STRAIGHTFORWARD TRANSPARENT BANKING

Interim Report for the six months ended 30 June 2019

Secure Trust Bank

About us

SECURE TRUST BANK (STB) IS AN ESTABLISHED RETAIL BANK WITH A 67 YEAR TRADING TRACK RECORD

STRAIGHTFORWARD TRANSPARENT BANKING SINCE 1952

FOR PEOPLE AND BUSINESSES ACROSS THE UK.

www.securetrustbank.com

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

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

Fair treatment of customers is central to our corporate culture. We are committed to providing a great service to more than a million customers who use our financial services and products.

Profit before tax

£18.1m

2018: £15.1 million

Total assets

£2,607.1m

2018: £2,187.1 million

Savings Champion 2019 Awards WINNER Best Savings Provider

Savings Champion 2019 Awards FINALIST Best Online Savings Provider

Contents

Our business model
How Secure Trust Bank does what it does

The Group lends to business and personal customers, funded primarily by customer deposits.

9 offices across the UK

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

Our divisions

BUSINESS FINANCE

Read more on page **22–23**

Secured lending, relatively lower yield and lower risk.

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

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

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

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

Asset Finance is currently closed to new business.

CONSUMER FINANCE

Read more on page **24–25**

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

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

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

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

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

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

Consumer Mortgages is currently closed to new business.

SAVINGS

Read more on page **26–27**

Savings
Customer deposits, augmented by modest levels of Bank of England scheme funding.

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

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

What STB needs to operate

Our people
The Group had 956 employees (full-time equivalent) at 30 June 2019, most of whom are based at the head office in Solihull, West Midlands.

Read more about our people in the Chairman's statement on pages 6–7

Capital and liquidity
The Group needs to ensure it has sufficient levels of capital and liquidity resources to support its growth and maintain regulatory limits.

Read more on pages 20–21

Risk management
Risk management is key to the Group's success. As well as strong management of credit risk and of capital and liquidity resources, the Group closely manages market risk, operational risk, conduct and regulatory risk.

Read more on pages 28–29

Market awareness
The Group has built a management team with significant experience in its chosen markets as well as the wider macro-economic and regulatory market.

Read more on pages 4–5

Flexible business model
The Group has grown its lending portfolio across a diverse range of sectors, which allows it to be flexible and focus growth in the most attractive areas. Through carefully targeted lending products, the absence of large fixed overheads in the form of a branch network and a policy of not cross-subsidising loss-making products with profitable ones, the Group is able to offer competitive deposit interest rates and has been successful in attracting deposits from a wide range of customers.

Read more on pages 8–13

How STB connects with customers

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

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

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

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

Retailers
The Group operates an online e-commerce service to retailers, providing finance to customers of those retailers through the V12 Retail Finance brand.

The value we create for our stakeholders

Our shareholders
The Group delivers returns to shareholders by:

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

Read more in our Financial Review on pages 14–19

Business and retail
Secure Trust Bank makes available a range of lending options to meet the demands of UK business, particularly from businesses needing working capital, house builders and motor dealers.

The Group's Retail Finance products enable retailers to offer credit facilities both in-store and online.

Private consumers
Across all products, the Group aims to deliver high levels of customer satisfaction.

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

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

Our competitive environment

DRIVING GROWTH

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

MACRO-ECONOMIC

Recent developments

The UK economy continues to grow albeit the pace of growth is slowing as economic and political related uncertainties are weighing on confidence. It is evident from our experience and reports from the Bank of England and other sources that consumer behaviours have not materially changed whereas businesses have become more cautious. The Group has seen no discernible change in the behaviour of its consumer customers.

As reported by the Financial Policy Committee in July, the financial sector is resilient. Corporate balance sheets are strong, and the labour market is tight as evidenced by record levels of employment. Inflation is low and stable at 2% (May and June 2019) and consumers are benefiting from rising take home pay. Job vacancy levels are also high.

Concerns about the potential for a no deal exit from the EU to cause a change in consumer behaviour and an increase in loan impairments due to a squeeze on the cost of living caused by a weaker pound have negatively impacted the values of UK financial assets and bank share prices.

Outlook

Assuming an orderly exit from the EU we expect the UK economic outlook to improve which the Group will seek to leverage as it continues to execute its clearly defined growth strategy. We are well placed to support an increase in demand for working capital funding from businesses and residential development finance from house builders.

REGULATION

Recent developments

From a Prudential Regulation perspective it is apparent that the regulatory direction of travel, with the introduction of the MREL regime and the reforms to the Basel Capital requirements, is to reduce the capital differentials between the systemic and non-systemic firms which should ultimately bode well for smaller banks. In his 2018 annual report statement, the CEO noted he had detected a change in regulatory tone particularly by the Financial Conduct Authority ('FCA') during 2018. During the first half of 2019, we have seen the FCA intervene directly in a range of markets including the rent to own, overdraft and asset management sectors. In March 2019, the FCA highlighted concerns in respect of some Motor Finance market practices. It remains to be seen if the FCA will progress the proposed Basic Variable Minimum Savings Rate, which would greatly benefit inert long-term savers. This will impact the cost of the deposit back book for the larger banks and some building societies and means they would need to accept lower profits or more likely seek to maintain net interest margin by increasing lending margins and/or pay less for front book deposits. By definition the challenger banks do not attract inert savings customers. If the dominant banks need to increase lending margins it should logically increase the proportion of the market that can be economically served by the smaller challengers and specialist banks.

During the first six months of 2019, there has been further recognition that post Brexit HM Government could choose to adopt a much more proportionate approach to the regulation of smaller non-internationally active banks than is possible today. Certainly one of the implications of the UK's exit from the European Union is that it can address the shortcomings of the 'one size fits all' Capital Requirements Regulation implementing the Capital Requirements Directive IV, if the appetite exists. It is encouraging to note that in July 2019 the PRA indicated it would like to better understand the barriers to growth faced by smaller banks.

Outlook

In summary, whilst the situations above remain somewhat fluid, we are increasingly optimistic that cumulative actual and potential action by regulators could help to materially improve the competitive positioning of smaller banks in the UK.

BUSINESS FINANCE

Recent developments

Economic and political related uncertainties have influenced UK residential house prices during H1 2019 with the pace of growth slowing in some areas and prices falling, on average, in London. This has continued to inform our risk appetite for new lending to house builders with our Loan to Gross Development Value limits remaining modest to ensure that the borrower has hard equity in any deal and to provide a buffer lest market values fall.

Outside of Central London, demand for property development finance has remained robust and the units we have financed have continued to sell albeit taking a little longer than in 2018. The Group has entered into, but not yet triggered, an ENABLE Guarantee with the British Business Bank. This is designed to enable banks to increase their lending to SMEs by reducing the amount of capital required to be held against such lending.

Outlook

The Bank's lending portfolio is well positioned for the current conditions and the short duration nature of our asset portfolio means we can react quickly to both opportunities and threats.

CONSUMER FINANCE

Recent developments

We continue to monitor lending markets and note that defaults are rising in specific areas including credit cards and some SME products. These trends would appear to vindicate our decisions to reduce our risk exposures in recent years.

We have continued to prioritise Retail Point of Sale lending due to the uncertain economic outlook, given the quality and short duration nature of this lending.

The market for Motor Finance in the UK is nearly £60 billion. This is a highly fragmented and competitive space where we have a £0.25 billion share predominantly in non-prime lending. This is an important and profitable line of business for us. We are continuing to grow our near-prime lending and have now initiated a transformation programme which will see us offering a whole of market solution to dealers and brokers. The first of the four phases of this programme is now live.

Outlook

The Bank's lending portfolio is well positioned for the current conditions and the short duration nature of our asset portfolio means we can react quickly to both opportunities and threats.

Chairman's statement

Lord Forsyth
Chairman

The first half of 2019 has seen further growth in customer numbers, net customer lending and net customer deposit balances."

SUSTAINING POSITIVE MOMENTUM

Secure Trust Bank PLC has made good progress in the first half of 2019, sustaining the positive momentum seen during 2018 and building on the strategic repositioning of the business over recent years.

The Group has delivered another good set of financial results with statutory profit before tax of £18.1 million being 20% higher than the statutory profit before tax of £15.1 million reported for the first half of 2018.

The first six months of 2019 have seen further growth in customer numbers, net customer lending and net customer deposit balances. The Group continues to broaden its customer proposition. A cash ISA product was launched to coincide with the new tax year in April and the demand for this has been very encouraging. Significant investment continues to be made in the Motor Finance business and the new V12 Vehicle Finance brand has been well received in the market. Our Retail Finance business has developed a strong position in the season ticket finance market. I am also delighted that the Group has been recognised as one of the UK's best workplaces following an external assessment, based on a comprehensive survey of employees, with the Group ranked 29th overall and 14th as a best place to work for women.

We have diverse businesses with good growth potential. Our strategy and business model remain unchanged. The Group is well placed to meet demand in the consumer and business segments in which it operates. Our risk appetite remains cautious and we continue to assess carefully any potential impact on our business from changes in the economy. We stay alert to operational risks and challenges and the need for operational resilience in our business.

Our two new independent Non-Executive Directors have settled in well and are contributing to the Group. The new Group Employee Council is now fully engaged with direct lines of communication to the Board. We have made changes to our governance so as to comply with the latest version of the Corporate Governance Code that came into effect on 1 January 2019.

As part of our succession planning, Mark Stevens has been promoted from Deputy Company Secretary to Company Secretary, replacing Alan Karter who has stepped down as Company Secretary for personal reasons. Alan has done an outstanding job as Company Secretary and will continue as our General Counsel.

We are committed to operating as a responsible business. Details of the Group's relationship with customers and employees, and its social and environmental impact, were set out in the Corporate Responsibility section of the Group's 2018 Annual Report and Accounts. We will provide an update on our activities in these areas in our year end reporting.

As a result of the strong first half performance and consistent with our progressive dividend policy, the Board proposes to pay an interim dividend of 20p per share (June 2018 interim: 19p) representing a 5.3% increase on the prior year. This will be paid on 27 September 2019 to shareholders on the register as at 30 August 2019.

Finally, I would like to take this opportunity, on behalf of the Board, to thank all of our employees for their commitment and hard work which has delivered strong growth and consistently high levels of customer satisfaction. Given the resources at our disposal, the talents of our people, the flexibility of our business model and our clear strategy we can face the future, however uncertain, with confidence and optimism.

Lord Forsyth
Chairman

6 August 2019

Financial highlights

Earnings per share

79.0p

Dividends

20p

Chief Executive's statement

"We have achieved good progress across a range of customer, people, product and risk metrics."

EVOLVING THE BUSINESS

I am very pleased to report that the strong momentum seen throughout 2018 has continued into the first half of 2019.

We have achieved good progress across a range of customer, people, product and risk metrics which, assuming an orderly Brexit, bodes well for the full year results. The Group's diversified business model has enabled us to allocate capital across our portfolios to meet higher than anticipated consumer demand whilst continuing to support existing business customers without compromising on risk.

The financial results for the first half of 2019 reflect these positive dynamics with the statutory profit before tax for the first half increasing by 19.9% to £18.1 million compared to £15.1 million for the first half of last year. Adjusted profit before tax on the same basis has increased by 13.9% to £18.8 million (2018: £16.5 million). Basic adjusted earnings per share increased by 10.2%.

The economic and political uncertainty during the first half of 2019 has weighed on business investment sentiment and demand from SMEs for lending facilities. By contrast there has been no discernible change in the behaviour of the Bank's consumer customers who are benefiting from low and falling inflation, record employment and rising earnings.

The Group has been presented with additional opportunities, within its existing risk appetite, to successfully deploy its capital and funding in the first half of 2019 as a result of non-bank lenders citing difficulties in obtaining or renewing credit lines. The resulting curtailment, and in some cases ceasing, of new business by these lenders has helped support record levels of monthly new business volumes in Motor Finance and Retail Finance in April and again in May.

Strong customer satisfaction

I remain grateful for the ongoing commitment of our team members who continue to strive to deliver good customer outcomes in a friendly and professional manner, as the Group's lending and deposit taking activities grow. This in turn is reflected in customer satisfaction levels which are independently measured by FEEFO and are consistently in the 90–95% range.

Customer numbers continue to grow and at 1,446,342 are over 30% higher than at 30 June last year (30 June 2018: 1,096,854).

Healthy Capital and Liquidity positions

The Bank's capital and funding positions remain healthy.

Our Common Equity Tier one ratio was 12.8% as at 30 June 2019 compared to 13.8% at the same point last year. Our overall leverage ratio was 9.5% (June 2018: 10.4%), and the total capital ratio was 15.2% (June 2018: 13.8%).

The year-on-year movement is a function of the change in our balance sheet composition with the addition of Tier 2 capital and investment of capital to support the strong growth in the loan portfolios. When considering our capital ratios it is important to note that as at 30 June 2019 the residual contractual average life of the Group's assets was just 1.9 years. On a behavioural basis the duration would be even shorter. This balance sheet structuring provides major advantages, one of which is the Group's ability to react rapidly and efficiently to sudden changes in market conditions.

For example, if the UK exit from the EU causes economic disruption, we will be able to degear our balance sheet much more quickly than many banks and in so doing reduce the absolute levels of credit risk taken whilst simultaneously materially increasing our capital ratios.

Secure Trust Bank has continued to fund its lending activities primarily from customer deposits. Our loan to deposit ratio was 113.8% at 30 June 2019 which compares to 111.0% at 30 June 2018. The Bank has continued broadly to match-fund its customer lending with customer deposits. This strategy seeks to mitigate maturity transformation and interest basis risks. Customer demand for our deposit products remains strong, and it is encouraging that over 60% of customers with maturing medium-term savings bonds chose to reinvest their funds into deposit products with us.

Operational progress

We have continued to invest in both our Treasury capabilities and new deposit product development. The launch of the new Cash ISA products in April 2019 was an important strategic milestone for the Group. Cash ISAs are the second biggest pool of consumer deposit liquidity in the UK and typically attract margins around 20% below non-cash ISA deposits. Being able to access these sources of funding will be helpful as the Term Funding Scheme unwinds.

Motor Finance remains an important and profitable line of business for us. As part of our wider strategic shift towards prime and near-prime lending, we have initiated a transformation programme which will see us offering an entirely new market solution to dealers and brokers. The existing lenders in this space enjoy attractive returns on equity and we believe that the combination of the competitive funding costs provided via our banking licence and a new technology platform will allow us to gain market share and grow a sizable business in this space over the next 3–5 years. The motor transformation programme is split into four phases and includes the provision of dealer stocking finance (phases 1 and 2) and a wider motor proposition for consumers (phases 3 and 4).

Highlights of 2019 to date

- **Statutory profit before tax increased by 19.9% compared to the comparative period**
- **Adjusted profit before tax increased by 13.9% compared to the comparative period**
- **Customer numbers up by more than 30%**
- **Customer satisfaction scores continue to be in the 90–95% range**
- **Launch of new Cash ISA products in April 2019**
- **V12 Vehicle Finance brand launched and first phase of motor transformation plan implemented**
- **Customer lending balances grown by 23.9% over the year to 30 June 2019**

Growth in customer numbers

>30%

(1,446,342)
2018: 1,096,854

feefo

FEEFO customer satisfaction ratings

90–95%

Chief Executive's statement continued

We launched our new V12 Vehicle Finance brand on 4 June 2019 in conjunction with our key business partner, Aston Barclay. Aston Barclay are one of the UK's largest vehicle auction houses. Our partnership has been well received and the first phase of the motor transformation plan (auction stock funding) is now live and generating very significant levels of interest with car dealerships.

Operational resilience remains a key matter for regulatory scrutiny and we have adopted a proactive approach, having carefully considered the PRA's Discussion Paper on 'Building the UK finance sector's operational resilience'. We have updated our plan to ensure we continue to focus on, and invest in, ensuring the Group is adequately identifying, assessing and managing its risks. This extends to managing the third party risks that arise when outsourcing activities. In response to the PRA's Supervisory Statement 'Enhancing banks' and insurers' approaches to managing the financial risks from climate change' the Group is formalising its plan to respond to these future risks and will provide further detail and progress within its year end disclosures.

