)**
Net book amount				
At 31 December 2022	**1.0**	**5.6**	**–**	**6.6**
At 31 December 2023	**1.0**	**4.9**	**–**	**5.9**

Notes to the consolidated financial statements

21. Intangible assets continued

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

The recoverable amount of these cash generating units are determined on a value in use calculation, which uses cash flow projections based on financial forecasts covering a three-year period, and a discount rate of 8% (2022: 8%). Cash flow projections during the forecast period are based on the expected rate of new business. A zero growth based scenario is also considered. The Directors believe that any reasonably possible change in the key assumptions on which recoverable amount is based would not cause the aggregate carrying amount to exceed the aggregate recoverable amount of the cash generating unit. Hence no impairment has been recognised.

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

Company

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

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

Notes to the consolidated financial statements

21. Intangible assets continued

Intangible assets accounting policy

(a) Goodwill

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

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

(b) Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software.

Costs associated with developing or maintaining computer software programmes are recognised as an expense as incurred unless the technical feasibility of the development has been demonstrated, and it is probable that the expenditure will enable the asset to generate future economic benefits in excess of its originally assessed standard of performance, in which case they are capitalised.

These costs are amortised on a straight-line basis over their expected useful lives, which are between three to 10 years.

(c) Other intangibles

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

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

22. Investments in group undertakings

Company

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

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

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

Shares in subsidiary undertakings of Secure Trust Bank PLC are stated at cost less any provision for impairment. All subsidiary undertakings are unlisted and none are banking institutions. The share capital of the subsidiary undertakings comprises solely of ordinary shares and all are 100% owned by the Company. The subsidiary undertakings were all incorporated in the UK and wholly owned via ordinary shares. All subsidiary undertakings are included in the consolidated financial statements and have an accounting reference date of 31 December.

Notes to the consolidated financial statements

22. Investments in group undertakings continued

Details are as follows:

	Company number	Principal activity
Owned directly		
AppToPay Ltd	11204449	Non-trading
Debt Managers (Services) Limited	08092808	Debt management
Secure Homes Services Limited	01404439	Property rental
STB Leasing Limited	01648384	Non-trading
V12 Finance Group Limited	07498951	Holding company
Owned indirectly via an intermediate holding company		
V12 Personal Finance Limited	05418233	Dormant
V12 Retail Finance Limited	04585692	Sourcing and servicing of unsecured loans

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

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

23. Deferred taxation

	Group 2023 £million	Group 2022 £million	**Company 2023 £million**	Company 2022 £million
Deferred tax assets:				
Other short-term timing differences	4.3	5.6	4.3	5.3
At 31 December	**4.3**	**5.6**	**4.3**	**5.3**
Deferred tax assets:				
At 1 January	5.6	6.9	5.3	6.8
Land and buildings prior year restatement (see Note 1.3)	–	0.3	–	0.1
At 1 January (as restated)	5.6	7.2	5.3	6.9
Income statement	(1.2)	(1.8)	(0.9)	(1.8)
Other comprehensive income	(0.1)	0.2	(0.1)	0.2
At 31 December	**4.3**	**5.6**	**4.3**	**5.3**

Deferred tax accounting policy

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

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

Notes to the consolidated financial statements

24. Other assets

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

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

25. Due to banks

Group and Company

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

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

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

26. Deposits from customers

Group and Company

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

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

Notes to the consolidated financial statements

27. Lease liabilities

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

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

28. Other liabilities

	Group 2023 £million	Group 2022 £million	Company 2023 £million	Company 2022 £million
Other payables	25.9	68.1	23.7	65.0
Amounts due to related companies	–	–	10.5	12.4
Accruals and deferred income	11.8	10.0	10.5	8.5
	37.7	**78.1**	**44.7**	**85.9**

Notes to the consolidated financial statements

29. Provisions for liabilities and charges

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

ECL allowance on loan commitments

In accordance with the requirements of IFRS 9, the Group holds an ECL allowance against loans it has committed to lend, but have not yet been drawn. For the Real Estate Finance and Commercial Finance portfolios, where a loan facility is agreed that includes both drawn and undrawn elements and the Group cannot identify the ECL on the loan commitment separately, a combined loss allowance for both drawn and undrawn components of the loan is presented as a deduction from the gross carrying amount of the drawn component, with any excess of the loss allowance over the gross drawn amount presented as a provision. At 31 December 2023 and 31 December 2022, no provision was held for losses in excess of drawn amounts.

