

*SecureTrust*  
Bank



# Straightforward transparent banking

Annual Report & Accounts 2015



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\* This section of the Report and Accounts contains the Strategic Report required by the Companies Act 2006 to be prepared by the directors of the Bank. It describes the component parts of the Group's business; the principal risks and uncertainties; the development and performance of the business during the financial year; and the position of the business at the end of the year.

Financial and other key performance indicators are used where appropriate. Reference is made to and additional explanations provided about amounts that are included in the Group's Accounts.

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# Introduction

## Achieving our ambitions

**Secure Trust Bank PLC ('the Bank')** is a well-established UK bank, having been incorporated in 1954 and has been a subsidiary of the Arbutnot Banking Group since 1985.



ARBUTHNOT BANKING GROUP PLC



The Bank successfully listed on the Alternative Investment Market (AIM) in 2011. The Bank has increased its portfolio in recent years, acquiring the Everyday Loans Group (ELG) and the V12 Finance Group in 2012 and 2013 respectively as well as the trade and certain assets of the Debt Managers Group in 2013. In 2014 the Bank developed solutions for the small and medium sized enterprise (SME) market providing Real Estate Finance, Asset Finance and Commercial Finance.

These portfolios have enjoyed significant growth in new business during 2015. On 4 December 2015, the Bank agreed to the conditional sale of ELG at a significant profit, which could be reinvested to accelerate the Group's growth prospects and secure new income streams. The Bank and its subsidiaries are referred to as 'the Group'.

### Trusted products

The core business of the Bank is the provision of banking services predominantly being a range of consumer and SME lending solutions and savings products. The Group is committed to providing customers with straightforward transparent banking solutions, coupled with great service and delivered by friendly and professional staff.

FEEFO (the Feedback Forum) is the global ratings and reviews provider used by the world's most trusted brands. It collects reviews from our customers ensuring that we receive feedback that the Bank can trust to be genuine and thus act upon. Quotes received were taken from feedback received in 2015. FEEFO satisfaction level is currently 96%.

### Investors in people

The Bank operates from its head office in Solihull, West Midlands and had 773 full time equivalent employees at 31 December 2015. The Bank achieved the Investors in People Silver Accreditation in 2014, less than a year after achieving the Bronze standard. The Bank also operates a number of award schemes for its staff, which are designed to foster customer service excellence, outstanding achievement and more efficient processes.

### Innovative products for consumers

The Bank continues to develop its portfolio of products in the Retail sector, building successful new relationships with a number of leading furniture, leisure and household high street brands. Under our V12 brand, the Bank continues to deliver prime retail lending through an increasing number of online, mail order or in-store channels. Our established Motor Finance business has also evolved, including lending to the prime market sector. With the exception of a £10 option to purchase fee, all motor loans are now fee free to the consumer.

### Partner for businesses

The Bank strengthened its position in the SME market during 2015. It has continued to grow its residential, investment and development portfolio within the Real Estate Finance sector and has an ongoing pipeline of potential new business. The Bank's partnership with Haydock Finance, an established Asset Finance provider, has enabled us to build a successful relationship in its first full year. The Commercial Finance team continues to build strong, professional relationships, enabling us to increase the size of the portfolio with a range of tailored solutions.

### Stable funding profile

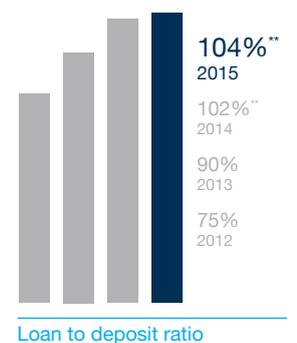
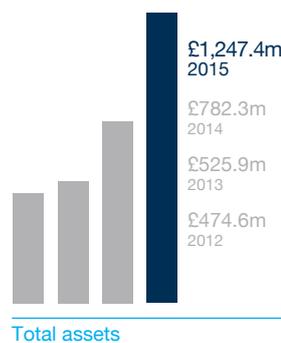
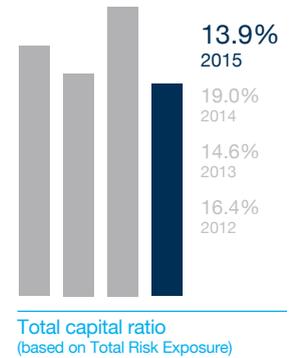
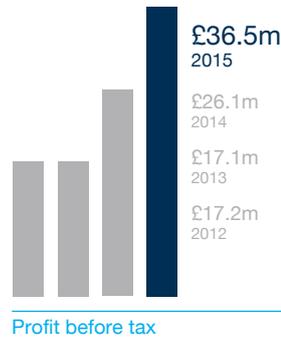
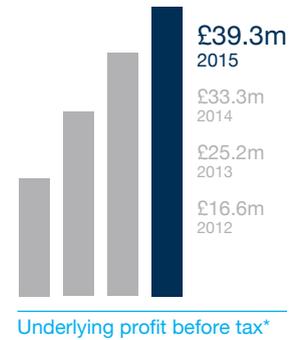
The Bank's lending is predominantly funded by customer deposits. From 2013 the Bank was permitted to draw down facilities under the Funding for Lending Scheme (FLS). FLS monies are maintained as a liquidity buffer, above that required to support lending, reflecting the Bank's cautious approach to risk.

"Friendly and professional service. Very efficient too - couldn't be happier."

"Excellent customer service from start to finish."

# Financial Highlights

Secure Trust Bank has shown sustained controlled growth in 2015. This growth has been achieved alongside prudent capital and liquidity management.



\* Before acquisition costs, fair value amortisation, costs associated with share based payments, Arbutnot Banking Group management charges and income from acquired portfolios.

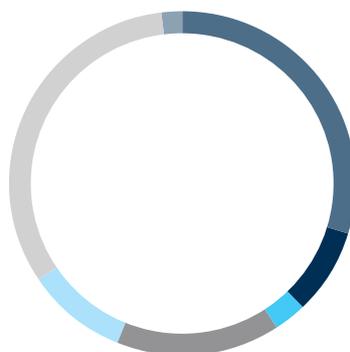
\*\* This excludes the UK Treasury Bills borrowed from the Bank of England under the Funding for Lending Scheme, which have subsequently been pledged as part of a sale and repurchase agreement. If these were included the loan to deposit ratio would be 100% (2014: 100%).

All figures shown include the results and balances of ELG.



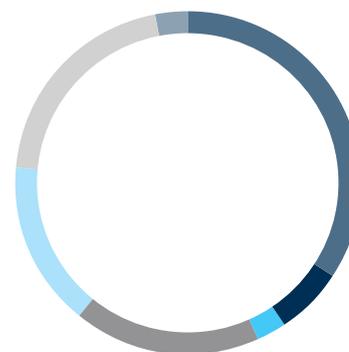
## Operational Highlights

- **Total customer lending** balances across the STB Group increased by 73% to £1,074.9 million.
- Customer numbers increased 33% to 570,759.
- **The Customer Service Excellence Award**, introduced by the Cabinet Office was renewed in 2015. The Bank has also received various awards including Best Savings Provider, Best Challenger Bank and Best Charity Saving Account Provider from Savings Champion during 2015.
- The Bank continues to enjoy the favourable conditions in the retail deposits market and it raised over £333 million from deposit bonds in one to seven year maturities.
- In 2015 the Bank has significantly increased the size of its SME lending proposition in the **Real Estate Finance**, **Asset Finance** and **Commercial Finance** businesses. Each of these businesses provides funding to small and medium sized businesses. The Consumer Finance business has also seen excellent growth in new lending volumes particularly in the Retail Finance space. The ongoing growth in the lending book has driven record levels of profits and underlying earnings.



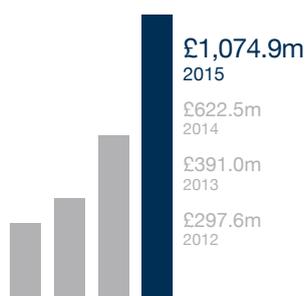
### New Business Volumes

Real Estate Finance:	£270.6m
Asset Finance:	£72.8m
Commercial Finance:	£27.6m
Personal Lending:	£135.9m
Motor Finance:	£85.7m
Retail Finance:	£293.9m
Other:	£16.7m
<b>Total:</b>	<b>£903.2m</b>



### Loans & Advances to Customers

Real Estate Finance:	£368.0m
Asset Finance:	£70.7m
Commercial Finance:	£29.3m
Personal Lending:	£188.6m
Motor Finance:	£165.7m
Retail Finance:	£220.4m
Other:	£32.2m
<b>Total:</b>	<b>£1,074.9m</b>



Loans & Advances to Customers



**67%**

increase over 2014



**73%**

increase over 2014

# Group Strategy

**The Bank’s aim is to ensure that UK customers are able to access through it the financial products they need. In doing so, the Bank is committed to providing customers with straightforward transparent banking solutions.**

### Group strategy

The strategy is to grow the loan portfolios within the consumer and business market sectors through niche product offerings. The growth is to be delivered through a strategy of organic growth with selective acquisitions.

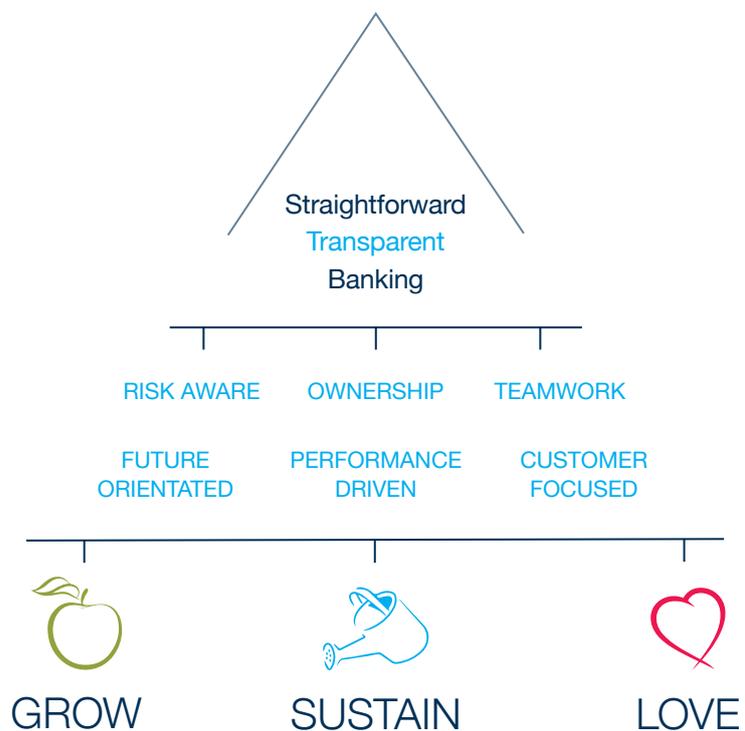
The strategic aim is to deploy capital within both the consumer and business market sectors in a manner that will deliver a shareholder return reflective of the Bank’s risk appetite.