Lending activities

Our strategic repositioning has guided the allocation of capital to support growth particularly in lower risk lending activities during the period. Overall net customer lending as at 30 June 2019 of £2,278 million represents 23.9% growth compared to last year (June 2018: £1,839 million). 50.1% of these lending balances are in secured lending (30 June 2018: 53.3%). The total volume of new loans written in the period was £712.0 million representing a 16.6% increase on the £610.4 million for the same period last year.

Motor Finance balances have grown to £299.8 million from £272.0 million a year ago representing 10.2% growth. As previously disclosed, we stopped writing new subprime motor loans in January 2017 and have largely run off this part of the book. The run off assets are being replaced by lower risk, albeit lower margin loans. These dynamics are reflected in the balance sheet growth and profit metrics.

We have continued to prioritise Retail Point of Sale lending given the uncertain economic outlook, due to the quality and short duration nature of this lending. Balances have grown to £671.7 million from £508.0 million a year ago and £597.0 million as at 31 December 2018 representing 32.2% and 12.5% growth respectively.

The mortgage market has continued to exhibit significant competitive pressures, with lenders competing on price and risk appetite to drive new business volumes. The Bank of England recently noted that interest spreads on mortgage lending which were 3.10% in January 2010 had fallen to 1.60% in April 2019. The compression of mortgage net interest margins was a significant factor in our decision to cease originating new loans in Q1 2019 and this has subsequently proven a trend with other lenders in the market. Our staff responded to this decision professionally and continued focusing on delivering high quality service to our customers. Fulfilment of our pipeline led to our mortgage lending balances increasing from £37.3 million as at 30 June 2018 to £113.2 million as at 30 June 2019, being growth of 203.5%. This book is performing in line with our expectations.

As at 30 June 2019, Real Estate Finance lending balances have grown to £879.0 million from £704.8 million a year ago and £769.8 million as at 31 December 2018, representing 24.7% growth and 14.2% growth respectively. The loan book is performing well and remains heavily biased in favour of modestly leveraged residential investment lending. This is reflected in the portfolio composition, which in round terms is split 70%/30% in favour of investment lending.

As at 30 June 2019, Invoice Finance lending balances have grown to £220.7 million from £187.5 million a year ago and £194.7 million as at 31 December 2018, representing growth of 17.7% and 13.4% respectively. During this period we surpassed the milestone of having funded over £3 billion of customers' invoices since we started invoice finance operations in September 2014. Notwithstanding a more challenging economic environment the quality of our management team and our risk and control frameworks have helped to minimise credit losses in this part of our business.

Asset Finance lending balances have contracted as forecast as the book is in run-off. Balances were £42.7 million as at 30 June 2019 compared to £87.9 million a year ago.

In overall terms the loan portfolios have performed as expected during the first half of 2019 with the benefits of the strategic repositioning remaining evident. This is reflected in a reduction in the cost of risk from 1.9% for H1 2018 to 1.7% for H1 2019, driven by the improving book quality and consequent reduction in probability of default. This improvement would have been more pronounced save for two notable factors which influenced the IFRS 9 models. The first is the rapid growth in season ticket finance during the second quarter which drove higher IFRS 9 provisions in V12 which in turn weighs a little on the capital and cost of risk ratios. These loans are short term, typically of six to nine months duration, meaning the bulk of the benefits are expected to be delivered during the second half of 2019 as the loans are repaid. The second factor was the UK car market experiencing unusually severe seasonal falls in asset values during the second quarter of 2019. Used car values reduced on average by 14% during this period. Whilst we do not expect to see a continuation of these trends, the sensitivity of the IFRS 9 models means we are taking these reductions in values into account within our H1 2019 impairment provisioning.

We have continued to refine our credit risk appetite and acceptance criteria during this period. As a matter of course, we regularly review our credit criteria and pricing to take into account our view of the current and future economic conditions. We have also undertaken more work during this period to better understand how we might utilise artificial intelligence and machine learning to further refine our credit decisions.

Fee based services

The OneBill service closed for new business in 2010, is running off in line with management's expectations and becoming increasingly immaterial. Customer numbers ended the period at 17,514 (2018: 18,438).

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

V12 Vehicle Finance
Powered by Secure Trust Bank

Ray Najim from Car Kingdom was the first dealer to use the V12 Vehicle Finance stock funding product.

Ray said: "The whole system and process was so simple and easy to use, from initial set up to the purchase of vehicles at the auction. I would definitely recommend the facility to other dealers for ease of use combined with competitive rates."

Chief Executive's statement continued

Strategic priorities

Our strategy remains unchanged. The benefits of a diversified business model have been evident over the last six months. Despite a slowing economy we have been able to continue to increase customer lending balances and profit before tax by taking market share in our chosen market segments, without compromising our targeted risk parameters.

The focus for 2019 remains:

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

We have been active across all five of these areas during the last six months and will remain disciplined and focused here for the rest of 2019 and beyond.

Outlook

It is pleasing to report the positive momentum and strong profit growth during the period. We expect further progress during the second half of the year but need to be mindful that our own and other external forward looking economic indicators are pointing to a period of low business confidence and tepid economic growth. We are not detecting any discernible change in consumer behaviour but will remain vigilant as the rescheduled Brexit date of 31 October 2019 approaches. The Bank's lending portfolio is well positioned for the current conditions and the short duration nature of our asset portfolio means we can react quickly to both opportunities and threats. Assuming an orderly exit from the EU, we expect the UK economic outlook to improve which the Group will seek to leverage as it continues to execute its clearly defined growth strategy. We are well placed to support an increase in demand for working capital funding from businesses and residential development finance from house builders. We would expect stronger economic growth to be positive for retail sales and for our Retail Finance business. We are progressing significant investment in our Motor Finance business with the first of a four phase transformation plan now live. We see potential for this portfolio to grow considerably over the next five years.

In overall terms we are well positioned in a number of attractive lending classes and have started 2019 strongly. Therefore our base case assumption is for good progress to be made in meeting our goals over the coming period.

Paul Lynam
Chief Executive Officer

6 August 2019

Strategy

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

Grow

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

Progress made in 2019

Strong growth has continued in both the Consumer Finance and Business Finance divisions, with Retail Finance again the fastest growing area. The first stage of the Motor transformation project has concluded with the launch of the V12 Motor Finance dealer stocking product – see page 25 for more details.

Focus for the year ahead

Growth is expected to continue in Real Estate Finance, Commercial Finance, Motor Finance and Retail Finance, with no immediate plans to re-enter the Asset Finance or Mortgages markets. Motor transformation activity will include the development of further consumer products including in the prime market.

Performance measures

The key performance measures, shown on the following page, in respect of this theme show the growth of the lending book and the margin that the Group earns on this lending.

Sustain

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

Progress made in 2019

The Group has continued to maintain a strong balance sheet with reduced cost of risk compared with the equivalent period in 2018. The potential funding base has been widened by the introduction of a fixed rate ISA product, and post half year the Group has developed hedging capabilities with interest rate swaps, providing increased flexibility to manage its interest rate risk exposures within risk appetite.

Focus for the year ahead

The move into the prime Motor market will further improve the credit quality of the Group's balance sheet. Activity will continue to widen the funding base, as described on page 27, and the Group will build up its portfolio of interest rate swaps in order to manage its balance sheet effectively.

The Group has initiated a programme to review its critical processes and further enhance operational resilience.

Performance measures

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

Love

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

Progress made in 2019

Secure Trust Bank has won a number of awards already in 2019 that show its commitment to customer service, including Best Savings Provider, Best Fixed Rate Bond Provider and Best Notice Account Provider at the 2019 Savings Champion Awards. The Group has also been awarded Feefo Gold Trusted Service Award, their highest accolade, for three years running.

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

Focus for the year ahead

The Group continues to use feedback from its customers and employees in order to improve its products, services and working environment. Alongside its use of Feefo to gauge customer satisfaction, the Group reviews Net Promoter Scores and is developing additional monitoring of social media and review platforms. The new Group Employee Council will enable direct communication with the Chief Executive Officer and the Board.

Performance measures

The Group's non-financial KPIs assess customer and employee satisfaction, as well as impacts on the environment. Only the customer satisfaction measure is updated at the half year, as the employee survey is annual and environmental impact is measured annually.

Key Performance Indicators

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

The Remuneration Report, starting on page 94 of the 2018 Annual Report and Accounts, sets out how executive pay is linked to the assessment of key financial and non-financial performance metrics.

These KPIs represent alternative performance measures that are not defined or specified under IFRS. Definitions of the financial KPIs and their calculation can be found in the Appendix to the interim report on page 56.

The employee survey and environmental intensity assessment are carried out on an annual basis and are therefore not available for reporting at the interim period.

In the narrative of the Interim Financial Review, KPIs are identified by being in bold font.

Margin ratios

Net interest margin %

Why we measure this

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

Net revenue margin %

Why we measure this

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

Gross revenue margin %

Why we measure this

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

Cost ratios

Cost of funds %

Why we measure this

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

Cost to income ratio %

Why we measure this

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

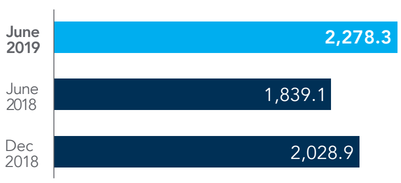
Cost of risk %

Why we measure this

Measures how effectively the Group manages impairment losses

Growth

Loans and advances to customers £m



Why we measure this

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

Funding ratios

Loan to deposit ratio %

Why we measure this

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

Total funding ratio %

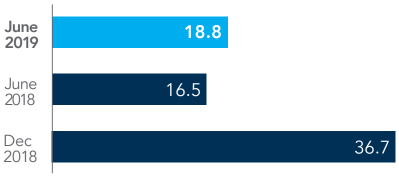
Why we measure this

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

Delivering

Adjusted profit

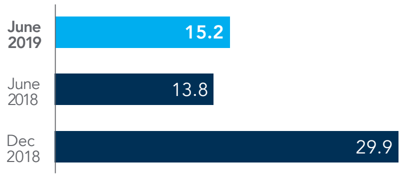
Adjusted profit before tax %



Why we measure this

Adjusts profit to improve comparability of information between reporting periods

Adjusted profit after tax %

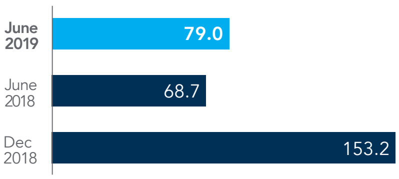


Why we measure this

Adjusts profit to improve comparability of information between reporting periods

EPS

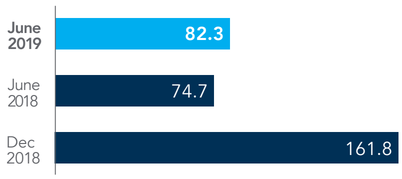
Basic earnings per share pence



Why we measure this

Demonstrates the earnings attributable to each shareholder

Adjusted basic earnings per share pence



Why we measure this

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

Return ratios

Adjusted return on average equity %

Why we measure this

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

Adjusted return on required equity %

Why we measure this

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

Adjusted return on average assets %

Why we measure this

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

Non-financial KPIs

Customer FEEFO ratings Stars

Why we measure this

Measures customer satisfaction: mark out of 5 based on star ratings from 1,156 reviews (June 2018: 510 reviews, December 2018: 1,175 reviews)

Employee survey trust index score %

Why we measure this

Employee satisfaction: not measured at half year (December 2018 based on 2018 all staff survey)

Environmental intensity indicator

Why we measure this

Ensures that the Group's environmental impact, measured in respect of greenhouse gas emissions, remains low. Not measured at half year (December 2018 measures tonnes carbon dioxide per £1 million group income)

Interim financial review

Profit and earnings

Profit before tax for the period rose significantly on both a statutory and adjusted basis, driven by increased revenues and well managed impairments and costs. The statutory profit for the first six months of the year increased by 19.9%, from £15.1 million to £18.1 million, while the **adjusted profit before tax** for the period increased by 13.9% from £16.5 million to £18.8 million.

Earnings per share rose as a consequence, from 68.7p at June 2018 to 79.0p at June 2019 on a basic earnings per share basis and from 74.7p to 82.3p on an **adjusted basic earnings per share** basis. Detailed disclosures of earnings per ordinary share are shown in Note 5.

Return measures

The Group measures **adjusted returns on average assets, average equity and required equity** as set out in the KPIs table on page 14. Return on average assets demonstrates how profitable the Group's assets are in generating revenue. Return on average equity is a measure of the Group's ability to generate profit from the equity available to it. Return on required equity relates profitability to the capital that the Group is required to hold.

The returns on average assets and on required equity have fallen slightly from June 2018 to June 2019. The return on average equity improved from 12.3% at June 2018 to 12.7% at June 2019, driven by rising earnings.

The components of the Group's profit are set out in the sections below.

Interest, fee and commission income

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

Interest income increased by 16.5% to £92.3 million (June 2018: £79.2 million). This was driven by the growth of the Group's loan books, with loans and advances to customers increasing by 23.9% over the same period from £1,839.1 million at June 2018 to £2,278.3 million at June 2019. The shift

Adjusted profit reconciliation	30 June 2019 £million	30 June 2018 £million	31 Dec 2018 £million
Interest, fee and commission income	103.5	89.0	188.6
Interest, fee and commission expense	(22.1)	(16.5)	(37.0)
Operating income	81.4	72.5	151.6
Impairment losses	(17.8)	(16.3)	(32.4)
Operating expenses	(45.5)	(41.1)	(84.5)
Profit before tax	**18.1**	**15.1**	**34.7**
Adjustments to profit before tax (see below)	0.7	1.4	2.0
Adjusted profit before tax	**18.8**	**16.5**	**36.7**
Adjusted tax	(3.6)	(2.7)	(6.8)
Adjusted profit after tax	**15.2**	**13.8**	**29.9**
Adjusted basic earnings per share (pence)	**82.3**	**74.7**	**161.8**

Statutory results			
Profit before tax	18.1	15.1	34.7
Tax	(3.5)	(2.4)	(6.4)
Profit after tax	**14.6**	**12.7**	**28.3**
Basic earnings per share (pence)	**79.0**	**68.7**	**153.2**

Adjustments to profit before tax			
Fair value amortisation	0.1	0.1	0.3
Transformation costs	0.6	0.4	0.4
Bonus payments	–	0.9	1.3
Adjustments to profit before tax	**0.7**	**1.4**	**2.0**

in the profile of Motor Finance lending to better quality customers has reduced the level of interest income on this product. This is the main reason for the increase in interest income being lower that the increase in loan balances.

Fee and commission income increased by 14.3% to £11.2 million (June 2018: £9.8 million). The increase was driven by fees earned in Real Estate Finance and Commercial Finance.

The **gross revenue margin** reduced from 10.6% to 9.8%. This reflects the change in the risk profile of Motor Finance lending, referenced above.

Interest, fee and commission expense

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

Interest expense increased by 40.6% to £21.8 million for the period to June 2019 (June 2018: £15.5 million). The Group's **cost of funds** has been impacted by the rise in the Bank of England base rate during 2018 and the raising of subordinated debt in that year, as set out in Note 14. This cost increased from 1.8% at June 2018 to 2.0% at December 2018 and was 2.1% at June 2019. This increase, the 20.8% increase of deposit balances over the year and the fact that the subordinated debt was raised in the second half of 2018 all contributed to the higher interest expense.

The Group's net interest margin reduced from 7.6% at 30 June 2018 to 6.7% at June 2019, primarily due to the reduced Motor Finance yields referred to above.

Fee and commission expense was £0.3 million (June 2018: 1.0 million). The main reductions arose in DMS and OneBill.

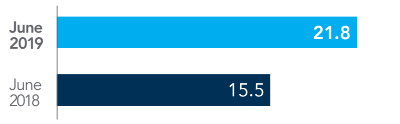
Financial highlights

Interest income

£92.3m

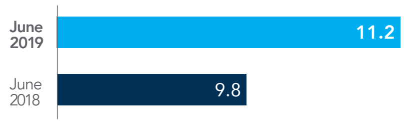
Interest expense

£21.8m



Fee and commission income

£11.2m



Fee and commission expense

£0.3m

Impairment losses

£17.8m

Operating expense

£45.5m

Interim financial review continued

Operating income

Operating income increased by 12.3% to £81.4 million (June 2018: £72.5 million).