Other

Other includes:

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

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

Provisions for liabilities and charges accounting policy

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

29.1 Key sources of estimation uncertainty

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

30. Subordinated liabilities

Group and Company

	2023 £million	2022 £million
Notes at par value	90.0	50.0
Unamortised issue costs	(0.9)	(0.1)
Accrued interest	4.0	1.2
	93.1	**51.1**

Notes to the consolidated financial statements

30. Subordinated liabilities continued

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

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

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

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

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

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

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

31. Contingent liabilities and commitments

31.1 Contingent liabilities

31.1.1 Laws and regulations

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

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

31.1.2 Discretionary motor finance commissions

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

31.1.2.1 Critical accounting judgement

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

31.2 Capital commitments

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

Notes to the consolidated financial statements

31. Contingent liabilities and commitments continued

31.3 Credit commitments

Group and Company

Commitments to extend credit to customers were as follows:

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

32. Share capital

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

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

Equity instruments accounting policy

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

33. Other reserves

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

33.1 Own shares

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

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

Notes to the consolidated financial statements

33. Other reserves continued

33.1 Own shares continued

Own shares accounting policy

The EBT qualifies for 'look-through' accounting, under which the EBT is treated as, in substance, an extension of the sponsoring entity, which is Secure Trust Bank PLC. Own shares represent the shares of the Parent Company, Secure Trust Bank PLC, that are held by the EBT. Own shares are recorded at cost and deducted from equity.

34. Share-based payments

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

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

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

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

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

Notes to the consolidated financial statements

34. Share-based payments continued

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

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

34.1.1 LTIP Restricted share award

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

	Awarded during 2023	Awarded during 2022
Share price at grant date	£6.70	£12.40
Exercise price	£0.40	£0.40
Expected dividend yield	5.20%	4.39%
Expected stock price volatility	42.93%	47.27%
Risk free interest rate	3.44%	1.47%
Average expected life (years)	3.00	3.00
Original grant date valuation	**£5.37**	**£10.49**

34.1.2 LTIP

217,307 (2022: 176,362) options were awarded during the year that are subject to four performance conditions, which are based on:

- rank of the Total Shareholder Return ('TSR') over the performance period against the TSR of the comparator group of peer group companies;
- increase in Return On Average Equity ('RoAE') over the performance period;
- increase in Earnings Per Share ('EPS') over the performance period; and
- maintaining appropriate risk practices over the performance period, reflecting the longer-term strategic risk management of the Group.

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

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

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

Notes to the consolidated financial statements

34. Share-based payments continued

34.2. Sharesave Plan

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

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

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

34.3. Deferred Bonus Plan

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

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

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

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

Notes to the consolidated financial statements

34. Share-based payments continued

34.3. Deferred Bonus Plan continued

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

34.4 Cash settled share-based payments

On 16 March 2015, a four-year 'phantom' share option scheme was established in order to provide effective long-term incentive to senior management of the Group. Under the scheme, no actual shares would be issued by the Company, but those granted awards under the scheme would be entitled to a cash payment. The amount of the award is calculated by reference to the increase in the value of an ordinary share in the Company over an initial value set at £25 per ordinary share, being the price at which the shares resulting from the exercise of the first tranche of share options under the share option scheme were sold in the market in November 2014. The options vested during 2019 and are exercisable for a period of 10 years after grant date.

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

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

Share-based compensation accounting policy

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

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

35. Cash flow statement

35.1. Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprise the following balances with less than three months' maturity from the date of acquisition.

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

Notes to the consolidated financial statements

35. Cash flow statement continued

35.1. Cash and cash equivalents continued

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

35.2. Changes in liabilities arising from financing activities

All changes in liabilities arising from financing activities arise from changes in cash flows, apart from £0.1 million (2022: £0.1 million) of lease liabilities interest expense, as shown in Note 27, and £0.2 million (2022: £0.2 million) amortisation of issue costs on subordinated liabilities, as shown in Note 30.

Cash and cash equivalents accounting policy

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

36. Financial risk management strategy

By their nature, the Group's activities are principally related to the use of financial instruments. The Directors and senior management of the Group have formally adopted a Group risk appetite statement that sets out the Board's attitude to risk and internal controls. Key risks identified by the Directors are formally reviewed and assessed at least once a year by the Board. In addition key business risks are identified, evaluated and managed by operating management on an ongoing basis by means of procedures, such as physical controls, credit and other authorisation limits and segregation of duties. The Board also receives regular reports on any risk matters that need to be brought to its attention. Significant risks identified in connection with the development of new activities are subject to consideration by the Board. There are budgeting procedures in place and reports are presented regularly to the Board detailing the results of each principal business unit, variances against budget and prior year, and other performance data.