The strategic aims are presented under three strategic themes adopted by the Group which are to Grow, Sustain and Love.

### Values

To achieve this strategy, the Bank has adopted a number of shared values and beliefs. It is our vision to build the best bank in Britain and to help us achieve that we have chosen six values which underpin the way we do business and the behaviour we expect from all of our staff. They set a clear path for both management and staff on how they must work towards the achievement of the mission and vision. The shared values of the Group are illustrated below.

These values are used in evaluating an individual’s personal performance and their contribution to the achievement of the strategy of the Bank.



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

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.

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.



# Business Model



## Business Finance

### Real Estate Finance

#### What we do

The twin purposes of the Real Estate Finance business are to finance remedies to the undersupply of housing stock in the UK and to allow property investors to invest. The business supports small to medium sized enterprises ("SMEs") over a financing term of up to five years with prudent loan to value levels.

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

#### How we do it

There are five main products available for our customers; residential development, commercial development, residential investment, commercial investment as well as mixed development. The current route to market is via introducers who are served by a team of Real Estate Finance regional managers. The speed of decision making and flexibility of deal structuring are key factors to the strength of the business. There is no geographic or individual counterparty concentration risk to the lending.

### Asset Finance

#### What we do

The Asset Finance business provides funding to support SME businesses in acquiring commercial assets, such as building equipment, commercial vehicles and manufacturing equipment, and who may not be adequately served by the traditional banks.

#### How we do it

The Asset Finance business is operated via a partnership with Haydock Finance. Haydock are a well-established asset finance company operating across the UK. Haydock are providing a full business process outsourcing service to the Bank.

The current route to market is via introducers who are supported by an internal marketing resource and a targeted web and social media presence.

Facilities offered are hire purchase and finance lease arrangements with terms of up to five years.

### Commercial Finance

#### What we do

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

The business has been successful in acquiring a wide range of clients across the whole of the UK with a broad variety of funding requirements and solutions.

Commercial Finance dovetails into the broader SME lending proposition which has been developed by the Bank. The business also provides SME commercial owner occupiers with finance to buy the property they trade from.

#### How we do it

The business has built a strong team of proven business development, credit and operational professionals who have delivered a robust and compliant operational model which has already received plaudits and award nominations in the market. The business operates from a centre in Manchester but provides national coverage via teams throughout the network who can service the national introducer market and existing clients.

The Commercial Finance business uses a well-established operating system in order to give top quality service to its customers and to enable quick decision making and strong risk management.



## Business Model continued

### Consumer Finance



#### Personal Lending

##### What we do

The Bank is well established in personal unsecured lending, having been lending for over 35 years, with Moneyway being the Bank's Personal Lending brand. During 2012 the Company acquired Everyday Loans which helped to build a significant presence for the Bank in the area of personal lending.

The personal loans which the Group offers are fixed rate, fixed term products which are unsecured. Loan terms are between 12 months and 60 months with advances varying from £500 to £15,000. Loans are provided to customers for a variety of purposes which might include,

for example, home improvements, personal debt consolidation and the purchase of vehicles.

On 4 December 2015, the Company agreed to the conditional sale of ELG at a significant profit, meaning that going forward the Bank will focus its Personal Lending through its Moneyway brand.

##### How we do it

Distribution of the Group's personal loans is through brokers, existing customers and affinity partners, and targeted to UK-resident customers who are either employed or self-employed. Loans are made to individuals over 21 years of age with an annual income generally over £20,000. The Group, through its brand Moneyway, offers loans via the internet and a phone service utilising an experienced team of UK based advisers.

The Group has broadened its online distribution capabilities in the personal lending segment and operates significant introducer relationships, including with Shop Direct.

The business utilises automated underwriting systems which, in addition to providing significant cost advantages, ensure that consistent credit decisions are made which improves ongoing performance monitoring and future policy decision making. Differential pricing that reflects the credit risk of the underlying customer is standard for the Group. These systems have enabled the business to control risk whilst retaining the speed of service needed to support introducers.

Everyday Loans is a provider of unsecured loans to a customer base predominantly in lower income groups and also offers any purpose unsecured loans to tenants as well as homeowners. Everyday Loans operates through a network of offices where loans are originated, serviced and collected. Applications are made by phone or online.



## Consumer Finance continued

### Motor Finance

#### What we do

The Bank's Motor Finance business began lending in 2008 under the Moneyway brand and provides hire purchase lending products to a wide range of customers including those who might otherwise be declined by other finance companies. The Bank helps customers to get on the road as well as helping introducers to sell more cars. Motor Finance loans are fixed rate, fixed term hire purchase agreements and are secured against the vehicle being financed.

Only passenger vehicles with certain features meet our lending criteria, which have now evolved to include an engine size of up to three and a half litres, an age

ranging from new to a maximum of 12 years old by the end of the hire purchase agreement and with a maximum mileage of 100,000 miles. The majority of vehicles financed are used cars. Finance term periods are up to 60 months with a maximum loan size of £20,000. Moneyway agreements attract only a nominal £10 option to purchase fee and are otherwise fee free. Customers are either private individuals or self-employed small business users.

During 2015 Moneyway began to lend into the prime motor sector and thus operated across a much wider breadth of the risk curve. In the prime sector the maximum loan amount increases to £25,000.

#### How we do it

The Bank distributes its Motor Finance products via UK motor dealers, brokers and internet introducers. New dealer relationships are established by our UK-wide Motor Finance sales team with all introducers subject to a strict vetting policy, which is reviewed on a regular basis. The motor business has a dedicated sales team responsible for all aspects of the management of the introducer relationships.

The technology platform used allows Moneyway to manage all aspects of the motor business, from introducer set up and application capture through to underwriting, pay-out and agreement servicing.

Motor lending is administered in the Group head office in Solihull; however the UK motor dealers and brokers are UK-wide.



## Business Model continued

### Consumer Finance continued



#### Retail Finance

##### What we do

The Bank's Retail Finance business commenced lending in 2009 and provides unsecured, prime lending products to the UK customers of its retail partners to facilitate the purchase of a wide range of consumer products across in-store, mail order and online channels. The acquisition of the V12 Finance Group in January 2013 was complementary to the Group's existing retail finance proposition and the V12 management team continued in the business. V12 Retail Finance has provided finance in co-operation with their retail partners for more than 20 years. The acquisition enabled the Group to integrate its existing retail lending business with that of the V12 Finance Group to generate synergistic benefits from the use of a Group-wide point of sale system.

##### How we do it

The Group operates an online eCommerce service to retailers, providing finance to customers through an industry-leading online paperless processing system. This includes allowing customers to digitally sign their credit agreements, thereby speeding up the pay-out process, and removing the need to handle and copy sensitive personal documents through electronic identity verification.

The Group serves retailers across a broad range of retail sectors including cycle, music, furniture, outdoor/leisure, electronics, dental, jewellery and football season tickets.

The majority of the Bank's retail partners are now on the V12 platform.

Retail Finance products are unsecured, fixed rate and fixed term loans of up to 84 months in duration with a maximum loan size of £25,000. The average new loan is for £800 over an 18 month term. Lending is restricted to UK residents who are either employed or self-employed.

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

The Group provides finance to customers of a large number of retailers including household names such as Evans Cycles, PC World, AO.com, Jessops, Halfords, DFS and Watchfinder. Partnerships are also in place with a number of affinity partners including Creative United and ACTSmart.

Retail lending is administered in V12 Retail Finance's offices in Cardiff and its dedicated retail lending team aims to provide a quality service to both retailers and customers.



## Savings

### Savings Accounts

#### What we do

The Bank's savings accounts consist of notice accounts, fixed term bonds and deposit accounts. Secure Trust Bank savings accounts are simple in design and the interest rates offered are competitive and provide value for money.

Deposit accounts can be opened for as little as £1 and withdrawals can be made without notice or loss of interest.

The notice deposit accounts are made available in periods ranging from 60 days to 183 days, with the majority at the 120 day term, depending on the Group's funding requirements.

Fixed Price Deposit Bonds are launched when required to achieve the desired maturity profiles of the Group.

#### How we do it

By virtue of a focus on higher margin lending, 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 Bank is able to offer competitive rates and has been successful in attracting term deposits from a wide range of personal and non-personal customers. This provides a funding profile which gives additional financial security to the business.

Methods of attracting deposits include product information on price comparison websites (such as Moneysupermarket), best buy tables and newspaper articles about the deposit accounts offered by the Group.

All savings products are administered in the Group head office in Solihull.

The Bank is a member of the Financial Services Compensation Scheme (FSCS).

### Current account and OneBill

#### What we do

The current account is a simple and transparent bank account which has been designed to help customers manage their money and keep control of their finances by only letting them spend the money they have available each month. The account does not have an overdraft facility so the account holders can only spend money that they have available. In 2015, the Bank closed this account to new business.

The account comes with a prepaid card, onto which money must be loaded before it can be used, similar to a 'pay as you go' mobile phone top-up. Customers generally make sure that they have enough money in their current account to cover direct debits, standing orders and any other

#### How we do it

The account holder can register for the online and telephone banking service which gives access to their account 24 hours a day, 7 days a week and allows the free movement of money to and from their current account and prepaid card.

The fees are simple and transparent with no hidden or unexpected charges. For example, there are no charges should a direct debit or standing order payment fail. Customers welcome the transparent monthly account management fee, in return for which credit interest is paid at base rate.

regular payments, with the remaining money transferred onto their card to spend at over 30 million outlets, for online and telephone purchases and to make cash withdrawals at ATMs showing the MasterCard® acceptance mark.

OneBill is a household budgeting product, which was closed in 2009 but continues to provide a service to the existing customer base.



## Chairman's statement

**I am pleased to report that Secure Trust Bank made further progress during 2015. Our commitment to offering outstanding customer service and providing good outcomes for customers via our straightforward transparent banking solutions remains at the forefront of our proposition.**

Customer satisfaction levels have been consistently high and the appeal of our products and services saw overall customer numbers continuing to expand from 429,507 to 570,759 during 2015, an increase of 33%.