The **net revenue margin** for 2019 was 7.7% compared with 8.6% at June 2018. The reduction in this margin is primarily due to the reduction in Motor Finance yields.

Impairment losses

Impairment losses during the period were £17.8 million (June 2018: £16.3 million). The fact that impairment losses rose by only 9.2% compared with the comparative period despite a 23.9% increase in loans and advances to customers since June 2018 shows the benefit of the strategic repositioning referred to in previous annual and interim reports. The improving quality of the Motor Finance book in advance of the full Motor Transformation programme has also been a key factor in this reduction in impairments, counterbalancing the accelerated recognition of losses that the IFRS 9 methodology brings to the Group's rapidly growing consumer loan books. As noted in the Motor Finance Business Review on page 25, a significant element of the provision charge for the period was related to a fall in used vehicle valuations rather than to the probability of default, which has continued to improve.

These improvements are reflected in the reduction in **cost of risk**, from 1.9% at June 2018 to 1.7%. Further analysis of the Group's loan book and its credit risk exposures is provided in Notes 6 and 8.

The provision charge includes the impact of applying expert credit judgement, resulting in overlays being added to provision levels estimated using the Group's models. The level of these overlays remain modest compared to the modelled provision level, as detailed in Note 8.

Operating expenses

Operating expenses increased by 10.7% to £45.5 million (June 2018: £41.1 million). The Group has continued to invest in its lending businesses to support growth targets. There has also been increased investment in the Savings team, to increase the volume of deposit funding, develop a wider product offering and significantly enhance the Group's digital proposition. The Group has further strengthened its compliance and risk function, including investment in respect of the prevention of financial crime, and invested further in its IT infrastructure.

The growth in costs is proportionately lower than the increase in the Group's lending balances, demonstrating efficiencies derived from increasing scale. Despite the reduction in the gross revenue margin referred to above, the **cost to income ratio** reduced to 55.9% from 56.7% at June 2018.

Taxation

The **effective adjusted tax rate** has increased to 19.1% (June 2018: 16.4%).

The effective rate for the period to June 2018 was reduced by a deferred tax credit of £0.5 million arising from a reassessment of the rates that the deferred tax asset on the IFRS 9 transition adjustment would reverse out over the next nine years. The effective rate for the current period has reverted back to being close to the corporation tax rate of 19%.

The tax charge reflects Bank Corporation Tax Surcharge of 8% on taxable profits of Secure Trust Bank PLC in excess of £25.0 million. Future effective tax rates for the Group will be sensitive to the quantum of projected profits in the Bank and other Group companies as well as the level of corporation tax which is due to reduce to 17% with effect from 1 April 2020. Current forecasts continue to show that the effective tax rate is expected to increase by up to 4% over the forecast period, as the effect of the banking surcharge becomes more significant.

Distributions to shareholders

The directors have declared an interim dividend of 20 pence per share (June 2018: 19 pence per share).

Balance sheet

The assets of the Group increased by 6.7% to £2,607.1 million in the six month period to June 2019, driven by 12.3% growth in the Group's loan portfolios over the same period, offset by lower levels of cash and debt securities held.

The liabilities of the Group increased by 7.2% to £2,366.8 million over the same period, primarily driven by the increase in deposits from customers, providing funding for the Group's lending activities.

Loans and advances to customers

Loans and advances to customers include secured and unsecured loans and finance lease receivables. At December 2018, the loan book was split broadly equally between Consumer Finance lending, which includes Consumer Mortgages, and Business Finance lending, and this remains the case at June 2019.

Loan originations in the year, being the total of new loans and advances to customers entered into during the year, increased by 16.6% to £712.0 million (June 2018: £610.4 million). Over half of the new business volume (£372.6 million) was generated by the Retail Finance business.

Further analysis of loans and advances to customers, including a breakdown of the arrears profile of the Group's loan books, is provided in Notes 6, 8 and 19.

Debt Securities

Debt Securities consist solely of sterling UK Government treasury bills. These are used primarily to provide collateral against Term Funding Scheme drawings with the Bank of England.

Effective adjusted tax rate

	30 June 2019 Effective adjusted tax rate £million	30 June 2018 Effective adjusted tax rate £million	31 December 2018 Effective adjusted tax rate £million
Tax	3.6	2.7	6.8
Profit before tax	18.8	16.5	36.7
Effective rate (%)	**19.1%**	**16.4%**	**18.5%**

Effective statutory tax rate

	30 June 2019 Effective statutory tax rate £million	30 June 2018 Effective statutory tax rate £million	31 December 2018 Effective statutory tax rate £million
Tax	3.5	2.4	6.4
Profit before tax	18.1	15.1	34.7
Effective rate (%)	**19.3%**	**15.9%**	**18.4%**

Summarised balance sheet

	June 2019 £million	June 2018 £million	December 2018 £million
Assets			
Cash and balances at central banks	101.9	126.7	169.7
Debt securities	110.0	150.0	149.7
Loans and advances to banks	67.3	34.2	44.8
Loans and advances to customers	2,278.3	1,839.1	2,028.9
Other assets	49.6	37.1	51.2
	2,607.1	**2,187.1**	**2,444.3**
Liabilities			
Due to banks	263.5	263.3	263.5
Deposits from customers	2,001.5	1,656.8	1,847.7
Tier 2 subordinated liabilities	50.5	–	50.4
Other liabilities	51.3	42.0	45.6
	2,366.8	**1,962.1**	**2,207.2**

Due to banks

The amount due to banks consists solely of drawings from the Bank of England Term Funding Scheme. The Group has drawn modest levels of this low cost source of funding to supplement customer deposit funding.

Deposits from customers

Customer deposits include term, notice and sight deposits, as well as the Group's OneBill product. Customer deposits grew by 8.3% during the period to £2,001.5 million (December 2018: £1,847.7 million), to fund the increased lending balances.

Tier 2 subordinated liabilities

Tier 2 subordinated liabilities represent two £25 million tranches of 6.75% Fixed Rate Callable Subordinated Notes, including interest accrued. Further details of the note issuances are provided in Note 14. The notes qualify as Tier 2 capital.

New accounting standards

IFRS 16 'Leases' became effective for the period beginning on 1 January 2019, replacing the previous leases standard, IAS 17, and related interpretations. Adoption of the standard has changed the way in which the Group accounts for a number of its property leases and motor vehicle leases, where the Group is the lessee. The standard requires such leases to be recognised on the balance sheet as 'the lease liability' with the right to use the underlying asset ('the right-of-use asset') also recognised. The Group has elected to recognise the initial impact of implementing IFRS 16 through the opening balance of retained earnings and has not restated comparatives. Further detail is provided in Note 1.

Capital and liquidity

Capital

The CET1 capital ratio is the ratio of CET1 capital divided by the Total Risk Exposure. The total capital ratio is total capital divided by Total Risk Exposure. The CET1 capital and total capital ratios remained healthy at 12.8% and 15.2% respectively, providing a capital buffer for continued growth. When taking account of the 2019 interim dividend, the CET1 capital ratio is 12.6% and the total capital ratio is 15.0% (30 June 2018: both ratios 13.6%).

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

The Group's regulatory capital is divided into:

- CET1 which comprises shareholders' funds, after adding back the IFRS 9 transition adjustment and deducting intangible assets, both of which are net of attributable deferred tax
- Tier 2 capital, which is subordinated debt net of unamortised issue costs, capped at 25% of the capital requirement. In July 2018, the Group issued £25.0 million of Tier 2 capital and a further £25.0 million was issued in October 2018.

The Group has elected to adopt the IFRS 9 transitional rules. For 2019, this allows 85% (2018: 95%) of the initial IFRS 9 transition adjustment, net of attributable deferred tax, to be added back to eligible capital. Further information is provided in the Group's Pillar 3 report available at www.securetrustbank.com/investor-information.

Capital

	30 June 2019 %	30 June 2018 %	31 December 2018 %
CRD IV ratios			
CET1 capital ratio	**12.8**	13.8	13.8
Total capital ratio	**15.2**	13.8	16.3
Leverage ratio	**9.5**	10.4	10.0

Capital resources

	30 June 2019 £million	30 June 2018 £million	31 December 2018 £million
CET1 capital	253.5	239.4	251.8
Total Tier 2 capital	49.3	–	45.7
Total capital	**302.8**	**239.4**	**297.5**
Total Risk Exposure	**1,987.6**	**1,729.2**	**1,824.6**

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

The Group's Individual Capital Adequacy Assessment Process ('ICAAP') includes a summary of the capital required to mitigate the identified risks in its regulated entities and the amount of capital that the Group has available. All regulated entities within the Group have complied during the period with relevant regulatory capital requirements.

The Total Capital Requirement, set by the PRA, includes both the calculated requirement derived using the standardised approach and the additional capital derived in conjunction with the ICAAP. In addition, capital is held to cover generic buffers set at a macro-economic level by the PRA. These buffers have risen significantly in recent years, with the requirement at 30 June 2019 being £69.6 million.

Management of capital

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

Key factors influencing the management of capital include:

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

These last two factors are actively managed by the Group in order to balance growth, profitability and conservation of capital. The variation in the risk weightings applied to the Group's key lending assets, as shown in the table on the following page, and the Group's willingness and ability to adapt its lending volumes and mix, provide significant flexibility in the Group's management of capital.

Capital requirements

	30 June 2019 £million	30 June 2018 £million	31 December 2018 £million
Total Capital Requirement	198.8	173.0	182.7
Capital conservation buffer*	49.7	32.4	34.2
Countercyclical buffer*	19.9	8.6	18.2
Total	**268.4**	**214.0**	**235.1**

Typical risk weighting

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

Liquidity

	30 June 2019 £million	30 June 2018 £million	31 December 2018 £million
Liquid assets			
Aaa – Aa3	211.9	276.7	319.4
A1 – A3	62.2	29.2	39.7
Unrated	5.1	5.0	5.1
Liquidity exposures	**279.2**	**310.9**	**364.2**

Note: 31 December 2018 and 30 June 2019 ratios and capital resources are stated using the IFRS 9 transitional rules basis.

* The countercyclical buffer increased from 0.5% to 1% on 28 November 2018. The Capital conservation buffer increased from 1.875% to 2.5% on 1 January 2019.

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

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

Liquidity

At 30 June 2019 and throughout the period, the Group had significant surplus liquidity over the minimum requirements due to its stock of High Quality Liquid Assets ('HQLA'), in the form of the Bank of England Reserve Account and UK Treasury Bills. Total liquid assets were £279.2 million at 30 June 2019, with the High Quality Liquid Assets balance being £211.9 million.

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

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

The OLAR was maintained significantly higher than regulatory levels throughout the period, and the LCR was also significantly higher than the regulatory requirement over the period. At 30 June 2019, the **total funding ratio** was 112.2% (30 June 2018: 116.6%, 31 December 2018: 118.2%).

For LCR purposes the HQLA excludes UK Treasury Bills which are encumbered to provide collateral as part of the Group's Term Funding Scheme with the Bank of England. The total of unencumbered HQLA for LCR purposes is £181.5 million (30 June 2018: £155.1 million, 31 December 2018: £240.8 million).

The Group continues to manage its liquidity on a conservative basis by holding High Quality Liquid Assets and utilising predominantly retail funding from customer deposits. It has continued to attract new fixed and variable rate deposits and, as shown in the Savings section of the Interim Business Report on page 27, is enhancing its digital proposition and increasing the number of funding options available to it. Secure Trust Bank is a participant in the Bank of England's Sterling Money Market Operations under the Sterling Monetary Framework and has drawn £263.0 million under the Term Funding Scheme, this level being unchanged from that reported at 30 June 2018 and 31 December 2018.

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

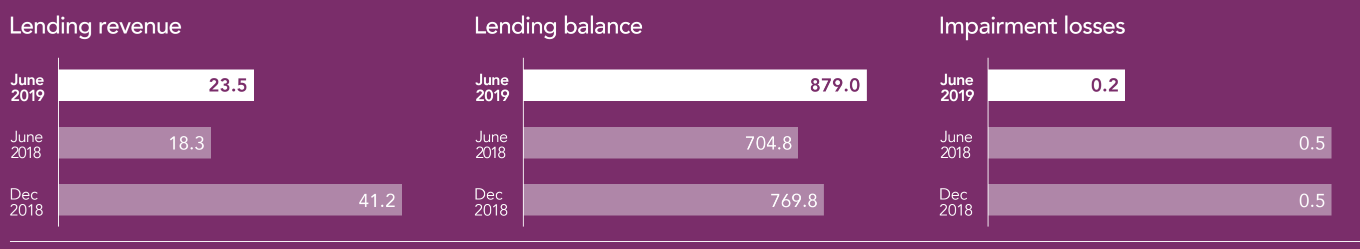
Interim business review

BUSINESS FINANCE

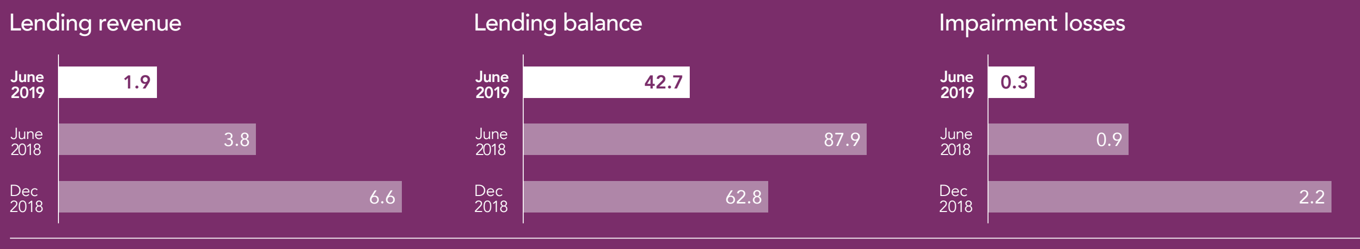
Strong growth, focused on Real Estate Finance and Commercial Finance, has continued to generate increasing revenues with very low impairment losses.

Revenue and lending performance vs prior periods

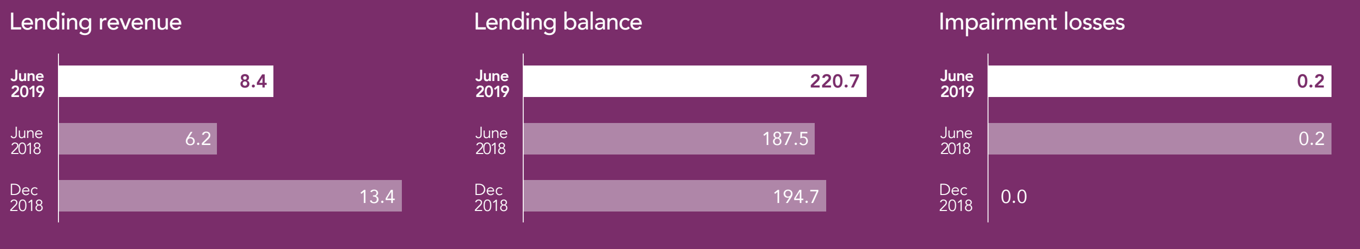
Real Estate Finance



Asset Finance



Commercial Finance



Real Estate Finance

The division supports SMEs in providing finance principally for residential development and residential investment.

2019 performance

The business has continued to grow its Real Estate Finance business, building on the increase in origination staff in 2018. Growth during H1 2019 has been focused on the investment book, reflecting the continued cautious approach to development lending, with the consequence that the level of investment lending increased to back over 70% of the portfolio. This has driven the increase in balances during H1 2019, with the book now 25% higher than at H1 2018, having grown by 14% in H1 2019. Revenues consequently grew by 28% from H1 2018 due to the balance increase, whilst also aided by some one-off transactional fee income arising in 2019. Impairment losses remain low as the quality of the book has remained stable in H1 2019, with no crystallised impairments arising.

Looking forward

The business continues to remain cautious around credit policy in the light of more uncertain market conditions, and can react quickly to any threats which may emerge, whilst also seeking out opportunities within the Group's chosen appetite. Growth will continue to be managed carefully to ensure that returns are maximised whilst maintaining credit quality.