A more detailed description of the risk governance structure is contained in the Principal risks and uncertainties section beginning on page 28.

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

37. Credit risk

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

Impairment provisions are provided for expected credit losses at the statement of financial position date. Significant changes in the economy could result in losses that are different from those provided for at the statement of financial position date. Management therefore carefully manages the Group's exposures to credit risk as it considers this to be the most significant risk to the business. Disclosures relating to collateral on loans and advances to customers are disclosed in Note 14.

The Board monitors the ratings of the counterparties in relation to the Group's loans and advances to banks. Disclosures of these at the year-end are contained in Note 13. There is no direct exposure to the Eurozone and peripheral Eurozone countries.

See page 30 for further details on the mitigation and change during the year of credit risk.

Notes to the consolidated financial statements

37. Credit risk continued

Group and Company

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

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

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

	Stage 1	Stage 2			Stage 3	Total gross loans and advances to customers
	£million	<= 30 days past due £million	> 30 days past due £million	Total £million	Total £million	£million
31 December 2022						
Consumer Finance						
Retail Finance	987.4	85.4	3.8	89.2	6.1	1,082.7
Vehicle Finance	306.8	83.3	3.8	87.1	23.6	417.5
Business Finance						
Real Estate Finance	957.9	122.9	21.3	144.2	16.8	1,118.9
Commercial Finance	327.7	50.2	–	50.2	0.5	378.4
Total drawn exposure	**2,579.8**	**341.8**	**28.9**	**370.7**	**47.0**	**2,997.5**
Off balance sheet						
Loan commitments	298.0	–	–	–	–	298.0
Total gross exposure	**2,877.8**	**341.8**	**28.9**	**370.7**	**47.0**	**3,295.5**
Less:						
Impairment allowance	(24.3)	(23.9)	(4.7)	(28.6)	(25.1)	(78.0)
Provision for loan commitments	(1.1)	–	–	–	–	(1.1)
Total net exposure	**2,852.4**	**317.9**	**24.2**	**342.1**	**21.9**	**3,216.4**

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

Notes to the consolidated financial statements

37. Credit risk continued

Company

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

37.1. Concentration risk

Management assesses the potential concentration risk from geographic, product and individual loan concentration. Due to the nature of the Group's lending operations, the Directors consider the lending operations of the Group as a whole to be well diversified. Details of the Group's loans and advances to customers and loan commitments by product is provided in Notes 3 and 31, respectively.

Geographical concentration

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

Group and Company

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

37.2. Forbearance

Consumer Finance

Throughout the year, the Group did not routinely reschedule contractual arrangements where customers default on their repayments. In cases where it offered the customer the option to reduce or defer payments for a short period, in line with our responsibilities from a conduct perspective, the loans retained the normal contractual payment due dates and were treated the same as any other defaulting cases for impairment purposes. Arrears tracking would continue on the account, with any impairment charge being based on the original contractual due dates for all products.

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

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

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

Real Estate Finance

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

Notes to the consolidated financial statements

38. Market risk

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

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

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

See page 33 for further details on the mitigation and change during the year of market risk.

Interest rate risk

Group and Company

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

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

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

The Directors consider that 200bps in the case of market value sensitivity and 100bps in the case of earnings at risk are a reasonable approximation of possible changes.

39. Liquidity and funding risk

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

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

See page 31 for further details on the mitigation and change during the year of liquidity and funding risk.

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

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

Notes to the consolidated financial statements

39. Liquidity and funding risk continued

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

Company

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

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

	Carrying amount £million	Gross nominal outflow £million	Not more than three months £million	More than three months but less than one year £million	More than one year but less than five years £million	More than five years £million
At 31 December 2022						
Lease liabilities	1.9	2.0	0.2	0.5	1.3	–
Other financial liabilities	77.4	77.4	77.4	–	–	–
Non-derivative financial liabilities	**3,045.5**	**3,136.5**	**1,045.7**	**1,093.3**	**996.4**	**1.1**
Total	**3,072.2**	**3,164.0**	**1,050.1**	**1,105.5**	**1,007.3**	**1.1**

Notes to the consolidated financial statements

40. Capital risk

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

The following table, which is unaudited and therefore not in scope of the Independent Auditor's Report, shows the regulatory capital resources for the Group.