Our strategy of growing our overall customer lending balances whilst simultaneously expanding into secured SME lending is being successfully implemented. Overall customer lending grew by 73%. As at the year end 53% of the balances are in unsecured consumer lending (2014: 70%) and 44% are in SME lending (2014: 23%). Our long term ambition remains to have a diverse and growing lending portfolio that is balanced across consumer finance, SME finance and residential mortgage assets.

In December 2015 we announced the sale of ELG to Non Standard Finance PLC. Their unsolicited approach at a compelling valuation presented an attractive option to accelerate our strategy of proportionately reducing our exposure to personal unsecured loan products whilst we invest in our strongly growing Motor, Retail and SME lending activities. The Board therefore believes that the disposal is in the interests of the Group and represents an excellent opportunity to realise value for shareholders and for reinvestment into STB's existing profitable consumer and business lending divisions, in line with the Group's stated ambition to shift, over time, the majority of the Group's balance sheet lending into secured lending assets.

Our management philosophy of exercising prudence in respect of capital, funding and lending remains unchanged. The Bank remains well capitalised and liquidity and interest basis risks continue to be mitigated by our strategy to broadly match lending and deposits of the same tenor and term. The Bank's funding and capital positions will be significantly strengthened upon the completion of the sale of ELG. There are significant organic and external business development opportunities. As ever, we will exercise discipline and caution when considering any potential acquisitions.

I am confident that the Group will continue to demonstrate sustainable growth over the coming period. The Board proposes to pay a final dividend of 55 pence per share. This, when added to the interim dividend of 17 pence would mean a full year dividend of 72 pence per share. If approved, the final dividend will be paid on 6 May 2016 to shareholders on the register as at 8 April 2016.

The sale of the ELG, when completed, will result in significant profit and cash being generated for the benefit of the Group. We estimate the transaction will give rise to a post-tax profit of circa £115 million. Given this sizeable gain, the Board intends to propose a special interim dividend of £30 million following completion of the sale. The timing of any such interim dividend will depend on when the sale completes and receipt of the sale proceeds by the Company. Completion includes regulatory approval of the change of control, transfer of ownership and inclusion of the gain within the Company's capital reserves. The Board would, in the normal course, also review the financial position and prospects of the Company further before formally declaring any such special dividend. However, the Board believes that, following payment of the special dividend, the Company would retain sufficient capital resources to support its ongoing growth.

Finally my Board and I would like to thank all of our employees for their commitment and hard work during 2015. At the end of 2015, Carol Sergeant retired as a Non-Executive Director having made an important contribution to the development of the Bank. I would like to express my gratitude to Carol and to my fellow directors for their support during the year.

**Sir Henry Angest**  
Chairman

16 March 2016



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We have remained focused on providing good outcomes for customers via our straightforward transparent banking solutions.

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## Chief Executive's statement



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All of our products are specifically designed to be as easy as possible for customers to understand and appropriate for their needs.

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**2015 has been another year of progress across the Secure Trust Bank Group. We have proactively managed the shape of the group and the composition of the asset portfolio finishing the year, as intended, with a good balance between consumer and SME lending assets.**

Notwithstanding the ongoing investment in the new SME division, the growth and strong performance of the lending book has driven record levels of profits and underlying earnings. The combination of these profits and the significant one off gain arising upon completion of the ELG divestment will provide a strong capital base and the continuing ability to pay progressive dividends. In addition, as noted in the Chairman's statement the Board intends to propose a one-off special dividend of £30 million following completion of the ELG disposal.

#### **Customer base increasing against background of high satisfaction levels**

We are serving a record number of customers across our savings, motor finance, retail point of sale finance, unsecured personal lending, asset finance, invoice finance and real estate finance markets. Across the Group the total customer base grew by 33% during 2015 to 570,759.

We remain committed to delivering consistently good outcomes for our existing and future customers and specifically design our products to be as easy as possible for customers to understand and appropriate for their needs. From a conduct and behaviour perspective we do not cross subsidise losses on some products with super profits on others. Nor do we discriminate between customers by, for example, offering lower deposit rates to existing loyal customers than to new ones. We believe this is the appropriate way to interact with our customers for the long term benefit of all parties.

We continue to measure customer satisfaction in a number of ways, including being the only bank that uses FEEFO (Feedback Forum). This rich data reflects how our customers actually experience us and given its importance this remains the first thing we discuss at our weekly management meeting. I am pleased to note that we have consistently achieved customer satisfaction ratings in excess of 90% across all of our products during the year.

For the fourth year running we received confirmation that the Fairbanking Foundation had renewed our 4 star mark in respect of our current account product. We remain the only bank in the UK to hold the Customer Service Excellence award (CSE) which was reaffirmed in 2015. This award was introduced by the Cabinet Office in 2010 to replace the Kite Mark. The CSE is a strong independent endorsement of the way customer focus is embedded in the culture of the business and the improvements we continue to make to our products and services.

We are pleased with these external accolades and the high customer satisfaction scores but are in no way complacent. We remain highly focused on improving our existing service and products and introducing new ones via the targeted investment in people, systems and processes.



## Chief Executive's Statement continued

### Controlling growth

The Board's top strategic priority is, as ever, to safeguard the reputation and sustainability of STB through prudent balance sheet management, investment for growth and robust risk and operational controls. The regulatory environment has continued to evolve in 2015 and we have proactively responded by investing further in our 'Three Lines of Defence' business model. Our Credit Risk, Operational Risk and Internal Audit capabilities continue to be enhanced. Our consumer facing businesses are all now regulated by the Financial Conduct Authority (FCA) reflecting the transfer of regulation from the Office of Fair Trading to the FCA.

All aspects of risk are monitored closely with particular attention paid to the performance of our lending book. Our impairment levels have remained below the level which we had assumed within our pricing models when originating the business. We continue to adopt a robust and dynamic formulaic approach to impairment provisioning. Where appropriate, the Group has looked to support customers who are in financial difficulty and we seek to engage in early communication with borrowers experiencing difficulty in meeting their repayments.

### Regulatory environment

Notwithstanding regular calls for greater competition from media, consumer groups and politicians, tangible progress to create a more proportionate approach to the regulation of non-systemic banks in 2015 has been limited. The overall tone especially from Government and the Prudential Regulation Authority (PRA) / Bank of England is encouraging. I hope to see words and actions becoming more aligned in the coming period and I appreciate the work that has commenced in this regard.

Despite the Competition and Markets Authority (CMA) clearly acknowledging some of the root causes of the ineffective competition in UK Banking, their provisional findings and possible remedies were largely superficial in nature. Notwithstanding the initial disappointment, I have drawn confidence from the significant and sustained pressure the Treasury Select Committee (TSC) has put on the CMA to reconsider their initial findings. I believe that in response to this, in January 2016 the CMA announced that it was extending its review into Retail Banking competition. In February 2016 it was widely reported that the National Audit Office (NAO) had added to this pressure via a report they issued which referred to the CMA investigation into banking and stated 'the ability of the CMA to present a credible market analysis and formulate effective remedies, if appropriate, will have a significant effect on its reputation'. The timescales for the next CMA report are unclear but we are tracking developments very closely.

Secure Trust Bank and the British Bankers Association have continued to campaign throughout 2015 for a level competitive playing field. It is clear that key stakeholders now better understand the barriers to growth faced by small and challenger banks. In late 2015 the Bank of England published a paper making the case to the EU for a more proportionate approach to bank

regulation. This was echoed in February by Andrea Enria, Chairman of the European Banking Authority (EBA) who said, "I acknowledge the framework is fiendishly complicated, especially for banks with very simple business models. Regulators have a duty to ask if simpler ways can be found to achieve the same outcomes... the complexity of regulation should match the complexity of business models". As noted above the TSC continues to promote the competition agenda and in the final quarter of 2015 the Chancellor announced that he had formed a Challenger Bank High Level Advisory Group comprising senior HM Treasury officials and the CEOs of the challenger banks. This group will aim to work with HM Treasury to bring about the changes needed to create a more level playing field which will enable more effective competition across the broader market.

We will continue to closely monitor the operating and regulatory environment and adapt our business model to mitigate risk and maximise opportunities going forward. I remain confident that the regulatory environment will further evolve and a more proportionate approach will be applied to smaller banks. This will help us to make greater progress with our strategic plans and offer more of our existing and new products to a larger number of consumer and SME customers.

### Prudent funding profile

Our funding strategy is unchanged. We seek to limit exposure to short term wholesale funding and interbank markets and to broadly match fixed term fixed rate customer lending with customer deposits of the same tenor and interest rate basis. This helps us to minimise maturity transformation and interest rate basis risk. During 2015 our lending activities were again funded primarily by customer deposits with only very modest use made of the Funding for Lending scheme. Our year end loan to deposit ratio was 104% (2014: 102%). To achieve a broadly matched asset to liability position we increased the average tenor of our deposits over the year with fixed term deposits rising to 57% of total deposits. This compares to 54% as at 31 December 2014. Our overall cost of funds have benefitted from market forces which have enabled us to replace maturing term deposits with new deposits of the same tenor but at lower fixed rates.

At the time of writing the outlook for interest rates suggests they will remain low for an extended period. I do not anticipate negative interest rates in the UK. Whilst such a move would not directly impact on STB, given our funding structure, lower or negative base rates would be very injurious to the largest banks and the small building societies. Overall I envisage funding conditions remaining benign for the foreseeable future.

### Robust capital ratios and modest leverage

Our year end Common Equity Tier 1 (CET1) Capital levels remain healthy and reflect the successful deployment of capital raised in the second half of 2014. On a solo-consolidated basis the CET1 ratio of 13.6% compares with the 2014 year end position of 18.7%.

As at 31 December 2015 STB's leverage ratio was 10.4% (excluding the expected capital gain from the ELG disposal), which reduced over the year as the capital raised in H2 2014 was invested in the strong growth in customer loan balances. This ratio is comfortably ahead of minimum requirements.

The estimated impact of the ELG transaction is to increase the CET1 ratio to 24% and the leverage ratio to 18% (as at 31 December 2015). This serves to highlight the scope we have to increase our lending activities whilst remaining modestly leveraged.

### Profit levels and return on equity building

Including discontinued operations, the Group's operating income grew by 35% to a record level of £132.5m (2014: £97.9m) whilst operating costs, which continue to be robustly managed, rose 27% to £71.7m from £56.5m in 2014, with the cost: income ratio of 51.3% (2014: 51.4%) remaining stable notwithstanding the very significant investment in the new SME division. Loan impairments of £24.3m (2014: £15.3m) rose by 59% which compares to the 73% growth in customer lending balances to £1,074.9m (2014: £622.5m). The level of impairments remains below the levels expected when the loans were originated.