Asset Finance

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

2019 performance

Following the decision to cease new business in 2018, the portfolio has continued to run-off with lending balances continuing to reduce in 2019, down by 51% against H1 2018, and 32% since December 2018, with a consequent impact on income levels. It is equally of note that impairment levels have also reduced, with a charge of £0.3 million in H1 being £0.6 million (66%) lower than in H1 2018 and 77% lower than in H2 2018. This reflects the continued robustness of the portfolio and the management of collections within the book.

Looking forward

The business ceased originating asset finance business in 2018, and accordingly expects the book to continue to reduce in line with contractual repayments from customers. The business continues to assess its options in this market, whilst ensuring an orderly run-down of the current portfolio.

Commercial Finance

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

2019 performance

The Commercial Finance business continued to grow in the first half of 2019, with lending balances increasing by 13%. Income growth was also very positive whilst costs remained unchanged. Impairment levels were minimal as a result of the strong culture of risk management.

The business is now benefiting from the regional model that was rolled out in 2018, with fully operational offices in Leeds, Manchester, Birmingham and London. Recruitment and engagement of high calibre people, combined with the ongoing support of the Group, remains key to success.

Looking forward

The team has built a reputation for high quality service, particularly within the market sectors that the Group is focusing on. As a result, the prospects for future growth are encouraging. Further national expansion through development of its regional footprint will provide the Group with a more scalable business model.

Interim business review
continued

CONSUMER FINANCE

The Consumer Finance portfolios continue to grow, with the first phase of the Motor Finance transformation programme delivered and improving credit quality in this portfolio.

Revenue and lending performance vs prior periods

Retail Finance

	Lending revenue	Lending balance	Impairment losses
June 2019	36.1	671.7	9.1
June 2018	29.4	508.0	9.0
Dec 2018	62.8	597.0	19.3

Motor Finance

	Revenue	Lending balance	Impairment charge
June 2019	24.3	299.8	8.0
June 2018	23.8	272.0	6.4
Dec 2018	48.5	276.4	11.3

Debt Managers (Services) Limited

	Lending revenue	Lending balance	Impairment losses
June 2019	4.4	42.3	N/A
June 2018	3.1	28.3	N/A
Dec 2018	7.0	32.3	N/A

Consumer Mortgages

	Lending revenue	Lending balance	Impairment losses
June 2019	1.7	113.2	0.1
June 2018	0.4	37.3	0.0
Dec 2018	1.5	84.7	0.2

Retail Finance

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

2019 performance

The Retail Finance business has continued to grow strongly, with new gross lending volumes increasing to £372.6 million (an increase of 20% on the equivalent period last year). This has driven a further significant increase in lending assets, which during the year rose to £671.7 million (June 2018: £508.0 million).

Each of the three largest sub-markets for the business (sports and leisure, furniture and jewellery) have contributed to this growth, which as in previous years has been achieved through a combination of gaining increased market share and sector growth.

Following the exit of a major competitor within the football season ticket sector in March 2019, the Retail Finance business has secured a significant increase in its market share within this area.

Lending revenue increased by 23% to £36.1 million (June 2018: £29.4 million). Impairment losses were well controlled at £9.1 million (June 2018: £9.0 million) and reflect a more stable provisioning under IRFS 9 than last year.

Looking forward

The Group plans to maintain growth within its Retail Finance business and the expectation is that this will be across all existing retail sectors with particular focus on the furniture and football season ticket markets.

To underpin the continued growth, the Group continues to invest in initiatives to further enhance its systems capabilities, to ensure that quality of service to both retailers and customers is maintained or improved. This includes the roll-out of improved telephony systems across customer facing staff and further enhancements to online account management service, which allows customers to view their statement online and make routine self-serve changes to their account.

Motor Finance

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

2019 performance

The Motor Finance business saw an increase in new business volumes from £77.2 million for the period ended 30 June 2018 to £89.0 million for the period to 30 June 2019 following the appointment of experienced sales resources at the end of 2018. New business continues to reflect a higher credit quality following changes to credit criteria in 2017. Revenues have increased from £23.8 million to £24.3 million, despite the increased mix of lower margin higher credit quality loans.

Impairment losses for the period have increased from £6.4 million to £8.0 million. A proportion of the increase is as a result of the deterioration in the used vehicle market over and above expected seasonal changes in valuations. The underlying cost of risk reflects the continued improvement in the quality of the book and improved collections performance.

Looking forward

The long-term strategy for Motor Finance is to expand operations into the prime credit market, whilst maintaining and growing the near prime portfolio, to drive long-term receivables growth and sustainable earnings outcomes through improved portfolio credit quality. The Group believes the market has a long-term opportunity for innovative and technology-led funding providers. The key target market for growth is the middle tier independent and lower/middle tier franchise dealer segments. A full range of products will be offered to this market and a programme of work is underway to deliver a new platform and business transformation through 2019/2020 with £3.9 million already invested as at June 2019.

As part of this programme of work, Motor Finance have developed a new Used Vehicle Stocking product allowing motor dealerships to finance used vehicles on their forecourts. This product has initially been developed in partnership with Aston Barclay Auctions and the first vehicles were funded on 8 July 2019 under a new brand, V12 Vehicle Finance.

The business will continue to develop its broker and online introducer relationships, to grow primarily near prime volumes.

Debt Managers (Services) Limited

Debt Managers (Services) Limited ('DMS') is the Bank's debt collection business.

2019 performance

In the first half of 2019, DMS has further invested in purchased debt with the valuation of purchased debt increasing 32% on the year end, whilst revenue has increased 42% on the same period last year. This has been achieved through the development of relationships with new and existing clients and a broadening of service offerings.

Looking forward

Strong relationships and forward flow contracts with existing clients will ensure the positive momentum is carried into the second half of the year. This is likely to result in continued growth of both revenue and profit. Leveraging new technologies will enhance the Company's customer engagement and will facilitate penetration of new sectors. The Company's bank ownership means it is well placed to identify and take advantage of growth opportunities in the coming year.

Consumer Mortgages

Lending to individuals to purchase a property or remortgage their current property.

2019 performance

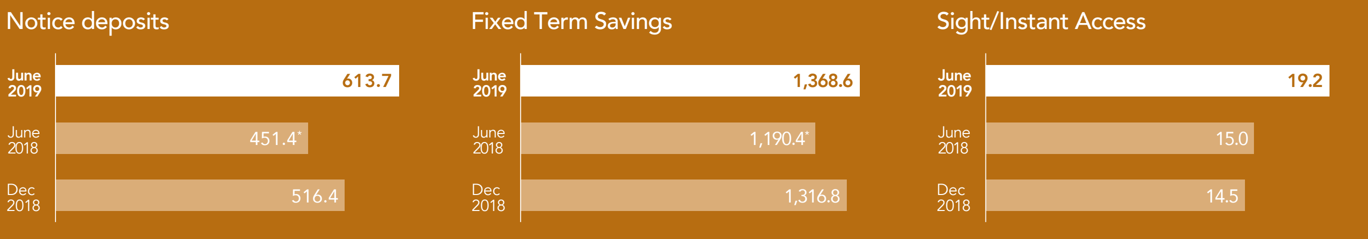
The Group ceased originating new consumer mortgages in the first quarter of 2019. Fulfilment of the pipeline saw balances grow to £113.2 million by the end of the period.

Interim business review
continued

SAVINGS

The Group's award-winning Savings offering has seen balances grow in line with lending activities, and an extension to the product set with the launch of fixed term Cash ISAs.

Revenue and lending performance vs prior periods



* At December 2018, accrued interest was reclassified from Other liabilities to Deposits from customers, as this better represented the commercial reality of the arrangement, so the June 2018 figures have been restated accordingly.

The Group attracts funding primarily via retail savings; offering individuals competitive, simple products, applied for online and serviced through a highly commended internet banking service. These products offer UK-based online and telephone customer service and are backed by the protection provided by the UK Financial Services Compensation Scheme.

H1 2019 performance

In the first six months of 2019, Savings balances have grown by £154 million, an 8% growth from the end of 2018. This represents over 13,000 new accounts and over 4,000 new customers joining the Group, whilst 63% of existing customers have also chosen to retain their savings or open new accounts with us. Including the OneBill account, total customer deposits now exceed £2 billion.

The Group also achieved its largest monthly inflow of new funds on record with over £122 million deposited in Savings accounts during June. This inflow was supported by the launch of the Group's first Fixed Rate ISA. At an attractive rate of 1.60%, the Bank attracted over £10 million across almost 400 accounts on this first product in a matter of weeks. This evidences the Bank's growing ability to access deeper liquidity pools and attract marginally lower cost funds.

So far in 2019, the Group has been awarded the Feefo Trusted Award for its independent review scores. The Trusted Service awards are given to businesses using Feefo to collect genuine reviews and who also meet the criteria of excellence needed to achieve a Trusted Service Award. Only the businesses providing the best experience for their customers, as rated by them, make the grade. The Group also collects independent customer reviews on TrustPilot.

The Group has also been recognised by independent industry stakeholders, winning awards for its overall Savings offer which gives consideration to the competitiveness of interest rates, customer service and online services. The Group has won a number of coveted awards; taking top place for Best Notice Account Provider and being Highly Commended as Best Fixed Account Provider and Best Bank Savings Provider in the Moneyfacts Awards.

These latest awards underline the strength of the Group's Savings offer, which was also recognised in the 2019 Savings Champion awards as the winner of Best Savings Provider and Finalist for Best Online Savings Provider.

The introduction and adoption of online servicing from 2018 has continued, with nearly two-thirds of the savings customer base actively logging on and making use of the Internet Banking functionality. New customers opening accounts have an almost 100% registration rate, with 74% of the last 20,000 new accounts actively logging in. Further activity is planned for 2019 to enhance the Group's digital services and invite more existing customers to register.

Looking forward

The Group plans continued Savings growth through 2019. With the launch of short-dated notice accounts in 2018 and fixed term Cash ISAs in 2019, the Group has gained access to some of the largest savings markets in the UK, broadening access to large liquidity pools at lower marginal cost.

The planned introduction of an instant access product in 2019, the largest market by value, will extend this access further. This significant expansion of the Group's savings offer will reduce cost of funds, increase the range of funding options, allow access to a new significant pool of potential customers and improve the ability to retain existing customers.

The UK savings market is experiencing increasing competition from an overall increase in the number of providers and products available, at a point in time where there is also potential for an increase in demand for funds as a result of TFS drawings being refinanced in the savings market. Alongside the extension to its product range, the Group is continuing to invest in its digital services, whilst actively examining new distribution opportunities for its savings products.

Risk management and principal risks

Risk overview

On an ongoing basis, the directors carry out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity.

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

Changes to the Group's risk profile

Changes to the Group's risk profile since the position set out in the 2018 Annual Report and Accounts are set out in the following sections:

Credit risk

Consumer Finance Credit Risk

The Group made the strategic decision to withdraw the Mortgage product at the start of 2019, largely due to excessively aggressive competition by lenders relaxing their lending criteria in an uncertain macro-economic climate.

The Point of Sale Retail Finance business has continued to grow strongly through the acquisition of high quality business in the first half of 2019. Motor Finance has also seen good growth in the first half of the year as the Bank continues to reposition its book in the better quality near-prime sector of the motor finance market. The improvement in quality has been reflected in the Group's impairment charge for the period, as shown in the Financial Review on page 18.

Business Finance Credit Risk

Real Estate Finance and Commercial Finance lending balances have continued to grow in line with the Group's existing credit appetite, with no material impairments arising in the period. Guided by the Group's approved lending policies and the significant experience within the lending teams, the ongoing focus on both the ability of customers to service their obligations and the quality of the underlying collateral has continued to result in strong portfolio performances. The Real Estate portfolio in particular remains heavily weighted towards the residential investment sector, which continues to perform in line with expectations.

All Business Finance lending areas remain cognisant of the current political uncertainty in the UK and regularly review risk appetite for any asset classes which could be impacted by any wider political change.

The Asset Finance portfolio continues to amortise, following the decision to cease new lending in this division in early 2018. No material impairments have arisen from the portfolio as balances continue to run-off.

Concentration risk

Management assesses the potential concentration risk from geographic, product and individual loan concentrations. Due to the nature of the Group's lending operations the directors consider the lending operations of the Group as a whole to be well diversified. The security on the Real Estate Finance and Consumer Mortgages businesses is principally located in London and the South East of the United Kingdom, whilst the remainder of the loan book is spread around the country broadly in proportion to the population.

UK withdrawal from European Union

The Group continues to monitor very closely the uncertain political and economic environment associated with the withdrawal from the EU. The expected impact on the Group is described in the Principal Risks and Uncertainties section of the 2018 Annual Report and Accounts, and the Group's view has not significantly changed since that assessment. The direct impact to the Group is limited, even in a no deal scenario. The most significant indirect impact continues to be in respect of credit risk, and the Group's ongoing analysis of the macro-economic position and the performance of its own lending portfolios continues to suggest that the Group can withstand a disorderly exit.

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

Liquidity risk

The Group has continued to use competitive interest rates to attract new fixed and variable rate deposits over terms ranging up to seven years. A moderate amount of borrowing under the Bank of England's Term Funding Scheme has also been used, with £263.3 million drawn up to 30 June 2019. All drawings will be repaid ahead of contractual maturity in February 2022.

The Overall Liquidity Adequacy Requirement is the Board's own view of the Group's liquidity requirement covering a 90-day stressed period and has been maintained significantly above regulatory levels throughout the period. The Liquidity Coverage Ratio ('LCR'), which assesses stressed outflows over a 30-day period as a proportion of High Quality Liquid Assets, was also significantly higher than the regulatory requirement throughout the period.

At 30 June 2019, the total funding ratio remained well within the Bank's risk appetite at 112.2% (30 June 2018: 116.6%, 31 December 2018: 118.2%). Definitions of this ratio, its calculation and the reasons for its use can be found in the Appendix to the interim report on page 56.

Operational risk

The Group's operational risk process and standards are defined and embedded through a formal Operational Risk Policy and Framework, which is aligned to the Basel Committee on Banking Supervision criteria for the sound management of operational risk. The objective of operational risk management is to:

- Identify and manage operational risks within acceptable levels and defined risk appetite statements/metrics/thresholds and to limit operational losses
- Develop a transparent risk culture that seeks to understand its risk profile, the incidents and losses they are incurring and to respond with proportionate and expeditious action to thematic areas of concern
- Develop consistent and robust policies and controls that are understood and embedded across all business areas.

Key Risk themes of Operational Risk focus in 2019 include:

- **Operational Resilience** – The Group recognises that any disruption to the services it provides could cause detriment to its customers and could affect the Group's financial stability. In 2019, the Group is rolling out a programme of work to review its critical processes and identify opportunities to further enhance the resilience of its operations.
- **Supplier Management** – The Group uses a number of third parties to support its IT and operational processes. The Group recognises that it is important to effectively manage these suppliers and is introducing an enhanced control framework and developing its assurance requirements.
- **Information Security and Cyber Risk** – As a financial institution, the Group is subject to a heightened risk of actual or attempted IT security breaches by sophisticated cybercrime groups. Any failure by the Group's intrusion detection and anti-penetration software to anticipate, prevent or mitigate a breach of the Group's IT network could significantly disrupt the Group's operations. The Group continues to invest in its information security controls in response to emerging cybercrime threats and to seek to ensure that controls for known threats remain robust.

Capital risk

At 30 June 2019, the CET1 Ratio was 12.8% (30 June 2018: 13.8%, 31 December 2018: 13.8%) and the total capital ratio was 15.2% (30 June 2018: 13.8%, 31 December 2018: 16.3%). The Leverage Ratio was 9.5% (30 June 2018: 10.4%, 31 December 2018: 10.0%) on a Group consolidated basis. All capital ratios remain healthy and the Group has no immediate plans to raise additional capital.

In the longer term, should the Group wish to increase its capital resources, it has access to additional forms of capital, as demonstrated by the issue of £50 million of Tier 2 Fixed Rate Reset Callable Subordinated Notes in the second half of 2018 at a rate of 6.75%. Further details of the Group's capital resources are provided in Note 15.