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

1. Restated to reflect a change in accounting policy relating to land and buildings, which are now presented at historical cost. See Note 1.3 for further details.
2. Tier 2 capital comprises solely subordinated debt, excluding accrued interest, capped at 25% of the Pillar 1 and 2A requirements as set by the PRA.

The Group has elected to adopt the IFRS 9 transitional rules. In 2022, this allowed for 25% of the initial IFRS 9 transitional adjustment, net of attributable deferred tax, and for increases in provisions between 1 January 2018 to 31 December 2019, except where these provisions relate to defaulted accounts, to be added back to eligible capital. This part of the relief has now ended. The relief for increases in provisions since 1 January 2020. however continues to apply at 50% in 2023 (2022: 75%). This relief will taper off by 31 December 2024

The Group's regulatory capital is divided into:

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

Notes to the consolidated financial statements

40. Capital risk continued

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

Further information on capital is included within our Pillar 3 disclosures, which can be found on the Group's website. See page 32 for further details on the mitigation and change during the year of capital risk.

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

41. Classification of financial assets and liabilities

Group

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

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

Company

	Total carrying amount £million 2023	Fair value £million 2023	Fair value hierarchy level 2023	Total carrying amount £million 2022	Fair value £million 2022	Fair value hierarchy level 2022
At 31 December 2023						
Cash and Bank of England reserve account	351.6	351.6	Level 1	370.1	370.1	Level 1
Loans and advances to banks	53.0	53.0	Level 2	48.9	48.9	Level 2
Loans and advances to customers	3,315.3	3,279.7	Level 3	2,919.5	2,895.6	Level 3
Derivative financial instruments	25.5	25.5	Level 2	34.9	34.9	Level 2
Other financial assets	5.0	5.0	Level 3	4.6	4.6	Level 3
	3,750.4	**3,714.8**		**3,378.0**	**3,354.1**	
Due to banks	402.0	402.0	Level 2	400.5	400.5	Level 2
Deposits from customers	2,871.8	2,850.1	Level 3	2,514.6	2,494.0	Level 3
Derivative financial instruments	22.0	22.0	Level 2	26.7	26.7	Level 2
Lease liabilities	2.1	2.1	Level 3	1.9	1.9	Level 3
Other financial liabilities	34.2	34.2	Level 3	77.4	77.4	Level 3
Subordinated liabilities	93.1	94.8	Level 3	51.1	43.5	Level 2
	3,425.2	**3,405.2**		**3,072.2**	**3,044.0**	

Notes to the consolidated financial statements

41. Classification of financial assets and liabilities continued

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

Fair value classification

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

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

Loans and advances to customers and Deposits from customers

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

Debt securities

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

Derivative financial instruments

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

Subordinated liabilities

The fair value of subordinated liabilities is calculated based on quoted market prices where available, or where an active market quote is not available, it is calculated based on the present value of the expected future cash flows of the instruments. The rate used to discount the cash flows was the UK Government five year bond plus the initial spread on the instruments.

For all remaining financial assets and liabilities, the fair value of financial assets and liabilities is calculated to be equivalent to their carrying value due to their short maturity dates.

42. Related party transactions

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

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

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

	2023 £million	2022 £million
Interest income and similar income	(28.8)	(26.2)
Gain on sale of defaulted debt	–	0.2
Operating expenses	(0.4)	(0.4)
Waiver of intercompany balance	–	(0.2)
Allowances for impairment of amounts due from related companies	(2.1)	–
Investment income	10.2	14.0
	(21.1)	**(12.6)**
Equity contribution to subsidiaries re. share-based payments	**0.2**	**0.4**

Notes to the consolidated financial statements

42. Related party transactions continued

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

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

All amounts above are repayable on demand and the Company charged interest at a variable rate on amounts outstanding.

Directors' remuneration

The Directors' emoluments (including pension contributions and benefits in kind) for the year are disclosed in the Directors' Remuneration Report beginning on page 85.

At the year-end the ordinary shares held by the Directors are disclosed in the Directors' Remuneration Report beginning on page 85. Details of the Directors' holdings of share options, as well as details of those share options exercised during the year, are also disclosed in the Directors' Report.