Pre-tax profits, including ELG, for 2015 of £36.5m are 40% higher than the prior year of £26.1m. The underlying profit for 2015 of £39.3m represents an 18% increase on the £33.3m underlying profit before tax in 2014.

In order to support the creation of the SME division additional capital of £50m was raised in H2 2014 and as a result STB entered 2015 with very significant capital surpluses. The mathematical impact of this is to dampen returns on equity whilst this surplus equity is deployed. As expected, as 2015 progressed the return on equity improved albeit the overall return for the full year is 21.8% (2014: 23.1%).

### Customer lending activities grew as planned

Once again, strong double digit growth was achieved across the group's loan portfolio in 2015. Total new business lending volumes grew 67% to £903.2m (2014: £540.9m) which translated to an increase of 73% in overall balance sheet lending assets to £1,074.9m (2014: £622.5m).

Our strategy was to focus growth in our consumer finance lending in Retail Finance and Motor Finance with a more tempered approach to unsecured personal loans. Reflecting this, the Retail Finance point of sale business, net of provisions, grew strongly as intended, with balances at 31 December 2015 increasing 89% to £220.4m (2014: £116.7m). Our Retail Finance business has evolved as our balance sheet has strengthened. In addition to a very strong position in the cycle and music sectors, we have been able to pitch for, and win, larger retailer relationships across the leisure and home furnishing sectors. As a result we are writing a broader spectrum of business including increased levels of interest bearing lending. This lending has higher levels of impairments compared

with interest free finance and this is factored into our pricing to ensure we achieve our targeted risk adjusted return.

Motor Finance lending balances, net of provisions, grew 20% to £165.7m at 31 December 2015 (2014: £137.9m). This business, which focuses on the near prime market segment, continues to service the majority of the Top 100 UK car dealer groups and enjoys extremely strong relationships with a number of specialist motor intermediaries. We have written greater volumes of prime lending during 2015. The early indications are that this is attractive business so we will be increasing our activities at this end of the market.

Personal unsecured lending balances, net of provisions, increased by 4% to £188.6m at 31 December 2015 (2014: £181.4m). We have previously highlighted our unease at the competitive dynamics in the highly prime end of the personal unsecured loan market and had tempered our appetite as a result. During H2 2015 the Financial Policy Committee at the Bank of England began expressing their concerns. I do not find this surprising noting some of the larger lenders are now offering prime five year unsecured personal loans at rates which are lower than a typical standard variable rate mortgage. Our focus going forward will remain on returns rather than dramatic personal unsecured loan book growth.



The strategic priority is to protect the reputation and sustainability of STB via prudent balance sheet management, investment for growth and robust controls.



The Group's SME lending operations have also grown as planned. Real Estate Finance increased by 175% to £368.0m at 31 December 2015 (2014: £133.8m). This lending is split roughly equally between residential development funding and residential investment finance. STB has a very limited appetite for commercial property lending as we recognise the difficulties lending to this sector has caused to some banks in the past. Our experience in the residential development space thus far is that the properties being developed are selling faster and for higher prices than anticipated when we made the original loans. This is obviously a



## Chief Executive's Statement continued



We believe our business model is extremely well positioned to make further positive progress.



positive feature albeit it does mean that loans are being repaid sooner than scheduled. 2015 saw significant fiscal changes in the buy to let (BTL) property market with changes to tax relief on interest payments made by individuals / couples and the introduction of a 3% stamp duty surcharge on BTL properties for landlords with 15 or fewer units. It is unclear how these changes will affect the housing market in the near term. The range of possibilities include; 1) smaller amateur landlords flooding the market with properties for sale, 2) rents being increased to mitigate the financial impact of the changes, 3) individuals and couples moving portfolios into incorporated structures, 4) professional landlords and corporates unaffected by these changes buying up stock put on the market by amateurs, 5) a mix of all these possibilities. Our residential investment lending is not regulated mortgage lending and is not targeted at amateur landlords; as such the professionals and corporates we lend to could benefit from these taxation changes. In the short term while we wait for the impacts of the BTL changes on the housing market to become clearer and given the potential uncertainties arising from the EU referendum we have tempered our lending to residential property developers, especially in Central London. We remain confident about the medium term prospects of this sector given fundamental supply and demand dynamics.

In its first full year of operation, Secure Trust Bank Commercial Finance, the invoice finance division of the Bank, funded over £220m of customers' invoices. Customer lending balances, net of provisions grew 486% to £29.3m at 31 December 2015 (2014: £5.0m). Our customer proposition is relationship focused which means this division will take time to achieve critical mass as we are being very selective with the clients being accepted in the early stages of this business.

The Asset Finance strategic partnership with Haydock Finance has proven to be very successful thus far, with clear benefits to both parties. Haydock are a long established and very well regarded asset finance company operating across the UK. They provide a full business process outsourcing service to STB. This is governed by a detailed operating agreement which includes auditing and oversight arrangements. All of the lending written fully conforms to STB's credit policies and risk appetite and is assessed by STB staff based in Haydock's premises. Customer lending balances, net of provisions grew 1,471% to £70.7m at 31 December 2015 (2014: £4.5m).

### Disposal of Everyday Loans Group

In December 2015 we announced the proposed sale of ELG to Non Standard Finance PLC (NSF) following an unsolicited approach for a total consideration and debt repayment of £235 million. We did not set out to sell ELG and all things being equal would be very happy to continue owning and developing the business. However the nature of the acquirer and the agreed consideration is such that the transaction should work well for ELG staff whilst allowing accelerated development of other parts of the STB Group. The NSF executive is extremely experienced in

the non-prime segment of the unsecured personal loan market and has very impressive track records at their previous businesses. They are focused on a growth agenda and will be looking to serve a wider range of customers via a broader range of products than the STB risk appetite would allow. There is no question that there is a huge non-standard market that requires the important services and access to credit that ELG provides. Under NSF's ownership I expect ELG to grow considerably, which I would hope will benefit ELG staff and NSF shareholders, which will include STB, alike.

The decision to sell ELG demonstrates the Board's willingness to make and execute decisions which we believe are in the best longer term interests of shareholders. As stated previously we estimate the post-tax profit on the sale of ELG will be in the region of £115 million and this will be recognised in 2016. Subject to the transaction completing as expected the Board have decided to retain the majority of this one off profit to support the strategic priorities detailed below whilst also proposing a special dividend payment of £30 million. While in the short term the sale is expected to reduce earnings, given the disposal of ELG's profit streams, we are confident that the proceeds can be reinvested to accelerate the Group's growth prospects and secure new income streams.

#### Fee based accounts

Current account customer numbers further declined during 2015 reflecting the reduced focus on this product whilst we concentrated our investment in more profitable areas. Consistent with trends seen in 2014 customer satisfaction levels remained high but achieving significant growth in customer numbers has been difficult, in part because the operational costs arising from accessing the payments infrastructure make the product appear to be uncompetitive compared with 'free if in credit' current accounts from other banks. In December 2015 the High Street banks, under pressure from HM Government, launched basic bank account propositions to open up access to banking to underserved communities. We are monitoring the impact of these developments on our current account proposition which remains an immaterial part of our business model.

As expected, the OneBill customer numbers continue to decline over time, following its closure to new accounts in 2009, with £6.5m of income generated in 2015 compared with £7.1m in 2014.

#### Debt Managers

The markets for debt collection agencies remained difficult during 2015. Many lenders reported improving impairments trends as fewer customers defaulted. Debt purchasers have therefore been less active which has impacted on the volume of business they have placed with debt collectors. Given these dynamics Debt Managers did not trade profitably in 2015 and incurred a modest loss before tax of £0.5m. This is a market which is undergoing structural changes heavily influenced by the transition of regulatory oversight from the OFT to the FCA. Debt Managers

has now received full FCA authorisation and we believe it is one of the first debt collection agencies to be authorised. Given the relatively benign outlook for the UK economy, barring a shock, we anticipate that market conditions will remain tough and have adapted the Debt Managers business to reflect the subdued market.

#### Our people

I am delighted that following another in-depth review and external assessment of the Group, we have retained the Customer Service Excellence standard. This Government standard of excellence for customer service benchmarks us against other high-performing organisations. I am very proud of the feedback received about our teams' professionalism, honesty and positivity about working at the Bank, as well as our ethics towards customers. These demonstrate the investments that we have made in creating the right culture and following a clear set of company values.

It is also rewarding to receive various new awards including Best Savings Provider from Savings Champion. They provide independent and unbiased information on the UK savings market.

Our charitable activities have meant we have raised in excess of £50,000 over a 2 year period for Birmingham Children's Hospital, through a number of organised events, including an annual flagship cycling event. Our team has also been involved in ward decorating during the Christmas period. I again applaud my colleagues for both their charitable work and sheer commitment to delivering great service in a very friendly manner to our customers throughout the year.

Our ongoing overall growth continues to support job security and create career progression opportunities for our team. This is reflected in full time equivalent employee numbers rising to 773 during the year (2014: 625).

#### Strategic priorities

Secure Trust Bank PLC undertook its IPO in November 2011 to provide access to the capital it required to support a clear growth strategy focused on three strategic priorities: (i) organic growth, (ii) diversification and (iii) M&A activity. In the four years since, the Bank has diligently executed its strategy as reflected in the growth in customer numbers of 309% (2011: 139,693, 2015: 570,759), growth in customer lending balances of 690% (2011: £136m, 2015: £1,075m), creation of a new SME division, acquisitions of V12 Retail Finance, Debt Managers and the acquisition, investment in and subsequent sale of ELG. Statutory profits before tax have increased 400% from £7.3m in 2011 to £36.5m in 2015.

Evaluating the effectiveness of this strategy, I note that at the time of the IPO the Bank had shareholders' equity of circa £19.6m. The IPO raised £10m of additional capital and shareholders subsequently invested a further £71.5m of capital (circa £19m in December 2012, £49m in June 2014 and £3.5m in November 2014). At the year-end shareholders' equity stood at £141.2m.



## Chief Executive's Statement continued

Following the completion of the sale of ELG, and prior to the impact of any final and special dividends payable during 2016, shareholders' equity will increase to circa £226m. In simple terms assuming completion of the ELG sale, in the period from IPO to date, the Company has been able to use the circa £101m of equity brought forward, plus that invested by shareholders, to create additional equity of £163m. This is represented in the increased shareholders' equity of £125m and dividends paid since IPO of £37.8m.