Market risk

Secure Trust Bank continues to maintain a broadly-matched asset and liability profile but is susceptible to movements in interest rates which can affect the Bank's earnings and the overall value of its interest rate sensitive assets and liabilities where unmatched.

Interest rate risk in the banking book is monitored by reference to the following measures:

- Earnings at Risk ('EaR')
- Market Value Sensitivity ('MVS'), and
- Economic Value of Equity ('EVE').

The Group remained within its market risk appetite throughout the year.

The Group has a small exposure to foreign exchange risk through its Commercial Finance lending, which is subject to hedging activities.

The Group does not operate a trading book.

Conduct risk

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

Monthly review and challenge of Key Risk Indicators takes place in the product ExCo meetings, with the Customer Focus Committee providing oversight of the first line activities to assure senior management that the first line are identifying conduct risks when they arise and taking appropriate actions to mitigate them.

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

Regulatory risk

In the period, the Group continued to work on new and revised regulations and legislation that will come into force over the next 18 months and beyond, including the extension of the Senior Managers and Certification Regime to the Group's subsidiaries.

Consolidated statement of comprehensive income

	Note	June 2019 Unaudited £million	June 2018 Unaudited £million	December 2018 Audited £million
Income statement				
Interest income and similar income		92.3	79.2	169.2
Interest expense and similar charges		(21.8)	(15.5)	(35.5)
Net interest income		**70.5**	**63.7**	**133.7**
Fee and commission income		11.2	9.8	19.4
Fee and commission expense		(0.3)	(1.0)	(1.5)
Net fee and commission income		**10.9**	**8.8**	**17.9**
Operating income		**81.4**	**72.5**	**151.6**
Impairment losses on loans and advances to customers	8	(17.8)	(16.3)	(32.4)
Operating expenses		(45.5)	(41.1)	(84.5)
Profit before income tax		**18.1**	**15.1**	**34.7**
Income tax expense	4	(3.5)	(2.4)	(6.4)
Profit for the period		**14.6**	**12.7**	**28.3**
Other comprehensive income				
Items that will not be reclassified to the income statement				
Revaluation reserve		–	–	(0.3)
Taxation		(0.2)	–	0.1
Other comprehensive income for the period, net of income tax		**(0.2)**	**–**	**(0.2)**
Total comprehensive income for the period		**14.4**	**12.7**	**28.1**
Profit attributable to:				
Equity holders of the Company		**14.6**	**12.7**	**28.3**
Total comprehensive income attributable to:				
Equity holders of the Company		**14.4**	**12.7**	**28.1**
Earnings per share for profit attributable to the equity holders of the Company during the period (pence per share)				
Basic earnings per share	5	**79.0**	**68.7**	**153.2**
Diluted earnings per share	5	**78.3**	**67.6**	**150.9**

Consolidated statement of financial position

	Note	**June 2019 Unaudited £million**	June 2018 Unaudited £million	December 2018 Audited £million
ASSETS				
Cash and balances at central banks		101.9	126.7	169.7
Loans and advances to banks		67.3	34.2	44.8
Loans and advances to customers	6	2,278.3	1,839.1	2,028.9
Debt securities		110.0	150.0	149.7
Property, plant and equipment		16.5	11.6	11.0
Leasing right-of-use asset	7	4.0	–	–
Intangible assets		9.2	10.3	9.9
Deferred tax assets		7.8	7.4	7.9
Other assets		12.1	7.8	22.4
Total assets		**2,607.1**	**2,187.1**	**2,444.3**
LIABILITIES AND EQUITY				
Liabilities				
Due to banks	9	263.5	263.3	263.5
Deposits from customers	10	2,001.5	1,656.8	1,847.7
Current tax liabilities		3.4	2.8	4.2
Lease liabilities	11	4.9	–	–
Other liabilities		42.1	37.6	40.1
Provisions for liabilities and charges	12	0.9	1.6	1.3
Subordinated liabilities		50.5	–	50.4
Total liabilities		**2,366.8**	**1,962.1**	**2,207.2**
Equity attributable to owners of the parent				
Share capital		7.4	7.4	7.4
Share premium		81.2	81.2	81.2
Revaluation reserve		0.9	1.3	1.1
Retained earnings		150.8	135.1	147.4
Total equity		**240.3**	**225.0**	**237.1**
Total liabilities and equity		**2,607.1**	**2,187.1**	**2,444.3**

Consolidated statement of changes in equity

Unaudited	Share capital £million	Share premium £million	Revaluation reserve £million	Retained earnings £million	Total £million
Balance at 1 January 2019 (as previously stated)	**7.4**	**81.2**	**1.1**	**147.4**	**237.1**
IFRS 16 transition adjustment net of tax (see Note 1)	–	–	–	(0.1)	(0.1)
Balance at 1 January 2019 (as restated)	**7.4**	**81.2**	**1.1**	**147.3**	**237.0**
Total comprehensive income for the period					
Profit for the six months ended 30 June 2019	**–**	**–**	**–**	**14.6**	**14.6**
Tax on revaluation reserve	–	–	(0.2)	–	(0.2)
Total other comprehensive income	**–**	**–**	**(0.2)**	**–**	**(0.2)**
Total comprehensive income for the period	**–**	**–**	**(0.2)**	**14.6**	**14.4**
Transactions with owners, recorded directly in equity					
Contributions by and distributions to owners					
Dividends	–	–	–	(11.8)	(11.8)
Share-based payments	–	–	–	0.6	0.6
Tax on share-based payments	–	–	–	0.1	0.1
Total contributions by and distributions to owners	**–**	**–**	**–**	**(11.1)**	**(11.1)**
Balance at 30 June 2019	**7.4**	**81.2**	**0.9**	**150.8**	**240.3**
Unaudited					
Balance at 1 January 2018	**7.4**	**81.2**	**1.3**	**133.4**	**223.3**
Total comprehensive income for the period					
Profit for the six months ended 30 June 2018	–	–	–	**12.7**	**12.7**
Transactions with owners, recorded directly in equity					
Contributions by and distributions to owners					
Dividends	–	–	–	(11.3)	(11.3)
Share-based payments	–	–	–	0.3	0.3
Total contributions by and distributions to owners	**–**	**–**	**–**	**(11.0)**	**(11.0)**
Balance at 30 June 2018	**7.4**	**81.2**	**1.3**	**135.1**	**225.0**

Audited	Share capital £million	Share premium £million	Revaluation reserve £million	Retained earnings £million	Total £million
Balance at 1 January 2018	**7.4**	**81.2**	**1.3**	**133.4**	**223.3**
Total comprehensive income for the period					
Profit for the 12 months ended 31 December 2018	**–**	**–**	**–**	**28.3**	**28.3**
Revaluation reserve	–	–	(0.3)	–	(0.3)
Tax on revaluation reserve	–	–	0.1	–	0.1
Total other comprehensive income	**–**	**–**	**(0.2)**	**–**	**(0.2)**
Total comprehensive income for the period	**–**	**–**	**(0.2)**	**28.3**	**28.1**
Transactions with owners, recorded directly in equity					
Contributions by and distributions to owners					
Dividends	–	–	–	(14.8)	(14.8)
Share-based payments	–	–	–	0.8	0.8
Tax on share-based payments	–	–	–	(0.3)	(0.3)
Total contributions by and distributions to owners	**–**	**–**	**–**	**(14.3)**	**(14.3)**
Balance at 31 December 2018	**7.4**	**81.2**	**1.1**	**147.4**	**237.1**

Consolidated statement of cash flows

	June 2019 Unaudited £million	June 2018 Unaudited £million	December 2018 Audited £million
Cash flows from operating activities			
Profit for the period	14.6	12.7	28.3
Adjustments for:			
Income tax expense	3.5	2.4	6.4
Depreciation of property, plant and equipment	1.1	0.4	1.3
Loss on disposal of computer software	–	–	0.1
Amortisation of intangible assets	1.0	1.0	1.8
Impairment losses on loans and advances to customers	17.8	16.3	32.4
Amortisation of subordinated liabilities issue costs	0.1	–	–
Share-based compensation	0.6	0.3	0.8
Cash flows from operating profits before changes in operating assets and liabilities	38.7	33.1	71.1
Changes in operating assets and liabilities:			
– net decrease/(increase) in debt securities	39.7	(145.0)	(144.7)
– net increase in loans and advances to customers	(267.2)	(288.9)	(494.8)
– net decrease/(increase) in other assets	9.9	(2.4)	(17.0)
– net increase in deposits from customers	140.0	162.2	364.5
– net increase/(decrease) in other liabilities	16.4	7.3	(0.5)
Income tax paid	(4.0)	(3.1)	(6.4)
Interest paid on lease liabilities	(0.1)	–	–
Net cash outflow from operating activities	**(26.6)**	**(236.8)**	**(227.8)**
Cash flows from investing activities			
Purchase of property, plant and equipment	(6.1)	(0.5)	(1.1)
Purchase of computer software	(0.3)	(0.9)	(1.4)
Net cash outflow from investing activities	**(6.4)**	**(1.4)**	**(2.5)**
Cash flows from financing activities			
Net increase in amounts due to banks	–	150.0	150.0
Issue of subordinated liabilities	–	–	50.0
Subordinated liabilities issue costs	–	–	(0.8)
Repayments of principal under lease liabilities	(0.5)	–	–
Dividends paid	(11.8)	(11.3)	(14.8)
Net cash (outflow)/inflow from financing activities	**(12.3)**	**138.7**	**184.4**
Net decrease in cash and cash equivalents	**(45.3)**	**(99.5)**	**(45.9)**
Cash and cash equivalents at start of period	214.5	260.4	260.4
Cash and cash equivalents at end of period	**169.2**	**160.9**	**214.5**

Notes to the interim report

1. Accounting policies

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

1.1 Reporting entity

Secure Trust Bank PLC is a public limited company incorporated in England and Wales in the United Kingdom (referred to as 'the Company') and is limited by shares. The Company is registered in England and Wales and has the registered number 00541132. The registered address of the Company is One Arleston Way, Solihull, West Midlands, B90 4LH. The interim report of the Company as at and for the period ended 30 June 2019 comprise Secure Trust Bank PLC and its subsidiaries (together referred to as 'the Group' and individually as 'subsidiaries'). The Group is primarily involved in banking and financial services.

1.2 Basis of presentation

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

A copy of the statutory accounts for the year ended 31 December 2018 has been delivered to the Registrar of Companies. The auditor's report on those accounts was not qualified, did not include a reference to any matters to which the previous auditors drew attention by way of emphasis without qualifying the report and did not contain statements under section 498(2) or (3) of the Companies Act 2006.

The results for the periods ending 30 June 2019 and 30 June 2018 are unaudited. The results for the year ending 31 December 2018 are audited.

The interim report has been prepared under the historical cost convention, as modified by the revaluation of land and buildings. The interim report is presented in pounds sterling, which is the functional and presentational currency of the entities within the Group.

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

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

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

1.3 Accounting policies

The accounting policies applied in preparing the unaudited condensed interim report are consistent with those used in preparing the audited statutory financial statements for the year ended 31 December 2018, except for the following:

1.3.1 IFRS 16 'Leases'

The new standard is effective for annual periods beginning on or after 1 January 2019, and sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor'). It replaces the previous leases standard, IAS 17 'Leases', and related interpretations.

IFRS 16 uses a new single model that applies to all leases, thus eliminating the classification of leases as either operating leases or finance leases for a lessee. Applying that model, on commencement of a lease, the lessee recognises a liability to make lease payments ('the lease liability'), an asset representing the right to use the underlying asset during the lease term ('the right-of-use asset'), and depreciation of right-of-use assets is shown separately from interest on lease liabilities in the income statement.

The lease liability is initially measured based on the net present value of the lease payments to be made over the remaining lease term, using the lessee's incremental borrowing rate as the discount rate. After commencement of the lease, the lease liability is measured on an amortised cost basis, with interest being calculated on an effective interest rate basis on the remaining balance of the liability, and lease payments reducing the lease liability when paid.

Notes to the interim report continued

1. Accounting policies continued

The right-of-use asset is initially measured at cost, being the amount of the initial measurement of the lease liability, adjusted for any prepaid rentals less any lease incentives plus any initial direct costs incurred by the lessee and dismantling or restoration costs. Subsequently, the right-of-use asset is amortised on a straight-line basis over the remaining term of the lease.

Transition choices

The Group has elected to recognise the cumulative effect of implementing IFRS 16 as an adjustment to the opening balance of retained earnings at 1 January 2019. Accordingly, prior year comparatives shall not be restated. As a practical expedient, the Group will apply the new standard only to contracts that had previously been identified as leases. Therefore, the new standard will not be applied to contracts that had not previously been identified as leases.

The Group has also elected not to apply IFRS 16 to the following:

- Short-term leases of 12 months or less.
- Leases for which the underlying asset is of low value.

This has resulted in the new standard only being applicable to a number of property leases and motor vehicle leases.

The Group has chosen to measure the initial right-of-use asset for property leases at its carrying amount as if the standard has been applied since the commencement date, but discounted using the incremental borrowing rate as at 1 January 2019. The initial right-of-use asset for all other leases is measured at an amount equal to the lease liability.

The adjustments (net of tax) arising from the adoption of IFRS 16 on 1 January 2019, and their effect on the 31 December 2018 balance sheet, were as follows:

	As originally stated 31 December 2018 £million	IFRS 16 adjustment 1 January 2019 £million	As restated 1 January 2019 £million
Assets			
Cash and balances at central banks	169.7	–	169.7
Debt securities	149.7	–	149.7
Loans and advances to banks	44.8	–	44.8
Loans and advances to customers	2,028.9	–	2,028.9
Lease right-of-use assets	–	4.5	4.5
Deferred tax	7.9	0.2	8.1
Other assets	43.3	(0.4)	42.9
Total assets	**2,444.3**	**4.3**	**2,448.6**
Liabilities			
Due to banks	263.5	–	263.5
Deposits from customers	1,847.7	–	1,847.7
Tier 2 subordinated liabilities	50.4	–	50.4
Lease liabilities	–	5.5	5.5
Other liabilities	45.6	(1.1)	44.5
Total liabilities	**2,207.2**	**4.4**	**2,211.6**
Share capital	7.4	–	7.4
Share premium	81.2	–	81.2
Revaluation reserve	1.1	–	1.1
Retained earnings	147.4	(0.1)	147.3
Total equity	**237.1**	**(0.1)**	**237.0**
Total liabilities and equity	**2,444.3**	**4.3**	**2,448.6**

Of the total right-of-use asset of £4.5 million recognised at 1 January 2019, £4.2 million related to leases of property, and £0.3 million related to leases of motor vehicles.

1. Accounting policies continued

Adjustments to other assets

These relate to the release of rent prepayments that are no longer required now that the leases are recognised as right-of-use assets.

Adjustment to other liabilities

This relates to the release of a reverse lease premium, which, under IAS 17, was included in accruals and was being spread over the term of the lease.

The weighted average incremental borrowing rate applied to lease liabilities recognised in the statement of financial position on transition at 1 January 2019 was 2.61%.

The table below presents a reconciliation from operating lease commitments disclosed at December 2018 to lease liabilities recognised at 1 January 2019:

	£million
Operating lease commitment disclosed under IAS 17 at December 2018	7.4
Effect of discounting	(1.9)
	5.5

In terms of the income statement impact, the application of IFRS 16 resulted in a decrease in other operating expenses and an increase in depreciation and interest expense compared to IAS 17. During the period, in relation to leases under IFRS 16 the Group recognised the following amounts in the consolidated income statement:

	£million
Depreciation	0.5
Interest expense	0.1

Lessor accounting

Lessor accounting remains unchanged from IAS 17.

1.3.2 Taxation

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

1.3.3 Standards in issue but not yet effective

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

2. Critical judgements and estimates

2.1 Judgements

No critical judgements have been identified.

2.2 Key sources of estimation uncertainty

Estimations which could have a material impact on the Group's financial results and are therefore considered to be key sources of estimation uncertainty are outlined below.