43. Immediate parent company and ultimate controlling party

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

44. Country-by-Country reporting

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

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

45. Post balance sheet events

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

Five-year summary (unaudited)

	2023 £million	2022 £million	2021 £million	2020 £million	2019 £million
Profit for the year					
Continuing operations					
Interest and similar income	304.0	203.0	163.9	173.1	191.4
Interest expense and similar charges	(136.5)	(50.4)	(27.7)	(39.4)	(46.0)
Net interest income	**167.5**	**152.6**	**136.2**	**133.7**	**145.4**
Net fee and commission income	17.2	17.0	12.7	10.8	20.1
Operating income	**184.7**	**169.6**	**148.9**	**144.5**	**165.5**
Net impairment charge on loans and advances to customers	(43.2)	(38.2)	(5.0)	(41.4)	(32.6)
Gains/(losses) on modification of financial assets	0.3	1.1	1.5	(3.1)	–
Fair value gains/(losses) on financial instruments	0.5	(0.3)	(0.1)	–	–
Operating expenses	(99.7)	(93.2)	(89.4)	(81.8)	(96.8)
Profit before income tax before exceptional items	**42.6**	**39.0**	**55.9**	**18.2**	**36.1**
Exceptional items	(6.5)	–	–	–	–
Profit before income tax	**36.1**	**39.0**	**55.9**	**18.2**	**36.1**
Discontinued operations					
(Loss)/profit before income tax	(2.7)	5.0	0.1	0.9	–
Total profit before income tax	**33.4**	**44.0**	**56.0**	**19.1**	**36.1**

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

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

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

Appendix to the Annual Report (unaudited)

Key performance indicators and other alternative performance measures

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

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

(i) Continuing loans and advances to customers

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

	2023 £million	2022 £million	2021 £million	2020 £million	2019 £million	2018 £million
Loans and advances to customers	**3,315.3**	2,919.5	2,530.6	2,358.9	2,450.1	2,028.9
Assets held for sale – loan portfolios	–	–	1.3	–	–	–
Total loans and advances to customers	**3,315.3**	2,919.5	2,531.9	2,358.9	2,450.1	2,028.9
Less discontinued loans and advances to customers:						
Asset Finance (sold during 2021)	–	–	–	(10.4)	(27.7)	(62.8)
DMS (sold during 2022)	–	–	(79.6)	(81.8)	(82.4)	(32.3)
Consumer Mortgages (sold during 2021)	–	–	–	(77.7)	(105.9)	(84.7)
Other	–	–	(1.3)	(4.1)	(7.6)	(11.2)
Total discontinued operations loans and advances to customers	–	–	(80.9)	(174.0)	(223.6)	(191.0)
Continuing loans and advances to customers	**3,315.3**	**2,919.5**	**2,451.0**	**2,184.9**	**2,226.5**	**1,837.9**

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

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

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

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

Appendix to the Annual Report (unaudited)

Key performance indicators and other alternative performance measures continued

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

Vehicle Finance	2023 £million	2022 £million	2021 £million	2020 £million	2019 £million
Net interest income	44.1	38.9	32.2	37.5	40.6
Average loan book	429.6	325.1	245.8	292.1	300.1
Net interest margin	**10.3%**	**12.0%**	**13.1%**	**12.8%**	**13.5%**
Net interest income	44.1	38.9	32.2	37.5	40.6
Net fee and commission income	1.8	1.4	1.1	0.6	0.6
Net impairment charge on loans and advances to customers	(14.8)	(21.3)	(0.1)	(20.7)	(13.8)
Gains/(losses) on modification of financial assets	0.3	0.9	1.1	(2.5)	–
Risk adjusted income	31.4	19.9	34.3	14.9	27.4
Risk adjusted margin	**7.3%**	**6.1%**	**14.0%**	**5.1%**	**9.1%**

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

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

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

(iii) Yield

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

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

The yield measures the gross return on the loan book.

Appendix to the Annual Report (unaudited)

Key performance indicators and other alternative performance measures continued

(iv) Return on average equity

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

	2023 £million	Restated 2022 £million	2021 £million	2020 £million	2019 £million
Total profit after tax	24.3	33.7	45.6	15.4	31.1
Less:					
Loss/(profit) for the year from discontinued operations	2.1	(4.1)	N/A	N/A	N/A
Exceptional items after tax	5.9	–	–	–	–
Adjusted profit after tax	32.3	29.6	N/A	N/A	N/A
Opening equity	326.4	302.2	267.6	252.0	237.0
Closing equity	344.5	326.4	302.2	267.6	252.0
Average equity	334.9	313.4	287.0	261.1	242.9
Total return on average equity	**7.3%**	**10.8%**	**15.9%**	**5.9%**	**12.8%**
Adjusted return on average equity	**9.6%**	**9.4%**	**N/A**	**N/A**	**N/A**