Looking ahead we see plenty of opportunities to progress this three pronged growth strategy whilst proactively adapting the business model to reflect market conditions. However in the short term there is likely to be considerable uncertainty ahead of the UK's vote on EU membership. STB operates only in the UK and has no direct exposure to the EU economy. The UK economy is services led and the majority of this is internally generated. We have no way of knowing the outcome of the referendum so it is prudent to proceed with caution whilst clarity on this very important issue emerges. STB enters this uncertain period with very significant capital reserves, a short duration loan book and a broadly matched funding profile that minimises liquidity risks. We believe we are very well placed to navigate any uncertainty that may arise from the referendum and are constantly monitoring developments.

Our working assumption is that matters will settle down quite quickly after the referendum because that will be in the best interests of all concerned. This will allow us to continue to progress our strategy with certainty. We will continue to prioritise the growth of our Retail Point of Sale and Motor propositions in the Consumer Finance sector whilst tempering our appetite for unsecured personal loans. As stated above this is an area we feel is showing signs of overheating with some lenders now offering unsecured loans at cheaper margins than some secured mortgage lending. That does not feel sustainable to us. We believe we have a very strong proposition in Retail Finance and see considerable scope to further increase the number of retailers we work with. During 2015 we wrote a limited volume of prime Motor Finance business in order to assess the attractiveness of this sector of the market. The initial indications are positive. We intend to write higher volumes of prime Motor Finance going forward. As most of the prime dealers commit to financing partnerships in Q4 each year, whilst we will write more prime Motor Finance in 2016, there will not be a step change in volumes until 2017, assuming the market dynamics remain broadly stable.

The diversification into SME lending has proved successful thus far. As at 31 December 2015 SME customer lending balances stood at £468.0m representing 44% of the total lending book. In their first full year of operation Real Estate Finance and Asset Finance traded well and in aggregate provided a material profit contribution. Invoice Finance, as expected, incurred losses as it scales and builds up critical mass. We expect Invoice Finance to turn profitable this summer.

We see plenty of opportunity to expand our SME activities further in the coming years. Demand for asset finance to fund business investment and demand for invoice finance to help fund working capital cycles is strong. This is likely to remain the case given the ongoing growth of the UK economy. In Real Estate Finance, the residential investment assets have performed well reflecting strong demand for rental properties. Our lending here is not regulated mortgages and we do not expect to be directly impacted by the BTL taxation changes announced in 2015. On the residential development side, those units being built which are nearing completion have been selling faster and for higher prices than anticipated when the loans were granted. The Government has reiterated its commitment to doubling the rate of house building in the UK. Mortgage finance is readily available and with the economy continuing to grow and interest rates remaining low, consumers are able to obtain and service mortgages. These are clearly positive dynamics. However, in the short term whilst we wait for the impacts of the BTL changes on the housing market to become clearer and given the potential uncertainties arising from the UK EU referendum we have tempered our residential development lending appetite.

Our longer term ambition remains to grow a broad based portfolio, balanced across consumer finance, SME finance and residential mortgage lending. During 2015 we have recruited a number of key personnel to develop our mortgage proposition. We will not be competing in the mass market low LTV low margin products dominated by the High Street banks. Instead our focus will be on specialist lending where we expect to compete against other challenger banks that are generating attractive returns from their mortgage lending. As we develop our proposition here we are mindful of the Basel Committee proposals in respect of standardised capital methodologies and the recent BTL taxation and stamp duty changes. We anticipate entering the mortgage market in the second half of 2016 and will provide a further update in due course.

We see a constant flow of M&A opportunities and give serious consideration to a number of these. Given the significant capital surpluses at our disposal we have an appetite to potentially acquire businesses that would enhance the growth of our consumer and SME lending activities. Shareholders know that we will continue to exercise discipline, caution and prudence when assessing M&A opportunities and remain extremely focused on ensuring such activity is in the long term interests of shareholders, staff and customers.

### Current trading and outlook

There has been no material change to the underlying performance of the business in the early months of 2016. We continue to see potential to grow our lending portfolio in line with our ambition and have a clear growth strategy and a pipeline of organic and external new business opportunities.

I am optimistic that the increasingly vocal support for a more proportionate approach to regulation from a wide range of parties including the Treasury Select Committee, the Competition and Markets Authority, The Bank of England and latterly the European Banking Authority, will result in tangible changes to make it possible for smaller banks to compete more effectively with the dominant incumbents across a broader range of products. I am continuing to lobby extensively for the creation of a truly level competitive playing field as I firmly believe it is in best interests of UK consumers and SMEs to have a much greater choice and less concentration in the UK banking market.

As ever STB will seek to maximise the value of any opportunities that may arise. Whilst the pace of the UK economic recovery has slowed the economy continues to expand. Low inflation and a strong jobs market are sustaining high levels of consumer confidence, which should benefit our Motor and Retail Finance businesses. The UK continues to have a chronic shortage of housing and notwithstanding the short term uncertainties arising from taxation changes in the BTL market; fundamental supply and demand factors will further drive the need for an increase in the UK's housing stock. We expect consumer and business confidence and demand for credit from businesses to moderate ahead of the EU referendum before recovering thereafter. So whilst we are adopting a more cautious stance ahead of the referendum, we believe that our business model, coupled with significantly increased capital resources, is extremely well positioned to make further positive progress during 2016.

**Paul Lynam**  
Chief Executive Officer

16 March 2016



“

The speed of decision making and flexibility of deal structuring are key factors to the strength of the business.

”



# Business Finance

## Real Estate Finance

Launched in 2013, Real Estate Finance provides finance to enable commercial and residential real estate development and investment.

## Asset Finance

Launched in December 2014, Asset Finance provides finance for plant, machinery and commercial vehicle purchases by SMEs.

## Commercial Finance

Launched in late 2014, Commercial Finance provides SMEs with invoice finance solutions, providing companies with the funding needed to secure growth. It provides customers with local decision makers and experts, whilst allowing businesses to reap the rewards of working with a bank that supports them.



# £468.0m

2015 Total Business Finance Lending



# 227%

Increase in Business Finance Lending  
(2014 - £143.3m)

Business Review  
Business Finance



Real Estate Finance

2015 performance

The Real Estate Finance business continued to show significant growth during 2015, increasing its book by 175% to £368m which led to an eightfold increase in revenue in the year. This reflected the strong pipeline of business brought in from 2014, coupled with the impact of increasing our complement of experienced Real Estate professionals and broadening the geographical profile beyond the South East. The business continues to focus primarily on residential property, with the book being evenly split between investment and development deals. Credit Performance has also been encouraging, with no losses arising so far. In addition, we have also seen a number of residential development deals written in 2014 reaching a successful conclusion and being repaid ahead of expectations.

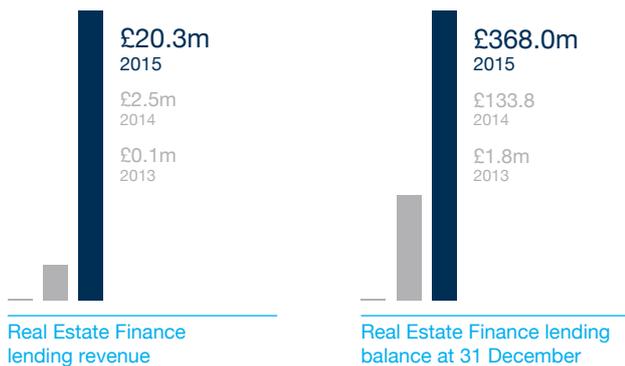
Looking Forward

The current book provides a base for further growth in revenues in 2016, and the business retains a strong appetite for well-structured transactions, but without stretching its agreed risk positions. Market conditions are kept under close scrutiny to ensure we can respond quickly to any changes that may occur.

Secure Trust Bank Real Estate Finance Team is pleased to support The Dorchester Group with the phased development of Heyford Park



Revenue and lending performance vs prior years



## Asset Finance

### 2015 performance

The Asset Finance business has been in place for the whole of 2015, compared to just one month in 2014. Overall gross new lending was £72.8m in 2015, exceeding the target set for the business for the year. The overall yield from this new business was in line with target, contributing to the revenue growing to £2.4m in the year. Credit performance has been encouraging with no losses recorded to date.

### Looking Forward

The focus will remain in building the book in partnership with Haydock Finance, whilst maintaining excellent service levels and credit quality. We will continue to investigate products that complement the current profile, provided they are within our risk appetite and meet return requirements.

## Commercial Finance

### 2015 performance

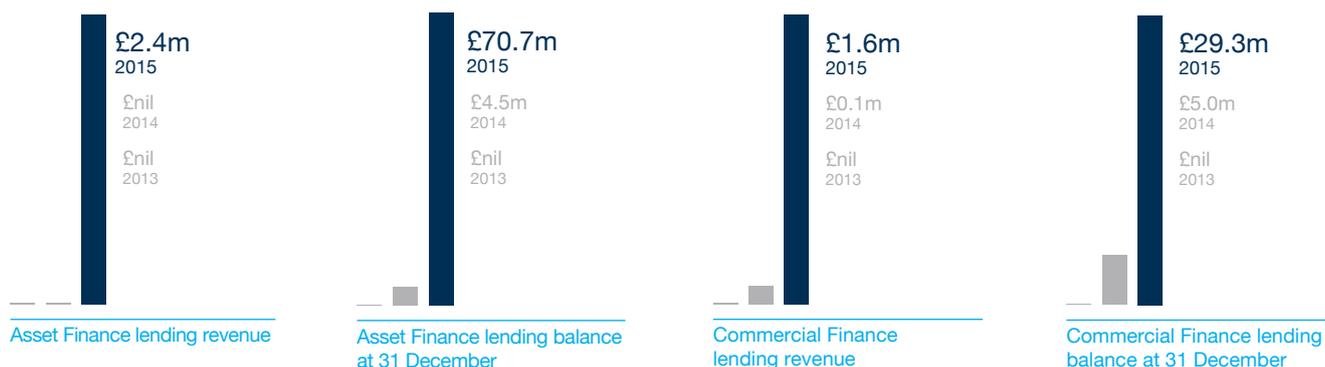
The end of 2015 sees the first full 12 month trading period for the Commercial Finance business and we are already in the top 20 providers of Asset Based Lending facilities in the UK, with facilities agreed in excess of £55m. This progress has been underpinned by a growing reputation for flexibility but above all else, for having a customer centric approach. We have handpicked a team of twenty people and whilst the Head Office is domiciled in Manchester we have both origination and client servicing capability across the UK. Credit performance has been encouraging with no losses recorded to date.