2.2.1 Impairment losses on loans and advances to customers

As discussed in Note 1.10 of the Group's Annual Report for the year ended 31 December 2018, ECLs are calculated by multiplying three main components: the PD, EAD and LGD. These variables are derived from internally developed statistical models and historical data, adjusted to reflect forward looking information. The determination of both the PD and LGD require estimation which is discussed further below.

2.2.2 Probability of default ('PD')

As set out in Note 1.10 Exogenous, Maturity, Vintage ('EMV') modelling is used in the production of forward looking lifetime PDs in the calculation of ECLs. As the Group's performance data does not go back far enough to capture a full economic cycle, the proxy series of the quarterly rates of write offs for UK unsecured lending data is used to build an economic response model ('ERM') to incorporate the effects of recession.

The portfolios for which external benchmark information represents a significant input into the measurement of expected credit loss ('ECL') are Real Estate Finance, Asset Finance and Commercial Finance. The benchmarks used for all three portfolios are Standard & Poor's Ratings and Bank of England UK Possessions as proxy data for ERM.

A 10% change in the PD for Motor Finance would impact the ECL allowance by £1.8 million (June 2018: £2.2 million, December 2018: £1.8 million).

Notes to the interim report continued

2. Critical judgements and estimates continued

With the exception of the Motor Finance portfolio, sensitivity to reasonably possible changes in PD is not considered to result in material changes in the ECL allowance.

The composition of the Retail Finance portfolio remains stable with minimal movement in PDs. The ECL allowance held for the Business Finance, Consumer Mortgages and Other portfolios remains low. Reasonably possible changes in the PD for these portfolios are not considered to result in a material change in the ECL allowance.

2.2.3 Loss given default ('LGD')

The Group's policy for the determination of LGD is outlined in Note 1.10 of the Group's Annual Report for the year ended 31 December 2018.

With the exception of the Motor Finance portfolio, the sensitivity of the ECL allowance to reasonably possible changes in the LGD is not considered material. For the Motor Finance portfolio a 10% change in the LGD is considered reasonably possible due to historic data showing movements in vehicle collection rates once a loan is in repossession stage. A 10% change in the vehicle recovery rate assumption element of the LGD for Motor Finance would impact the ECL allowance by £1.5 million (June 2018 £1.7 million, December 2018: £1.6 million). Vehicle collection rates and proceeds received on sale of vehicles at auction remained broadly stable over 2018, and therefore there was no material change to ECL as a result of LGD changes.

2.2.4 Incorporation of forward looking data

The Group incorporates forward looking information into both its assessment of whether the credit risk of a financial asset has increased significantly since initial recognition and its measurement of expected credit loss by developing a number of potential economic scenarios and modelling expected credit losses for each scenario. Further detail on this process is provided in Note 1.10. Whilst not material and therefore not required by IAS 1, the Group has included the disclosure below as it is considered useful to readers of the Interim Report.

The macro-economic scenarios and weightings applied are summarised below:

Scenario	Derivation	Weighting 30 June 2019 and 31 December 2018	Weighting 30 June 2018
Base case	Derived from external consensus forecasts and used in the Group's strategic planning and budgeting processes.	65%	80%
Benign case	Assumes macro-economic variables will move with a more positive trajectory than the base case.	10%	5%
Stressed case	Management's assessment, based on historic data, of an adverse scenario that could occur once every seven to eight years.	20%	10%
Deeper stress	Based on the scenario used by the PRA for the ICAAP. This can be found on the Bank of England's website: www.bankofengland.co.uk	5%	5%

Weightings applied to the macro-economic scenarios were reviewed and reconfirmed at the July 2019 Assumptions Committee.

The sensitivity of the ECL allowance to reasonably possible changes in macro-economic scenario weighting is presented below:

Increase in stressed case weighting by 5% and reduction in base case	June 2019 £million	June 2018 £million	December 2018 £million
Motor Finance	**0.1**	0.1	0.1
Retail Finance	**0.1**	0.1	0.1

Increase in deeper stress case weighting by 5% and reduction in base case	June 2019 £million	June 2018 £million	December 2018 £million
Motor Finance	**0.4**	0.3	0.3
Retail Finance	**0.8**	0.8	0.8

The sensitivity of other portfolios to reasonably possible changes in macro-economic scenario weightings is not considered material.

3. Operating segments

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

Business Finance

1) Real Estate Finance: residential and commercial investment and development loans secured by UK real estate.

2) Asset Finance: loans to small and medium-sized enterprises to acquire commercial assets.

3) Commercial Finance: invoice discounting and invoice factoring.

Consumer Finance

4) Motor Finance: Hire purchase agreements secured against the vehicle being financed.

5) Retail Finance: Point of sale unsecured finance for in-store and online retailers.

6) Debt Management: Debt collection.

7) Consumer Mortgages: Residential mortgages for the self-employed, contract workers, those with complex income and those with a recently restored credit history, sold via select mortgage intermediaries.

Other

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

Other includes principally OneBill (the Group's consumer bill management service, which has been closed to new customers since 2009) and RentSmart (principally the funding and operation of finance leases through a disclosed agency agreement with RentSmart Limited).

Currently, the Debt Management and Consumer Mortgages segments both fall below the quantitative threshold for separate disclosure, but the directors consider that they represent sufficiently distinct types of business to merit separate disclosure. The June 2018 figures have been restated accordingly, in order to separately disclose Debt Management, as this change had already been made at December 2018. Also, now that the Group has ceased new mortgage originations, the Consumer Mortgages business is now managed as part of Consumer Finance, so both prior periods have been restated accordingly.

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

	Interest income and similar income £million	Fee and commission income £million	Revenue from external customers £million	Impairment losses on loans and advances to customers £million	Loans and advances to customers £million	Loan commitments £million
June 2019						
Real Estate Finance	22.6	0.9	23.5	0.2	879.0	129.3
Asset Finance	1.9	–	1.9	0.3	42.7	–
Commercial Finance	3.4	5.0	8.4	0.2	220.7	38.3
Business Finance	27.9	5.9	33.8	0.7	1,142.4	167.6
Retail Finance	34.2	1.9	36.1	9.1	671.7	30.4
Motor Finance	23.9	0.4	24.3	8.0	299.8	1.2
Debt Management	3.8	0.6	4.4	–	42.3	–
Consumer Mortgages	1.7	–	1.7	0.1	113.2	–
Consumer Finance	63.6	2.9	66.5	17.2	1,127.0	31.6
Other	0.8	2.4	3.2	(0.1)	8.9	–
	92.3	**11.2**	**103.5**	**17.8**	**2,278.3**	**199.2**

Notes to the interim report continued

3. Operating segments continued

	Interest income and similar income £million	Fee and commission income £million	Revenue from external customers £million	Impairment losses on loans and advances to customers £million	Loans and advances to customers £million	Loan commitments £million
June 2018						
Real Estate Finance	18.3	–	18.3	0.5	704.8	168.7
Asset Finance	3.8	–	3.8	0.9	87.9	–
Commercial Finance	2.3	3.9	6.2	0.2	187.5	53.2
Business Finance	24.4	3.9	28.3	1.6	980.2	221.9
Retail Finance	27.4	2.0	29.4	9.0	508.0	25.8
Motor Finance	23.2	0.6	23.8	6.4	272.0	0.8
Debt Management	2.6	0.5	3.1	–	28.3	–
Consumer Mortgages	0.4	–	0.4	–	37.3	13.8
Consumer Finance	53.6	3.1	56.7	15.4	845.6	40.4
Other	1.2	2.8	4.0	(0.7)	13.3	1.0
	79.2	**9.8**	**89.0**	**16.3**	**1,839.1**	**263.3**

	Interest income and similar income £million	Fee and commission income £million	Revenue from external customers £million	Impairment losses on loans and advances to customers £million	Loans and advances to customers £million	Loan commitments £million
December 2018						
Real Estate Finance	41.1	0.1	41.2	0.5	769.8	173.4
Asset Finance	6.6	–	6.6	2.2	62.8	–
Commercial Finance	5.5	7.9	13.4	–	194.7	45.6
Business Finance	53.2	8.0	61.2	2.7	1,027.3	219.0
Retail Finance	58.7	4.1	62.8	19.3	597.0	28.3
Motor Finance	47.4	1.1	48.5	11.3	276.4	0.5
Debt Management	6.1	0.9	7.0	–	32.3	–
Consumer Mortgages	1.5	–	1.5	0.2	84.7	15.3
Consumer Finance	113.7	6.1	119.8	30.8	990.4	44.1
Other	2.3	5.3	7.6	(1.1)	11.2	–
	169.2	**19.4**	**188.6**	**32.4**	**2,028.9**	**263.1**

Funding costs and operating expenses are not aligned to operating segments for day-to-day management of the business, so they cannot be allocated on a reliable basis. Accordingly, profit by operating segment has not been disclosed.

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

4. Income tax expense

	June 2019 £million	June 2018 £million	December 2018 £million
Current taxation			
Corporation tax charge – current period	3.3	2.9	7.3
Corporation tax charge – adjustments in respect of prior periods	–	–	0.3
	3.3	**2.9**	**7.6**
Deferred taxation			
Deferred tax charge – current period	0.2	(0.5)	(1.0)
Deferred tax charge – adjustments in respect of prior periods	–	–	(0.2)
	0.2	(0.5)	(1.2)
Income tax expense	**3.5**	**2.4**	**6.4**

The tax for all the periods above has been calculated at the current effective rate, which is 19%.

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. The Company will incur the 8% corporation tax surcharge on banking company profits in excess of £25.0 million during this period, but the quantum of this is uncertain. Any changes in the forecast tax rate of the Company over this period could significantly affect the future tax charge.

5. Earnings per ordinary share

5.1 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:

	June 2019	June 2018	December 2018
Profit attributable to equity holders of the parent (£ millions)	14.6	12.7	28.3
Weighted average number of ordinary shares (number)	18,476,628	18,475,229	18,475,229
Earnings per share (pence)	**79.0**	**68.7**	**153.2**

5.2 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 period, as noted above, as well as the number of dilutive share options in issue during the period, as follows:

	June 2019	June 2018	December 2018
Weighted average number of ordinary shares	18,476,628	18,475,229	18,475,229
Number of dilutive shares in issue at the period end	173,464	319,374	277,234
Fully diluted weighted average number of ordinary shares	**18,650,092**	**18,794,603**	**18,752,463**
Dilutive shares being based on:			
Number of options outstanding at the period end	659,802	468,157	511,706
Exercise price (pence)	498	644	678
Average share price during the period (pence)	1,303	1,924	1,489
Diluted earnings per share (pence)	**78.3**	**67.6**	**150.9**

Notes to the interim report continued

6. Loans and advances to customers

	June 2019 £million	June 2018 £million	December 2018 £million
Gross loans and advances	2,346.8	1,907.1	2,096.0
Less: allowances for impairment on loans and advances (Note 8)	(68.5)	(68.0)	(67.1)
	2,278.3	**1,839.1**	**2,028.9**

The fair value of loans and advances to customers is shown in Note 16.

7. Leasing right-of-use asset

	Leasehold property £million	Leased Motor vehicles £million	Total £million
Cost			
On transition at 1 January 2019 and 30 June 2019	**4.2**	**0.3**	**4.5**
Accumulated depreciation			
Depreciation charge	(0.4)	(0.1)	(0.5)
At 30 June 2019	**(0.4)**	**(0.1)**	**(0.5)**
Net book amount			
At 30 June 2019	**3.8**	**0.2**	**4.0**

8. Allowances for impairment of loans and advances

	Not credit impaired		Credit impaired			
	Stage 1: Subject to 12 month ECL £million	Stage 2: Subject to lifetime ECL £million	Stage 3: Subject to lifetime ECL £million	Total provision £million	Gross loans and receivables £million	Provision cover %
June 2019						
Business Finance:						
Real Estate Finance	0.5	0.1	0.2	0.8	879.8	0.1%
Asset Finance	0.1	0.1	1.8	2.0	44.7	4.5%
Commercial Finance	0.3	0.1	0.5	0.9	221.6	0.4%
Consumer Finance:						
Retail Finance	9.9	10.0	4.4	24.3	696.0	3.5%
Motor Finance:						
Voluntary termination provision	6.7	–	–	6.7		
Other impairment	3.9	13.0	16.5	33.4		
	10.6	13.0	16.5	40.1	339.9	11.8%
Debt Management	–	–	–	–	42.3	0.0%
Consumer Mortgages	0.3	–	–	0.3	113.5	0.3%
Other	–	–	0.1	0.1	9.0	1.1%
	21.7	**23.3**	**23.5**	**68.5**	**2,346.8**	**2.9%**

8. Allowances for impairment of loans and advances continued

	Not credit impaired		Credit impaired			
	Stage 1: Subject to 12 month ECL £million	Stage 2: Subject to lifetime ECL £million	Stage 3: Subject to lifetime ECL £million	Total provision £million	Gross loans and receivables £million	Provision cover %
June 2018						
Business Finance:						
Real Estate Finance	0.1	0.5	–	0.6	705.4	0.1%
Asset Finance	0.3	0.1	1.9	2.3	90.2	2.5%
Commercial Finance	0.2	0.3	0.5	1.0	188.5	0.5%
Consumer Finance:						
Retail Finance	8.3	7.7	4.0	20.0	528.0	3.8%
Motor Finance:						
Voluntary termination provision	5.7	–	–	5.7		
Other impairment	5.3	15.4	14.4	35.1		
	11.0	15.4	14.4	40.8	312.8	13.0%
Debt Management	–	–	–	–	28.3	0.0%
Consumer Mortgages	0.1	–	–	0.1	37.4	0.3%
Other	–	–	3.2	3.2	16.5	19.4%
	20.0	**24.0**	**24.0**	**68.0**	**1,907.1**	**3.6%**

	Not credit impaired		Credit impaired			
	Stage 1: Subject to 12 month ECL £million	Stage 2: Subject to lifetime ECL £million	Stage 3: Subject to lifetime ECL £million	Total provision £million	Gross loans and receivables £million	Provision cover %
December 2018						
Business Finance:						
Real Estate Finance	0.6	–	–	0.6	770.4	0.1%
Asset Finance	0.2	0.1	2.7	3.0	65.8	4.6%
Commercial Finance	0.2	0.2	0.4	0.8	195.5	0.4%
Consumer Finance:						
Retail Finance	8.9	9.8	4.3	23.0	620.0	3.7%
Motor Finance:						
Voluntary termination provision	6.0	–	–	6.0		
Other impairment	4.2	13.8	15.4	33.4		
	10.2	13.8	15.4	39.4	315.8	12.5%
Debt Management	–	–	–	–	32.3	0.0%
Consumer Mortgages	0.2	–	–	0.2	84.9	0.2%
Other	–	–	0.1	0.1	11.3	0.9%
	20.3	**23.9**	**22.9**	**67.1**	**2,096.0**	**3.2%**

Notes to the interim report continued

8. Allowances for impairment of loans and advances continued

Total provisions above include expert credit judgements as follows:

	June 2019 £million	June 2018 £million	December 2018 £million
Expert credit judgements over the Group's IFRS 9 model results	**2.3**	4.4	2.0
Of which:			
Specific overlays held against credit impaired secured assets held within the Business Finance portfolio	**0.9**	1.8	1.4

These specific overlays have been estimated on an individual basis by assessing the recoverability and condition of the secured asset, along with any other recoveries that may be made.

Of the remaining £1.4 million at June 2019, £1.2 million has been applied to the Group's Motor Finance IFRS 9 model results, relating to management judgements in respect of LGD elements of the model of £0.9 million and PD elements of the model of £0.3 million. The remaining £0.2 million is in respect of management judgements over the macro-economic scenarios applied in the Real Estate Finance portfolio (the remaining £0.6 million at December 2018 related primarily to the estimated impact of planned enhancements to LGD elements of the models, offset by a net decrease in the ECL due to management judgements in respect of the PD elements of the models, and the remaining £2.6 million at June 2018 related to planned model enhancements of the motor model of £1.2 million and management judgements in respect of PD elements of the model of £1.4 million).

Provisions included in 'Other' are in respect of various legacy products. This segment also includes loans of £8.5 million (June 2018: £13.0 million, December 2018: £10.8 million) held in STB Leasing Limited. The credit risk associated with those loans is retained by its partner, RentSmart. Accordingly, no provision is held against the RentSmart loans.