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

(v) Cost to income ratio

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

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

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

(vi) Cost of risk

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

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

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

Appendix to the Annual Report (unaudited)

Key performance indicators and other alternative performance measures continued

(vii) Cost of funds

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

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

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

(viii) Funding ratio and loan to deposit ratio

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

	2023 £million	Restated 2022 £million
Deposits from customers	2,871.8	2,514.6
Borrowings under the Bank of England's liquidity support operations (including accrued interest)	395.1	392.8
Tier 2 capital (including accrued interest)	93.1	51.1
Equity	344.5	326.4
Total funding	3,704.5	3,284.9
Total loans and advances to customers	3,315.3	2,919.5
Funding ratio	**111.7%**	**112.5%**
Loan to deposit ratio	**115.4%**	**116.1%**

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

(ix) Profit before tax pre impairments

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

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

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

(x) Tangible book value per share

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

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

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

Glossary

Term	Explanation
ALCO	The Assets and Liabilities Committee. The remit of the Committee can be found on the Group's website: **www.securetrustbank.com/riskmanagement**.
CET 1 capital	Common Equity Tier 1 capital comprises share capital, share premium, retained earnings, own shares and regulatory adjustments.
CET 1 capital ratio	The Common Equity Tier 1 capital ratio is the ratio of the bank's CET 1 capital to its Total Risk Exposure. This signifies a bank's financial strength. The CET 1 capital ratio is monitored by regulators and investors because it shows how well a bank can withstand financial stress and remain solvent.
Capital requirement regulation and CRD V	The revised Capital Requirements Directive and Regulation, commonly referred to as CRD V and CRR 2, refine and continue to implement Basel III by the UK, making important amendments in a number of areas, including large exposures, leverage ratio, liquidity, market risk, counterparty credit risk, as well as reporting and disclosure requirements.
Feefo	Feefo collects independent reviews from the customers of businesses across many sectors, including financial services.
Financial Conduct Authority	The Financial Conduct Authority is the conduct regulator for financial services firms and financial markets in the UK. Its aims are to protect consumers, enhance market integrity and promote competition.
High Quality Liquid Assets	High Quality Liquid Assets are assets with a high potential to be converted easily and quickly into cash. This comprises cash, the Bank of England reserve account and Treasury Bills.
ICAAP	Internal Capital Adequacy Assessment Process. A firm must carry out an ICAAP in accordance with the PRA's rules. They 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.
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. This requires firms to develop and use appropriate risk and liquidity management techniques.
LCR	The Liquidity Coverage Ratio regime requires management of net 30-day cash outflows as a proportion of High Quality Liquid Assets. The Group has set a more prudent internal limit than that set by the regulator.
OLAR	The Overall Liquidity Adequacy Rule is the Board's own view of the Group's liquidity needs, as set out in the Board-approved ILAAP.
Pillar 1, Pillar 2 and Pillar 3	Basel III uses a 'three pillars' concept – (1) Pillar 1 – minimum capital requirements (addressing risk) using a standardised approach for credit, market and operational risk, (2) Pillar 2 – supervisory review process and (3) Pillar 3 – market discipline and enhanced disclosures.
PRA	The Prudential Regulation Authority is a part of the Bank of England and responsible for the prudential regulation and supervision of banks, building societies, credit unions, insurers and major investment firms. It sets standards and supervises financial institutions at the level of the individual firm. The PRA's objectives are set out in the Financial Services and Markets Act 2000, but the main objective is to promote the safety and soundness of the firms it regulates.
SME	Small to Medium-sized Enterprises.

Glossary

Term	Explanation
Term Funding Scheme with additional incentives for SMEs ('TFSME')	The TFSME was launched in March 2020 as part of measures to respond to the economic shock from COVID-19. The scheme is designed to incentivise eligible participants to provide credit to businesses and households to bridge through the current period of economic disruption, with additional incentives to provide credit to SMEs. This scheme allowed access to four-year funding at rates very close to Bank of England Base Rate, allowing eligible participants to borrow central bank reserves in exchange for eligible collateral and is due for repayment in 2025.
Tier 2 capital	Tier 2 capital is the secondary component of bank capital, in addition to Tier 1 capital, and is composed of subordinated liabilities, net of issue costs.
Total Capital Requirement	Guidance given to a firm about the amount and quality of capital resources that the PRA considers that the 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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Notes

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