### Looking Forward

It has been a key strategic objective to foster strong relationships with the professional community and specifically those involved in the Private Equity market. This has enabled us to build the portfolio with a range of tailored lending solutions which are genuinely solution led. New technology will increasingly allow us to enhance the client experience and at the same time ensure that we have a fully compliant process.



### Revenue and lending performance vs prior years





**“  
Our Retail Finance Business  
has evolved as our balance  
sheet has strengthened.  
”**



# Consumer Finance

## Personal Lending

The Group offers fixed rate, fixed term loans through its Moneyway brand as well as having a high street presence through the everyday loans brand.

## Motor Finance

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

## Retail Finance

Includes lending products for in-store and online retailers to enable consumer purchases.



# £574.7m

2015 Total Consumer Finance lending



# 32%

Increase in Consumer Finance lending  
(2014 - £436.0m)



# Business Review

## Consumer Finance



### Personal Lending

#### 2015 performance

The Group's lending operations continued to grow in a controlled way, with new personal lending volumes in the year, including Everyday Loans, increasing to £135.9 million from £127.7 million in the previous year, an increase of 6%. This generated an increase in personal lending balances during the year, which at the year end, including Everyday Loans, totalled £188.6 million (December 2014: £181.4 million).

The growth in Group personal lending new business volumes has again not been at the expense of price or quality. Income from personal lending increased by 5% to £57.9 million whilst impairment losses were £12.3 million compared to £9.9 million in 2014.

In November 2015, the Group agreed to the conditional sale of ELG to Non Standard Finance PLC for an expected post tax profit of approximately £115 million.

At the year end, lending balances in the continuing operation under the Moneyway brand were £74.3 million (2014: £87.5 million) and income during the year increased by 14% to £17.2 million. Impairment losses were £4.8 million compared to £3.3 million in 2014.

The levels of credit impairments on all portfolios have been below the levels priced for when the loans were originated. The credit risks in the lending book are continually scrutinised with this data being used to inform changes in risk appetites and pricing.

#### Looking forward

Following the conditional sale of ELG, the Group will continue to provide personal loans under its Moneyway brand through its existing network of experienced UK based advisors.

### Motor Finance

#### 2015 performance

New business volumes for motor lending increased from £71.4 million to £85.7m, an increase of 20% year on year. This generated a significant increase in lending assets during the year. Income has increased by 22% to £33.3 million.

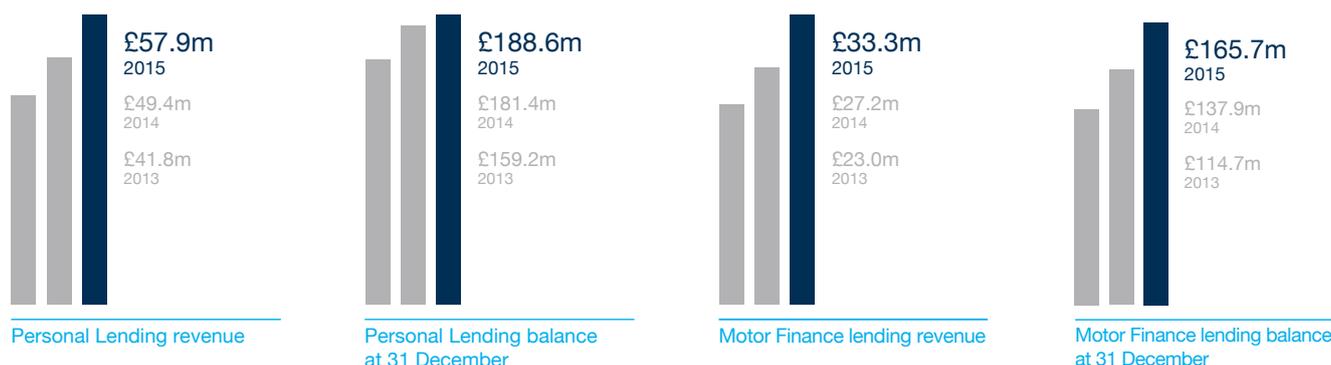
2015 growth has been achieved through a combined focus on widening the lending parameters and criteria of our product as well as restructuring our offer to create a wholly transparent product for consumers based around fixed rates and the removal of all fees with the exception of a £10.00 option to purchase fee at the end of the agreement. This approach supported our growth and contributed to Moneyway receiving the prestigious awards in the industry for subprime lender of the year (Motor Finance Awards) and Treating Customers Fairly (F and I Awards).

Moneyway has also continued to establish strong relationships with all our customers whilst promoting our brand. 2015 saw an increase in the sales headcount from 7 to 11 with a wider geographical coverage than ever before.

Impairment losses for the year increased from £3.9 million to £7.3 million. This reflects the continued growth and maturity of the



### Revenue and lending performance vs prior years



loan book, and refinement of the provisioning methodology, as the Bank moves closer to IFRS 9 implementation.

### Looking Forward

Into 2016 Moneyway will complete the launch of the prime product across all our introducer channels to complement our non-prime products providing introducers with a true “one stop shop” solution and a product for every customer. Operational processes will continue to evolve by introducing enhanced technology to provide a prime service across the entire risk curve.

Our “one stop shop approach” will create a true point of difference in the market as we will operate across a wider reach of the risk curve. This will enable us to offer a product for every customer and our intermediaries a first string solution that we could not offer before. This strategy is designed to enable us to widen our reach of supporting dealers and intermediaries and will be our primary strategy towards achieving further growth.

One stop shop will continue to be supported by exceptional operational service using technology to enable us to offer a prime service across the entire risk curve within which we operate.

## Retail Finance

### 2015 performance

The three largest sub-markets for retail finance are the provision of finance for the purchase of sports and leisure equipment (including cycles), furniture and consumer electronics. Cycle finance has seen positive new business levels influenced by the success of British cyclists in the Tour de France, the Olympics and Paralympics.

The Retail Finance business has continued to grow strongly, with new lending volumes increasing to £293.9 million (an increase of 90% on the previous year). Each of the core business sectors (sports and leisure, furniture and consumer electronics) have contributed towards this growth which has been achieved through a combination of gaining increased market share and sector growth (as seen in the cycle market). This growth has generated a significant increase in lending assets during the year, which at the year end totalled £220.4 million (December 2015: £116.7 million).

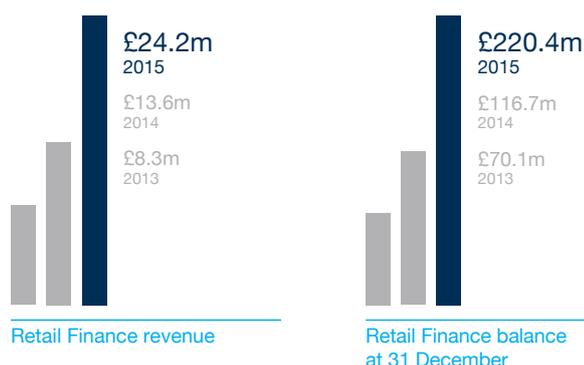
Income from retail lending increased by 78% to £24.2 million. Impairment losses were well controlled at £5.2 million in 2015.

### Looking forward

The Group plans continued growth in Retail Finance during 2016 with the focus on acquiring increased market share within its existing target markets. A number of initiatives are underway to further enhance systems capabilities to ensure that quality of service to both retailers and customers is maintained as the business continues to expand. To further support the maintenance of service levels the business intends to continue the expansion of its workforce whilst investing in additional office and support facilities.



### Revenue and lending performance vs prior years







# Savings

The Bank offers notice deposits and deposit bonds with competitive interest rates.

## 2015 performance

The Bank's customer deposits primarily comprise notice deposits, term deposits and fee-based accounts, being fee-based current accounts and OneBill accounts. At 31 December 2015 customer deposits totalled £1,033 million. This represents an increase of £425 million since the last year end.

The Bank's notice deposits totalled £405 million at the year end (December 2014: £239 million). New 120 day notice accounts were introduced during the year and were successful, raising additional new deposits of £95 million predominantly during the second half of the year.

During the year, the Bank launched further fixed rate deposit bonds, with one to seven year maturities which enable it to match broadly the new lending activities. These again were very successful as the Group raised new deposits of over £333 million, achieving its desired funding maturity profile. At the year end term deposit bond balances totalled £589 million.



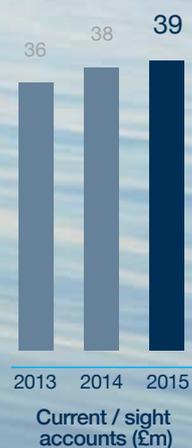
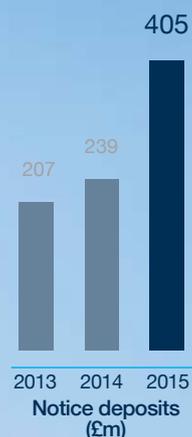
# £1,033m

2015 Total customer deposits



# 70%

Increase in total customer deposits  
 (2014 - £608.0m)





## Financial review



### Income analysis

Operating income increased by 35% to £132.5 million. Growth was achieved through increased levels of activity in all lending sectors. At £903 million, new lending volumes increased in total by £362 million representing an increase of 67% on 2014. New lending volumes in Real Estate Finance, Asset Finance and Commercial Finance increased by £230 million and, Personal Lending, Motor Finance and Retail Finance businesses increased in total by £162 million, representing increases of 164% and 46% respectively on 2014.

Real Estate Finance income increased by 712% to £20.3 million during the year with Asset Finance and Commercial Finance businesses generating income of £2.4 million and £1.6 million respectively in their first full year of trading. Income from Retail Finance under the V12 brand increased by 78% to £24.2m, through

maintaining a strong position in existing retail markets whilst establishing new relationships in the home furnishing and leisure sectors. Motor Finance income increased by 22% to £33.3 million as the Bank increased its activities in prime lending. The Bank intends to create further diversified and balanced growth in its lending portfolios during 2016.

Income from the current account with a prepaid card declined in 2015 following the Bank's decision to close the product to new accounts during 2015. The decline in income from the OneBill product following its closure to new accounts in 2009 continued as expected.

Impairment losses during the year were £24.3 million (2014: £15.3 million). This increase is broadly in line with overall growth in consumer lending balances and is also partly driven by a refinement in provisioning methodology as the Bank

moves closer to IFRS 9 implementation in the Motor and Personal Lending portfolios.