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

	June 2019 £million	June 2018 £million	December 2018 £million
Charge for impairment losses	15.3	13.7	30.4
Impairment losses in respect of off balance sheet loan commitments	–	0.1	–
Loans written off, net of amounts utilised	2.7	3.2	4.3
Recoveries of loans written off	(0.2)	(0.7)	(2.3)
	17.8	**16.3**	**32.4**

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

	Not credit impaired		Credit impaired	
	Stage 1: Subject to 12 month ECL £million	Stage 2: Subject to lifetime ECL £million	Stage 3: Subject to lifetime ECL £million	Total provision £million
June 2019				
At start of period	20.3	23.9	22.9	67.1
Increase/(decrease) due to change in credit risk				
– Transfer to stage 2	(2.5)	16.6	–	14.1
– Transfer to stage 3	–	(11.5)	15.0	3.5
– Transfer to stage 1	0.6	(1.4)	–	(0.8)
Passage of time	(5.9)	(2.0)	(1.2)	(9.1)
New loans originated	8.8	–	–	8.8
Derecognised loans	(0.9)	(2.2)	–	(3.1)
Changes to credit risk parameters	0.5	(0.1)	(0.8)	(0.4)
Other adjustments	2.3	–	–	2.3
Charge to income statement	2.9	(0.6)	13.0	15.3
Allowance utilised in respect of write offs	(1.5)	–	(12.4)	(13.9)
At end of period	**21.7**	**23.3**	**23.5**	**68.5**

8. 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
June 2018				
At start of period	18.9	24.9	27.9	71.7
Increase/(decrease) due to change in credit risk				
– Transfer to stage 2	(3.0)	15.7	–	12.7
– Transfer to stage 3	(0.1)	(12.2)	16.0	3.7
– Transfer to stage 1	0.8	(1.8)	–	(1.0)
Passage of time	(4.4)	(1.1)	(2.5)	(8.0)
New loans originated	8.5	0.1	–	8.6
Derecognised loans	(0.9)	(1.6)	–	(2.5)
Other adjustments	0.2	–	–	0.2
Charge to income statement	1.1	(0.9)	13.5	13.7
Allowance utilised in respect of write offs	–	–	(17.4)	(17.4)
At end of period	**20.0**	**24.0**	**24.0**	**68.0**

	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
December 2018				
At start of year	18.9	24.9	27.9	71.7
Increase/(decrease) due to change in credit risk				
– Transfer to stage 2	(6.3)	33.0	–	26.7
– Transfer to stage 3	(0.1)	(23.4)	30.8	7.3
– Transfer to stage 1	1.5	(3.2)	–	(1.7)
Passage of time	(6.7)	(1.7)	(3.9)	(12.3)
New loans originated	17.4	–	–	17.4
Derecognised loans	(1.8)	(4.0)	–	(5.8)
Changes to model methodology	(1.3)	(0.2)	–	(1.5)
Changes to credit risk parameters	(1.2)	(1.5)	0.6	(2.1)
Other adjustments	2.4	–	–	2.4
Charge to income statement	3.9	(1.0)	27.5	30.4
Allowance utilised in respect of write offs	(2.5)	–	(32.5)	(35.0)
At end of year	**20.3**	**23.9**	**22.9**	**67.1**

The table above has been prepared based on the monthly movements in ECL.

Passage of time represents the impact of accounts maturing through their contractual life and the associated reduction in PDs. For stage 3 assets it represents the unwind of the discount applied in calculating the ECL.

Changes to model methodology represents movements that have occurred due to enhancements made to the models during the year.

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

Other adjustments represents the movement in the Motor voluntary termination provision.

Stage 1 write offs arise on the Motor accounts that have exercised their right to voluntarily terminate their agreements.

Notes to the interim report continued

9. Due to banks

	June 2019 £million	June 2018 £million	December 2018 £million
Amounts due to other credit institutions	263.0	263.0	263.0
Accrued interest	0.5	0.3	0.5
	263.5	**263.3**	**263.5**

Amounts due to banks represent monies arising from drawings under the Term Funding Scheme. These are due for repayment between May 2021 and February 2022.

At December 2018, accrued interest was reclassified from Other liabilities to Amounts due to banks, as this better represented the commercial reality of the arrangement, so the June 2018 figures have been restated accordingly.

10. Deposits from customers

	June 2019 £million	June 2018 £million	December 2018 £million
Current/demand accounts	19.2	15.0	14.5
Term deposits	1,982.3	1,641.8	1,833.2
	2,001.5	**1,656.8**	**1,847.7**

The fair value of deposits from customers is shown in Note 16.

At December 2018, accrued interest was reclassified from Other liabilities to Deposits from customers, as this better represented the commercial reality of the arrangement, so the June 2018 figures have been restated accordingly.

11. Lease liabilities

Charged to the income statement	June 2019 £million	June 2018 £million	December 2018 £million
Interest expense on lease liabilities	**0.1**	**–**	**–**

The Group has elected not to apply the recognition requirements of IFRS 16 'Leases' to short-term leases or leases for which the underlying asset is of low value. Accordingly, the expense incurred under such leases for the period ended June 2019 is not material.

12. Provisions for liabilities and charges

	Customer redress £million	Fraud £million	ECL allowance on loan commitment £million	Total £million
June 2019				
At start of period	0.8	0.1	0.4	1.3
(Credited)/charged to income statement	(0.4)	–	–	(0.4)
At end of period	**0.4**	**0.1**	**0.4**	**0.9**

	Customer redress £million	Fraud £million	ECL allowance on loan commitment £million	Total £million
June 2018				
At start of period	1.2	0.2	0.3	1.7
(Credited)/charged to income statement	–	(0.1)	0.1	–
Utilised	(0.1)	–	–	(0.1)
At end of period	**1.1**	**0.1**	**0.4**	**1.6**

12. Provisions for liabilities and charges continued

	Customer redress £million	Fraud £million	ECL allowance on loan commitment £million	Total £million
December 2018				
At start of period	1.2	0.2	0.3	1.7
(Credited)/charged to income statement	(0.4)	(0.1)	0.1	(0.4)
At end of period	**0.8**	**0.1**	**0.4**	**1.3**

Customer redress provision

The Group provides for its best estimate of redress payable in respect of historical sales of accident, sickness and unemployment insurance, by considering the likely future uphold rate for claims, in the context of confirmed issues and historical experience.

The Financial Conduct Authority has announced a deadline for making these customer redress claims, giving consumers until 29 August 2019 to make a claim. The likelihood of potential new claims is projected forward to this date. The accuracy of these estimates would be affected, were there to be a significant change in either the number of future claims or the incidence of claims upheld by the Financial Ombudsman Service.

Fraud

The fraud provision relates to cases where the Bank has reasonable evidence of suspected fraud, but further investigation is required before the cases can be dealt with appropriately.

ECL allowance on loan commitments

In accordance with the requirements of IFRS 9, the Group holds an ECL allowance against loans it has committed to lend but have not yet been drawn. The majority of the £0.4 million allowance held at June 2019 relates to undrawn balances within Retail Finance. 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 June 2019, no provision was held for losses in excess of drawn amounts.

13. Commitments

The Group's off balance sheet exposure to undrawn loan commitments at June 2019 was £199.2 million (June 2018: £263.3 million, December 2018: £263.1 million). Details of the split by business is given in Note 3.

14. Subordinated liabilities

	June 2019 £million	June 2018 £million	December 2018 £million
Tier 2 capital	50.0	–	50.0
Unamortised issue costs	(0.7)	–	(0.8)
Accrued interest	1.2	–	1.2
	50.5	**–**	**50.4**

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.

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15. Capital

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

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

	June 2019 £million (unaudited)	June 2018 £million (unaudited)	December 2018 £million (unaudited)
Tier 1			
Share capital	7.4	7.4	7.4
Share premium	81.2	81.2	81.2
Retained earnings	150.8	135.1	147.4
Revaluation reserve	0.9	1.3	1.1
Goodwill	(1.0)	(1.0)	(1.0)
Intangible assets net of attributable deferred tax	(8.1)	(9.1)	(8.8)
Transitional IFRS 9 adjustment	22.3	24.5	24.5
CET1 capital	**253.5**	**239.4**	**251.8**
Tier 2			
Subordinated liabilities	50.5	–	50.4
Less ineligible portion	(1.2)	–	(4.7)
Total Tier 2 capital	**49.3**	**–**	**45.7**
Own Funds	**302.8**	**239.4**	**297.5**
Reconciliation to total equity:			
Goodwill and other intangible assets net of attributable deferred tax	9.1	10.1	9.8
Transitional IFRS 9 adjustment	(22.3)	(24.5)	(24.5)
Eligible subordinated liabilities	(49.3)	–	(45.7)
Total equity	**240.3**	**225.0**	**237.1**
CET1 capital	253.5	239.4	251.8
Proposed dividends	(3.7)	(3.5)	(11.8)
CET1 capital including proposed dividends	**249.8**	**235.9**	**240.0**
Own Funds including proposed dividends	**299.1**	**235.9**	**285.7**

The capital resources shown in the table above include profits for the period to 30 June 2019. These profits will not be included in the Group's Pillar 3 return for June 2019, as they are not yet approved by the regulator.

The transitional adjustment to capital arises from the Group making an election to phase in the impact of transitioning to IFRS 9 over a five year period, by applying add back factors of 95%, 85%, 70%, 50% and 25% for years one to five respectively. At June 2019, this amounted to 85% of the IFRS 9 transition adjustment of £25.8 million, adjusted for the movement in stage 1 and stage 2 impairment allowance between 1 January 2019 and 31 December 2018 of £0.4 million (June 2018 and December 2018: 95% of the IFRS 9 transition adjustment of £25.8 million).

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

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

	Total carrying amount June 2019 £million	**Fair value June 2019 £million**	Total carrying amount June 2018 £million	Fair value June 2018 £million	Total carrying amount December 2018 £million	Fair value December 2018 £million
Loans and advances to customers	**2,278.3**	**2,288.3**	1,839.1	1,910.6	2,028.9	2,032.5
Deposits from customers	**2,001.5**	**2,018.1**	1,656.8	1,655.6	1,847.7	1,859.7

Freehold land and buildings are carried at fair value. All other assets and liabilities are carried at amortised cost.

17. Share-based payments

The Group has five share-based payment schemes in operation:

- Share Option Scheme
- 2017 long term incentive plan
- 2017 sharesave plan
- 2017 deferred bonus plan
- 'Phantom' share option scheme

A summary of the awards under each scheme is set out below:

	Outstanding at the start of the period Number	Granted during the period Number	Exercised during the period Number	Outstanding at the end of the period Number	Vested and exercisable Number	Vesting Date	Weighted average exercise price £
Equity settled							
Share option scheme	177,084	–	–	177,084	177,084	2016	7.20
2017 long term incentive plan	161,597	134,046	–	295,643	–	2020–2024	0.40
2017 sharesave plan	145,009	–	–	145,009	–	2020–2021	13.39
2017 deferred bonus plan	14,690	28,775	(1,399)	42,066	3,497	2019–2022	0.40
	498,380	162,821	(1,399)	659,802	180,581		
Cash settled							
'Phantom' share option scheme	312,917	–	–	312,917	312,917	2019	25.00

17.1 Share option scheme

The number of unexercised share options as at June 2019 remains unchanged from the position as at June 2018 and December 2018. These awards vested in November 2016 and remain exercisable for seven years following the vesting date. The intrinsic value of unexercised options is £2.5 million (June 2018: £2.0 million, December 2018: £0.8 million).

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17. Share-based payments continued

17.2 Long term incentive plan

The long term incentive plan was established on 3 May 2017.

On 25 April 2019, a further 134,046 share options were granted at an exercise price of 40 pence per share, which are subject to the same rules as the awards granted under the plan during 2018, as disclosed in the 2018 Annual Report and Accounts. Details of the awards under the plan are set out below:

	Subject to a holding period of two years Number	Subject to no holding period Number	Total Number
At 1 January 2018	33,467	34,525	67,992
Awarded on 20 April 2018	30,429	64,075	94,504
Leavers during 2018	–	(899)	(899)
At 30 June 2018 and 31 December 2018	63,896	97,701	161,597
Awarded on 25 April 2019	54,312	79,734	134,046
At 30 June 2019	**118,208**	**177,435**	**295,643**

The original grant date valuation of the 2019 awards was determined to be £9.02 for those awards that are subject to a holding period, and £10.48 for those awards not subject to a holding period, using a Black-Scholes model for the EPS and risk management tranches, and a Monte Carlo model for the total shareholder return ('TSR') tranche, and these valuations have been used in the calculation. The share price at date of grant was £15.20 and the expected dividend yield was 6.18%. The other measurement inputs and assumptions used at the grant date were as follows:

	Awards subject to a holding period	Awards not subject to a holding period
Expected stock price volatility	25.9%	29.1%
Risk free interest rate	0.86%	0.72%
Average expected life (years)	5.00	3.00
Discount for lack of marketability during holding period	10.00%	N/A

17.3 Sharesave plan

The sharesave plan was established on 3 May 2017.

The number of awards under this scheme remains unchanged from the position as at December 2018, as disclosed in the 2018 Annual Report and Accounts.

17.4 Deferred bonus plan

The deferred bonus plan was established on 3 May 2017.

As disclosed in the Directors' remuneration report in the 2018 Annual Report and Accounts, 50% of the 2018 bonus earned by two Executive directors, amounting to £450,000, was deferred into shares under the deferred bonus plan. Accordingly, on 25 April 2019, 28,775 share options were awarded at an exercise price of 40 pence per share, which will vest in three equal tranches after one, two and three years following deferral.

17. Share-based payments continued

For accounting purposes, the grant date is deemed to be 1 January 2019, as this is the date that there is a shared understanding of the terms and conditions of the arrangement, although the calculation of the number of options awarded only took place upon Remuneration Committee approval in April 2019. The original grant date valuation was determined to be £10.69 for those awards vesting after one year, £9.94 for those awards vesting after two years and £9.59 for those awards vesting after three years, using a Black-Scholes model, and these valuations have been used in the calculation. The share price at date of grant was £11.90 and the expected dividend yield was 7.06%. The other measurement inputs and assumptions used at the grant date were as follows:

	Awards vesting after one year	Awards vesting after two years	Awards vesting after three years
Expected stock price volatility	27.34%	24.79%	28.82%
Risk free interest rate	0.77%	0.75%	0.75%
Average expected life (years)	1.00	2.00	3.00

17.5 Cash settled share-based payments

The 'Phantom' share option scheme is a cash settled share-based payment scheme and was established on 16 March 2015.

312,917 options were awarded under the scheme, entitling the holders to a cash payment, 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.

As at June 2019, 312,917 share options remained outstanding. The options vested on 16 March 2019, and remain exercisable for six years following the vesting date.

The estimated fair value as at June 2019 was £0.43 pence, prepared using the Black-Scholes model. The share price at June 2019 was £14.25 and the expected dividend yield was 5.89%. The other measurement inputs and assumptions used at the grant date were as follows:

	June 2019
Expected stock price volatility	27.3%
Risk free interest rate	0.64%
Average expected life (years)	5.7

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

	June 2019 £million	June 2018 £million	December 2018 £million
Liability at start of period	0.2	0.2	0.2
Charge for the year	(0.1)	–	–
Liability at end of period	**0.1**	**0.2**	**0.2**

18. Related party transactions

There were no changes to the nature of the related party transactions during the period to June 2019 that would materially affect the position or performance of the Group. Details of the transactions for the year ended December 2018 can be found in the 2018 Annual Report.

19. Credit risk

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

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

Notes to the interim report continued

19. Credit risk continued

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 its exposures to credit risk as it considers this to be the most significant risk to the business.

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

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

The Board monitors the ratings of the counterparties in relation to the Group's loans and advances to banks. There are no direct exposures to non-UK countries.