Operating expenses have increased, in line with expectations, as significant investments have been made in the infrastructure and human capital of the Group to achieve our growth targets within the Group's risk appetite. This investment will continue to generate further returns in the future.

Underlying profit before tax was £39.3 million, which is an increase of 18% on 2014. Underlying profit removes the effects from the income statement of acquisition costs, fair value amortisation arising from acquisitions, share option scheme costs and net ABG management recharges.

The key financial and operational indicators of the Group are shown on page 2.



## Summarised income statement

Income statement	2015 Continuing operations £million	2015 Discontinued operations £million	2015 Total £million	2014 Continuing operations £million	2014 Discontinued operations £million	2014 Total £million
Interest, fee and commission income	117.4	40.7	158.1	79.5	34.3	113.8
Interest, fee and commission expense	(25.3)	(0.3)	(25.6)	(15.8)	(0.1)	(15.9)
Operating income	92.1	40.4	132.5	63.7	34.2	97.9
Impairment losses	(16.8)	(7.5)	(24.3)	(8.7)	(6.6)	(15.3)
Operating expenses	(50.5)	(21.2)	(71.7)	(37.5)	(19.0)	(56.5)
<b>Profit before tax</b>	<b>24.8</b>	<b>11.7</b>	<b>36.5</b>	<b>17.5</b>	<b>8.6</b>	<b>26.1</b>
Costs of acquisition	–	–	–	0.2	–	0.2
Fair value amortisation	0.9	0.9	1.8	4.4	0.9	5.3
Share based incentive scheme	0.7	–	0.7	1.5	–	1.5
Net ABG management recharges	0.3	–	0.3	0.2	–	0.2
Underlying adjustments to profit	1.9	0.9	2.8	6.3	0.9	7.2
<b>Underlying profit before tax</b>	<b>26.7</b>	<b>12.6</b>	<b>39.3</b>	<b>23.8</b>	<b>9.5</b>	<b>33.3</b>
Tax	(5.5)	(2.3)	(7.8)	(3.6)	(2.0)	(5.6)
Tax on underlying adjustments	(0.4)	(0.1)	(0.5)	(1.4)	(0.2)	(1.6)
<b>Underlying tax</b>	<b>(5.9)</b>	<b>(2.4)</b>	<b>(8.3)</b>	<b>(5.0)</b>	<b>(2.2)</b>	<b>(7.2)</b>
Profit after tax	19.3	9.4	28.7	13.9	6.6	20.5
Underlying adjustments after tax	1.5	0.8	2.3	4.9	0.7	5.6
<b>Underlying profit after tax</b>	<b>20.8</b>	<b>10.2</b>	<b>31.0</b>	<b>18.8</b>	<b>7.3</b>	<b>26.1</b>
<b>Underlying basic earnings per share (pence)</b>	<b>114.3</b>	<b>56.1</b>	<b>170.4</b>	<b>112.3</b>	<b>43.5</b>	<b>155.8</b>



## Summarised balance sheet

	2015 Continuing operations £million	2015 Discontinued operations £million	2015 Total £million	2014 Total £million
<b>Assets</b>				
Cash and balances at central banks	131.8	–	131.8	81.2
Debt securities held-to-maturity	3.8	–	3.8	16.3
Loans and advances to banks	9.8	1.7	11.5	39.8
Loans and advances to customers	960.6	114.3	1,074.9	622.5
Other assets	22.9	2.5	25.4	22.5
	<b>1,128.9</b>	<b>118.5</b>	<b>1,247.4</b>	<b>782.3</b>
<b>Liabilities</b>				
Due to banks	35.0	–	35.0	15.9
Deposits from customers	1,033.1	–	1,033.1	608.4
Other liabilities	29.4	8.7	38.1	33.1
	<b>1,097.5</b>	<b>8.7</b>	<b>1,106.2</b>	<b>657.4</b>

Financial review  
continued

Lending portfolio composition 2013 - 2015



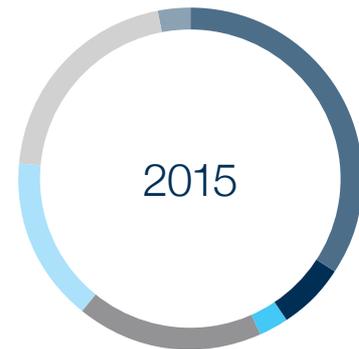
Lending portfolio composition 2013

Real Estate Finance:	£1.8m
Asset Finance:	–
Commercial Finance:	–
Personal Lending:	£159.2m
Motor Finance:	£114.7m
Retail Finance:	£70.1m
Other:	£45.2m
<b>Total:</b>	<b>£391.0m</b>



Lending portfolio composition 2014

Real Estate Finance:	£133.8m
Asset Finance:	£4.5m
Commercial Finance:	£5.0m
Personal Lending:	£181.4m
Motor Finance:	£137.9m
Retail Finance:	£116.7m
Other:	£43.2m
<b>Total:</b>	<b>£622.5m</b>



Lending portfolio composition 2015

Real Estate Finance:	£368.0m
Asset Finance:	£70.7m
Commercial Finance:	£29.3m
Personal Lending:	£188.6m
Motor Finance:	£165.7m
Retail Finance:	£220.4m
Other:	£32.2m
<b>Total:</b>	<b>£1,074.9m</b>

Revenue composition 2013 - 2015



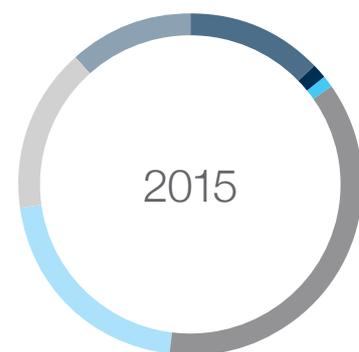
Lending portfolio composition 2013

Real Estate Finance:	£0.1m
Asset Finance:	–
Commercial Finance:	–
Personal Lending:	£41.8m
Motor Finance:	£23.0m
Retail Finance:	£8.3m
Other:	£23.3m
<b>Total:</b>	<b>£96.5m</b>



Lending portfolio composition 2014

Real Estate Finance:	£2.5m
Asset Finance:	–
Commercial Finance:	£0.1m
Personal Lending:	£49.4m
Motor Finance:	£27.2m
Retail Finance:	£13.6m
Other:	£21.0m
<b>Total:</b>	<b>£113.8m</b>



Lending portfolio composition 2015

Real Estate Finance:	£20.3m
Asset Finance:	£2.4m
Commercial Finance:	£1.6m
Personal Lending:	£57.9m
Motor Finance:	£33.3m
Retail Finance:	£24.2m
Other:	£18.4m
<b>Total:</b>	<b>£158.1m</b>

### Taxation

The effective underlying tax rate is 21.1% (2014: 21.5%), which is broadly in line with the weighted average corporate tax rate during the year. The prior year's tax rate reflected the effects of acquisition adjustments relating to deferred tax. The Bank's effective tax rate will increase in 2016 as a result of the new Bank Corporation tax surcharge of 8%, which is effective from 1 January 2016.

### Distributions to shareholders

The directors recommend the payment of a final dividend of 55 pence per share which, together with the interim dividend of 17 pence per share paid on 18 September 2015, represents a total dividend for the year of 72 pence per share (2014: 68 pence per share).

The Board is also proposing to pay a special dividend of 165 pence per share for 2016. The dividend is dependent on the completion of the sale of ELG, which includes regulatory approval of the change of control, transferral of ownership and the inclusion of the gain within the Company's capital resources. Following completion, the Board would also review the financial position and prospects of the Company further before declaring any such special dividend.

### Earnings per share

Detailed disclosures of earnings per ordinary share are shown in Note 11 to the financial statements. Basic earnings per share increased by 29% to 157.8 pence per share (2014: 122.3p), whilst the underlying basic earnings per share increased by 9% to 170.4 pence per share (2014: 155.8p per share).

The total assets of the Group increased by 59% to £1,247.4 million reflecting the continued growth in both Business and Consumer lending. Real Estate Finance lending balances increased by 175% to £368.0 million at the year-end after just 2 years of lending. Asset Finance lending balances increased from £4.5 million to £70.7 million and Commercial Finance from £5.0 million to £29.3 million in their first full year. During the year the Retail

Finance business increased lending balances by 89% to close at £220.4 million, as the Group continues to profit from the synergistic benefits of aligning its Retail Finance businesses under the V12 brand.

Motor Finance increased its portfolio size by 20% to £165.7 million through continued growth in the number of dealer relationships and through developing its prime lending offering. Everyday Lending Group personal lending balances increased by 22% during the year prior to its divestment (subject to FCA approval) from the group.

Customer deposits grew by 70% during the year to close at £1,033.1 million, to fund the increased lending balances. The Group also held £35.0 million of wholesale deposits at the year-end, following the sale and repurchase of FLS Treasury Bills.

### Funding for Lending Scheme

In 2013 the Bank was admitted to the Funding for Lending Scheme (FLS). The FLS is a scheme launched by the Bank of England and HM Treasury, designed initially to incentivise banks and building societies to boost their lending to UK households and SME's. The FLS does this by facilitating funding to banks and building societies for an extended period, at below current market rates, with both the price and quantity of funding provided linked to the institution's performance in lending to the SME sector.



## Principal risks and uncertainties

### The monitoring and control of risks is a fundamental part of the management process.

The Board considers that the principal risks inherent in the Group's business are credit, market, liquidity, operational, capital, conduct and regulatory risks. A description of the risk management policies in these areas is set out in Note 5 to the financial statements.

A short description of the principal risks, the ways in which the Group's management seek to manage these risks and some examples of developments that took place in 2015 are set out below.

#### Risk appetite

The risk appetite statements below have been approved by the Board:

##### Profitability

We are profit and growth oriented whilst seeking to maintain a conservative and controlled risk profile. The Bank manages credit risk through a pricing for risk model which drives a potential return on equity in excess of 20% on aggregate.

##### Financial Strength

Our financial strength is safeguarded by a strong capital base and a prudent approach to liquidity management. Capital levels will not fall below the Individual Capital Guidance ("ICG") requirements.

Liquidity is maintained at a level above the Overall Liquidity Adequacy Requirement (see 'Liquidity risk' below) with all loans funded typically by retail deposits.

##### Conduct with Customers & Reputation

As a result of the way we conduct our business we seek to avoid negative outcomes by consistently treating our customers fairly.