With the exception of loans and advances to customers, the carrying amount of financial assets represents the Group's maximum exposure to credit risk. The Group's maximum exposure to credit risk for loans and advances to customers by portfolio and IFRS 9 stage without taking account of any collateral held or other credit enhancements attached was as follows:

	Stage 1	Stage 2			Stage 3			
June 2019	£million	<= 30 days past due £million	> 30 days past due £million	Total £million	Excl. purchased credit impaired £million	Purchased credit impaired £million	Total £million	Total £million
Business Finance								
Real Estate Finance	814.4	56.9	–	56.9	8.5	–	8.5	879.8
Asset Finance	35.4	2.1	5.1	7.2	2.1	–	2.1	44.7
Commercial Finance	212.7	8.3	–	8.3	0.6	–	0.6	221.6
Consumer Finance								
Retail Finance	605.4	81.5	4.0	85.5	5.1	–	5.1	696.0
Motor Finance	224.0	92.1	2.2	94.3	21.6	–	21.6	339.9
Debt Management	–	–	–	–	10.2	32.1	42.3	42.3
Consumer Mortgages	111.8	–	1.7	1.7	–	–	–	113.5
Other	9.0	–	–	–	–	–	–	9.0
Total drawn exposure	**2,012.7**	**240.9**	**13.0**	**253.9**	**48.1**	**32.1**	**80.2**	**2,346.8**
Off balance sheet								
Loan commitments	199.2	–	–	–	–	–	–	199.2
Total gross exposure	**2,211.9**	**240.9**	**13.0**	**253.9**	**48.1**	**32.1**	**80.2**	**2,546.0**
Less:								
Impairment allowance	(21.7)	(19.2)	(4.1)	(23.3)	(23.5)	–	(23.5)	(68.5)
Provision for loan commitments	(0.4)	–	–	–	–	–	–	(0.4)
Total net exposure	**2,189.8**	**221.7**	**8.9**	**230.6**	**24.6**	**32.1**	**56.7**	**2,477.1**

19. Credit risk continued

June 2018	Stage 1 £million	Stage 2 <= 30 days past due £million	Stage 2 > 30 days past due £million	Stage 2 Total £million	Stage 3 Excl. purchased credit impaired £million	Stage 3 Purchased credit impaired £million	Stage 3 Total £million	Total £million
Business Finance								
Real Estate Finance	649.5	55.9	–	55.9	–	–	–	705.4
Asset Finance	76.2	4.6	0.4	5.0	9.0	–	9.0	90.2
Commercial Finance	170.7	17.2	–	17.2	0.6	–	0.6	188.5
Consumer Finance								
Retail Finance	472.9	47.2	3.4	50.6	4.5	–	4.5	528.0
Motor Finance	200.5	70.7	22.5	93.2	19.1	–	19.1	312.8
Debt Management	–	–	–	–	9.3	19.0	28.3	28.3
Consumer Mortgages	37.4	–	–	–	–	–	–	37.4
Other	13.4	–	–	–	3.1	–	3.1	16.5
Total drawn exposure	**1,620.6**	**195.6**	**26.3**	**221.9**	**45.6**	**19.0**	**64.6**	**1,907.1**
Off balance sheet								
Loan commitments	263.3	–	–	–	–	–	–	263.3
Total gross exposure	**1,883.9**	**195.6**	**26.3**	**221.9**	**45.6**	**19.0**	**64.6**	**2,170.4**
Less:								
Impairment allowance	(20.0)	(12.7)	(11.3)	(24.0)	(24.0)	–	(24.0)	(68.0)
Provision for loan commitments	(0.4)	–	–	–	–	–	–	(0.4)
Total net exposure	**1,863.5**	**182.9**	**15.0**	**197.9**	**21.6**	**19.0**	**40.6**	**2,102.0**

Notes to the interim report continued

19. Credit risk continued

December 2018	Stage 1 £million	Stage 2 <= 30 days past due £million	Stage 2 > 30 days past due £million	Stage 2 Total £million	Stage 3 Excl. purchased credit impaired £million	Stage 3 Purchased credit impaired £million	Stage 3 Total £million	Total £million
Business Finance								
Real Estate Finance	723.3	47.1	–	47.1	–	–	–	770.4
Asset Finance	55.6	6.5	0.5	7.0	3.2	–	3.2	65.8
Commercial Finance	186.1	8.8	–	8.8	0.6	–	0.6	195.5
Consumer Finance								
Retail Finance	537.1	74.1	3.9	78.0	4.9	–	4.9	620.0
Motor Finance	200.2	92.7	2.4	95.1	20.5	–	20.5	315.8
Debt Management	–	–	–	–	9.3	23.0	32.3	32.3
Consumer Mortgages	84.9	–	–	–	–	–	–	84.9
Other	11.3	–	–	–	–	–	–	11.3
Total drawn exposure	**1,798.5**	**229.2**	**6.8**	**236.0**	**38.5**	**23.0**	**61.5**	**2,096.0**
Off balance sheet								
Loan commitments	263.1	–	–	–	–	–	–	263.1
Total gross exposure	**2,061.6**	**229.2**	**6.8**	**236.0**	**38.5**	**23.0**	**61.5**	**2,359.1**
Less:								
Impairment allowance	(20.3)	(19.9)	(4.0)	(23.9)	(22.9)	–	(22.9)	(67.1)
Provision for loan commitments	(0.4)	–	–	–	–	–	–	(0.4)
Total net exposure	**2,040.9**	**209.3**	**2.8**	**212.1**	**15.6**	**23.0**	**38.6**	**2,291.6**

19. Credit risk continued

19.1 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 loan and advances to customers and loan commitments by product is provided in Note 3.

The Group's Real Estate Finance and Consumer Mortgages are secured against UK property only. The geographical concentration of these business loans and advances to customer, by location of the security, is set out below:

	June 2019 £million	June 2018 £million	December 2018 £million
Real Estate Finance			
Central England	35.0	26.5	35.1
Greater London	546.0	389.4	451.5
Northern England	36.6	80.2	37.6
South East England (excl. Greater London)	224.1	186.8	209.0
South West England	10.3	9.2	9.6
Scotland, Wales and Northern Ireland	27.8	13.3	27.6
Gross loans and receivables	879.8	705.4	770.4
Allowance for impairment	(0.8)	(0.6)	(0.6)
Total	**879.0**	**704.8**	**769.8**
Loan-to-value	58%	57%	57%

	June 2019 £million	June 2018 £million	December 2018 £million
Consumer mortgages			
Central England	21.6	6.5	16.2
Greater London	14.7	6.9	12.2
Northern England	22.0	6.7	16.6
South East England (excl. Greater London)	36.9	10.4	26.3
South West England	12.1	4.9	9.3
Scotland, Wales and Northern Ireland	6.2	2.0	4.3
Gross loans and receivables	113.5	37.4	84.9
Allowance for impairment	(0.3)	(0.1)	(0.2)
Total	**113.2**	**37.3**	**84.7**
Loan-to-value	**58%**	**59%**	**59%**

Under its credit policy, the Real Estate Finance business lends to a maximum loan-to-value of 70% for investment loans and 60% for residential development loans and up to 65% for pre-let commercial development loans (based on gross development value), and the Consumer Mortgages business lends to a maximum of 90%.

Appendix to the interim report

Key performance indicators

(i) Margin ratios

Net interest margin is calculated as interest income and similar income less interest expense and similar charges for the financial period as a percentage of the average loan book, net revenue margin is calculated as operating income for the financial period as a percentage of the average loan book and gross revenue margin is calculated as interest receivable and similar income plus fee and commission income for the financial period as a percentage of the average loan book. The calculation of the average loan book is the average of the monthly balance of loans and advances to customers, net of provisions, over seven or 13 months as appropriate for the financial period. The resulting margins for June 2019 and June 2018 are multiplied by 365/181 to give an annual equivalent comparable to the annual results:

	June 2019 £million	June 2018 £million	December 2018 £million
Net interest margin			
Interest receivable and similar income	92.3	79.2	169.2
Interest expense and similar charges	(21.8)	(15.5)	(35.5)
Net interest income	70.5	63.7	133.7
Net revenue margin			
Net interest income	70.5	63.7	133.7
Net fee and commission income	10.9	8.8	17.9
Operating income	81.4	72.5	151.6
Gross revenue margin			
Interest receivable and similar income	92.3	79.2	169.2
Fee and commission income	11.2	9.8	19.4
Gross revenue	103.5	89.0	188.6
Opening loan book	2,028.9	1,566.5	1,566.5
Closing loan book	2,278.3	1,839.1	2,028.9
Average loan book	2,135.0	1,699.0	1,818.2
Net interest margin	**6.7%**	**7.6%**	**7.4%**
Net revenue margin	**7.7%**	**8.6%**	**8.3%**
Gross revenue margin	**9.8%**	**10.6%**	**10.4%**

A reconciliation of the loan book figures used above to the statement of financial position at 1 January 2018 is as follows:

	£million
Balance sheet loan book	1,598.3
IFRS 9 transition adjustment	(31.8)
	1,566.5

The margin ratios all measure the yield of the loan book.

Key performance indicators continued

(ii) Cost ratios

Cost of risk is calculated as impairment losses on loans and advances to customers for the financial period as a percentage of the average loan book, cost of funds is calculated at interest expense for the financial period as a percentage of average loan book and cost to income ratio is calculated as operating expenses for the financial period as a percentage of operating income for the financial period. The resulting ratios for June 2019 and June 2018 are multiplied by 365/181 to give an annual equivalent comparable to the annual results:

	June 2019 £million	June 2018 £million	December 2018 £million
Impairment losses on loans and advances to customers	17.8	16.3	32.4
Average loan book	2,135.0	1,699.0	1,818.2
Cost of risk	**1.7%**	**1.9%**	**1.8%**
Interest expense	21.8	15.5	35.5
Average loan book	2,135.0	1,699.0	1,818.2
Cost of funds	**2.1%**	**1.8%**	**2.0%**
Operating expenses	45.5	41.1	84.5
Operating income	81.4	72.5	151.6
Cost to income ratio	**55.9%**	**56.7%**	**55.7%**

The cost of risk measures how effective the Group has been in managing its impairment losses. The cost of funds measures the cost of money being lent to customers. The cost to income ratio measures how efficiently the Group is utilising its cost base in producing income.

(iii) Return ratios

Annualised adjusted return on average assets is calculated as the adjusted profit after tax for the financial period as a percentage of average assets, annualised adjusted return on average equity is calculated as the adjusted profit after tax for the financial period as a percentage of average equity and annualised adjusted return on required equity is calculated as the adjusted profit after tax for the financial period as a percentage of average required equity.

Further details of adjusted profit are given in Appendix Note (vi), and a reconciliation of adjusted profit after tax to statutory profit after tax is provided on page 16.

Appendix to the interim report continued

Key performance indicators continued

Average assets is calculated as the average of the monthly assets balances, over seven or 13 months as appropriate for the financial period, average equity is calculated as the average of the monthly equity balances over seven or 13 months as appropriate for the financial period and average required equity is calculated as the average of the monthly balances of total required equity over seven or 13 months as appropriate for the financial period. Total required equity is calculated as the equity required to achieve a CET1 ratio of 12%. The resulting returns for June 2019 and June 2018 are multiplied by 365/181 to give an annual equivalent comparable to the annual results:

	June 2019 £million	June 2018 £million	December 2018 £million
Adjusted profit after tax	15.2	13.8	29.9
Opening assets	2,444.3	1,866.1	1,866.1
Closing assets	2,607.1	2,187.1	2,444.3
Average assets	2,476.9	2,035.1	2,182.4
Opening equity	237.1	223.3	223.3
Closing equity	240.3	225.0	237.1
Average equity	240.5	226.2	228.9
Opening required equity	220.9	173.3	173.3
Closing required equity	236.9	204.3	220.9
Average required equity	226.0	190.7	201.7
Annualised adjusted return on average assets	**1.2%**	**1.4%**	**1.4%**
Annualised adjusted return on average equity	**12.7%**	**12.3%**	**13.1%**
Annualised adjusted return on required equity	**13.6%**	**14.6%**	**14.8%**

A reconciliation of assets and opening equity to the balance sheet at 1 January 2018 is as follows:

	Assets £million	Opening equity £million
Balance sheet assets	1,891.6	249.1
IFRS 9 transition adjustment	(25.5)	(25.8)
	1,866.1	**223.3**

Return on average assets demonstrates how profitable the Group's assets are in generating revenue. Return on average equity is a measure of the Group's ability to generate profit from the equity available to it. Return on required equity relates profitability to the capital that the Group is required to hold.

Key performance indicators continued

(iv) Funding ratios

The loan to deposit ratio is calculated as the loan book, at the period end, divided by deposits from customers at the period end, and the total funding ratio is calculated as the total funding at the period end, being the sum of deposits from customers, borrowings under the Term Funding Scheme, Tier 2 capital and equity, divided by the loan book at the period end:

	June 2019 £million	June 2018 £million	December 2018 £million
Loan book	2,278.3	1,839.1	2,028.9
Deposits from customers	2,001.5	1,656.8	1,847.7
Borrowings under the Term Funding Scheme, or the Funding for Lending Scheme	263.5	263.3	263.5
Tier 2 capital (including accrued interest)	50.5	–	50.4
Equity	240.3	225.0	237.1
Total funding	2,555.8	2,145.1	2,398.7
Loan to deposit ratio	**113.8%**	**111.0%**	**109.8%**
Total funding ratio	**112.2%**	**116.6%**	**118.2%**

The funding ratios measure the Group's liquidity.

(v) Adjusted earnings per share

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

	June 2019	June 2018	December 2018
Adjusted profit attributable to equity holders of the parent (£ millions)	15.2	13.8	29.9
Weighted average number of ordinary shares (number)	18,476,628	18,475,229	18,475,229
Adjusted earnings per share (pence)	**82.3**	**74.7**	**161.8**

(vi) Adjusted profit

Adjusted profit before tax was £18.8 million (June 2018: £16.5 million, December 2018: £36.7 million). Adjusted profit after tax was £15.2 million (June 2018: £13.8 million, December 2018: £29.9 million).

The Group uses adjusted profit for planning and reporting purposes, as it improves the comparability of information between reporting periods. The adjustments to profit relate to non-controllable items or other items that fall outside of the Group's core business activities.

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

Transformation costs for 2019 are made up mainly of the costs of the motor transformation project and the costs to date of setting up the Group's derivatives capability (June 2018: comprised principally the costs of potential M&A activity, December 2018: comprised principally costs of closing the unsecured personal lending product, the cost of potential corporate acquisition work and treasury development.

Bonus payments of £nil (June 2018: £0.9 million, December 2018: £1.3 million) relate to a long term incentive plan that was set up for a small number of employees on the creation of the Commercial Finance business. The scheme is based on profits earned by that business up to the end of 2019, and is payable in 2019 and 2020.

Directors' responsibility statement

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

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

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

Paul Lynam
Chief Executive Officer

Neeraj Kapur
Chief Financial Officer

6 August 2019

Independent review report to Secure Trust Bank PLC

We have been engaged by the Company to review the condensed set of financial statements in the interim financial report for the six months ended 30 June 2019 which comprises the consolidated statement of comprehensive income, the consolidated statement of financial position, the consolidated statement of changes in equity, the consolidated statement of cash flows and related Notes 1 to 19. We have read the other information contained in the interim financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the Company in accordance with International Standard on Review Engagements (UK and Ireland) 2410 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Financial Reporting Council. Our work has been undertaken so that we might state to the Company those matters we are required to state to it in an independent review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company, for our review work, for this report, or for the conclusions we have formed.

Directors' responsibilities

The interim financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the interim financial report in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

As disclosed in Note 1, the annual financial statements of the Group are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in this interim financial report has been prepared in accordance with International Accounting Standard 34 'Interim Financial Reporting' as adopted by the European Union.

Our responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the interim financial report based on our review.

Scope of review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the interim financial report for the six months ended 30 June 2019 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Deloitte LLP
Statutory Auditor
Birmingham, UK

6 August 2019

Board of Directors

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

Ann Berresford ACA
Independent Non-Executive Director

Neeraj Kapur BEng, ACGI, FCA, CF, FCIBS
Chief Financial Officer

Paul Lynam ACIB, AMCT, Fifs
Chief Executive Officer

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

Paul Myers ACIB
Independent Non-Executive Director

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

Victoria Stewart
Independent Non-Executive Director

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