We are straightforward and fair with our customers and seek to achieve excellent customer service standards. Our aim is to be seen as a sound and professional business in the marketplace. We have no appetite for reputational risk arising from the way in which we or our partners behave.

We seek to remain compliant with all relevant regulatory requirements.

#### Business Processes and Our People

Our appetite for operational risk is to have well defined, scalable and controlled processes, running on robust and resilient systems, effective delivery of change and business continuity management.

We do not tolerate operational losses above our pillar 1 capital requirement.

#### Risk appetite measures

The Board Risk Committee uses a set of measures to assess the Group's position against its risk appetite. These measures are also cascaded to individual business units for monitoring and reporting purposes. The key measures are set out in the relevant sections below.

#### Credit risk

Credit risk is the risk that a counterparty will be unable to pay amounts in full, when due. Counterparties include the consumers to whom the Group lends unsecured and the small and medium sized enterprises to whom the Group lends secured as well as the market counterparties with whom the Group deals.

This risk is managed through the Group's internal controls and credit risk policies. The risk is monitored by the Credit Risk Committee, with oversight provided by the Board Risk Committee. Larger exposures are also approved by the Arbutnot Banking Group Risk Committee.

For STB, credit risk arises principally from its lending activities. Details of exposures, concentration risk, allowances for impairment and arrears are given in Notes 5, 13 and 14. At the year-end, 94% of loans and advances to customers by value were neither past due nor impaired, compared with 89% at 31 December 2014.

Credit risk also arises in respect of the Group's loans and advances to banks, and counterparty risk is monitored using the ratings of the respective counterparties. Further details are given in Notes 5 and 12.

Across the different product markets in which the Group operates, credit risk management oversee the application of the Group's risk related policies and consider the impact of market changes and business opportunities. At the end of the financial year the Group was within risk appetite across a range of measures covering bad debt rates, concentration risk and automated credit decisioning.

Key developments during 2015 in the credit risk management of consumer and commercial business areas of the Group are described below.

#### Consumer credit risk

In 2015, the Group commissioned a market leading risk consultancy to review its near prime Motor Finance credit risk management. This work will result in more appropriate risk based pricing.

The Group has also developed its methodology for its unsecured personal loan businesses. These changes are expected to deliver more accurate credit risk assessment and improved risk based pricing, whilst maintaining credit quality.

Retail Finance has seen considerable growth from both existing retailers and new additions to the retail panel. The addition of new retailers, coupled with significant growth from existing introducers and buoyant consumer confidence resulted in significant year on year growth. This growth has been managed through the existing scorecard and rule set without compromising credit quality. The performance of all the consumer portfolios continue to be monitored closely through monthly Credit Committee governance meetings which review scorecard and rule performance and new application quality and delinquency trends.

#### Commercial credit risk

The growth in lending to the SME sector has been built around strong risk management practices. The Group has employed experienced bankers who have operated through both positive and challenging economic cycles, and have brought their experience to bear alongside

the application of robust risk governance, credit appetite and lending policies.

For Real Estate Finance and Commercial Finance, lending decisions are made on an individual transaction basis, using expert judgement and assessment against criteria set out in the lending policies. Asset Finance lending is outsourced to Haydock Finance, who operate in line with the Group's credit policies and risk appetite. Secure Trust Bank employees based in Haydock's premises assess this lending for compliance with policy. A programme to develop probability of default (PD) modelling for each of the SME businesses commenced in 2015 and is expected to be delivered in the second half of 2016. These models will be IFRS 9 compliant.

With the SME businesses in the early stage of their growth, impairments and arrears have been minimal to date. Of particular note is the positive performance of the Real Estate Finance book, where property developments financed have seen repayments achieved both ahead of time and above expected valuations, in part assisted by the positive housing market throughout 2015. Management continue to closely monitor the SME portfolios and the external events and environment that could impact on each of them.

#### Future development – implementation of IFRS 9

The new accounting standard governing the impairment of financial assets, IFRS 9, is effective for annual reporting periods beginning on or after 1 January 2018. The standard fundamentally changes the calculation and recognition of credit losses, by introducing the requirement to base impairment provisions on expected credit losses over the life of the financial asset. It also requires credit losses to be recognised for all loans, in contrast to the current standard (IAS 39) which requires recognition of losses only when there is evidence of impairment. The models used to calculate expected credit losses need to include forward looking factors including macro-economic variables.

The key differences between the two approaches are shown in the table below.

The Group has initiated a project to develop and implement the modelling, data, processes, systems and disclosures required to comply with IFRS 9. The Group intends to run the provision modelling and accounting processes over the course of 2017 to assess the impact of the standard.



#### Implementation of IFRS 9

Status of loan	Current standard (IAS 39)	New standard (IFRS 9, effective from 1 January 2018)
No evidence of specific impairment	No specific impairment charge, but assessed at portfolio level for collective impairment	Charge for expected credit loss applied for all loans, based on probability of default over a 12 month period
Evidence of significant increase in credit risk, but not impaired	No specific impairment charge, but assessed at portfolio level for collective impairment	Charge for expected credit loss applied, based on lifetime probability of default
Impaired	Specific impairment charge applied, equating to lifetime credit losses	Charge for expected credit loss applied, based on lifetime probability of default



## Principal risks and uncertainties continued

### Market risk

Market risk is the risk that the value of, or revenue generated from, the Group's assets and liabilities is impacted as a result of market movements. For Secure Trust Bank Group this is primarily limited to interest rate risk.

This is managed by the STB treasury function and overseen by the Board Assets and Liabilities Committee (ALCO). The policy is not to take significant unmatched own account positions in any market. The key measure used to monitor the risk is the Interest Rate Risk Sensitivity Gap, information about which is provided in Note 5. The Group was within its appetite for this risk at the year-end.

The principal currency in which the Bank operates is Sterling, although a small number of transactions are completed in US Dollars and Euro in the Commercial Finance business. All such currency exposures are fully hedged using short term swaps of no more than 30 days in length, which ensures that the Group and the Bank have no exposures to currency fluctuations.

### Liquidity risk

Liquidity risk is the risk that the Group cannot meet its liabilities as they fall due, due to insufficient liquid assets.

The Group takes a conservative approach to managing its liquidity profile, by closely monitoring and remaining within risk appetite limits, and holding high quality liquid assets; primarily UK Treasury Bills and the Bank of England Reserve Account. The Group is primarily funded by retail customer deposits, having limited exposure to the wholesale lending markets. ALCO oversees liquidity risk and monitors the activities of management in managing liquidity risk. ALCO meets monthly to review liquidity risk against set thresholds and risk indicators including early warning indicators, liquidity risk tolerance levels and Individual Liquidity Adequacy Assessment Process (ILAAP) metrics as described below.

The primary measures used by management to assess the adequacy of liquidity are the Overall Liquidity Adequacy Requirement (OLAR), which is the Board's own view of the Group's liquidity needs as set out in

the ILAAP, and the regulatory requirement to meet the Liquidity Coverage Ratio (LCR). The Group has maintained liquidity in excess of the OLAR throughout 2015.

The LCR regime has applied to the Group from 1 October 2015, requiring management of net 30 day cash outflows as a proportion of high quality liquid assets. STB has set a more prudent internal limit. The actual LCR has significantly exceeded both limits throughout the year.

ALCO also uses the funding to loan ratio to assess liquidity adequacy, against a minimum target. The ratio exceeded this minimum target throughout the year.

### Operational risk

Operational risk is the risk that the Group may be exposed to financial losses from inadequate or failed internal processes, people and systems or from external events.

The Group has a defined set of Operational Risk Appetite measures covering such matters as operational losses, IT resilience, information security, complaints and more generally the level of operational risks the Group is prepared to accept.

These appetite measures are cascaded to individual business units which monitor and track their level of risks within their local governance forums.

In 2015, the Group invested in resource, expertise and systems to support the development of its operational risk capabilities. A formal Operational Risk Management System is being introduced along with an enhanced Operational Risk Framework covering all the key principles for the sound management of Operational Risk as defined by the Basel Committee.

Key areas of focus in 2015 have been:

- Developing and clearly defining the governance structure and procedures over how key business decisions are made and operational risks are managed, controlled and escalated within the business;
- Developing our systems and controls over the management of our third party suppliers and how the services they support are maintained, secured and improved;

- Enhancing our IT systems so that they are resilient in order to continue to provide the service expectations of our customers;
- Developing our Business Continuity Plans so that they are robust and responsive to a range of potential internal and external issues the Group could face;
- Managing change effectively and ensuring any new developments meet the high standards set for our customers and the services we provide.

In 2016 we will continue to monitor the effectiveness of our controls and respond to new and emerging threats to the business.

### Cyber risk

There is an increased risk that the Group is subject to cyber risk within its operational processes. This is the risk that the businesses within the Group are subject to some form of disruption arising from an interruption to its IT and data infrastructure. The Group continues to improve its defences against cyber risk through the use of enhanced monitoring and response tools and procedures.

### Capital risk

Capital risk is the risk that the Group will have insufficient capital resources to support the business.

The Group adopts a conservative approach to managing its capital and at least annually assesses the robustness of the capital requirements as part of the Group's Individual Capital Adequacy Process (ICAAP), which is then aggregated into the Arbuthnot Banking Group's ICAAP. Stringent stress tests are performed to ensure that capital resources are adequate over a future three year horizon.

At the year-end, the Common Equity Tier 1 (CET1) Ratio was 13.6% (2014: 18.7%) and the Leverage Ratio was 10.4% (2014: 14.7%) on a solo-consolidated basis. Both ratios are significantly higher than regulatory requirements. The decreases in the ratios are driven by the growth in assets, and therefore total risk exposure, over the year.

The solo-consolidated capital resources increased slightly to £138.9m at 31 December 2015 (31 December 2014: £123.4m).

The conditional sale of ELG is expected to significantly increase the Group's capital ratios, providing a very strong capital base and enabling further growth of lending portfolios. In assessing the Group's future capital position, management is mindful of the Basel Committee proposals relating to standardised risk weighting and is watching developments closely. Further details of the Group's capital position are provided in the capital, leverage and liquidity section of the Strategic Report.

### Conduct risk

Conduct risk reflects 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.

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

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

In 2015, management embedded the Conduct Risk Management Framework, establishing the governance and oversight protocols, providing training and awareness on the Conduct Risk Policy, enhancing and developing its key risk indicators (KRIs). Conduct risk exposure is managed via monthly review and challenge of KRIs at the Customer Focus Committee, which was set up to oversee complaints, FEEFO and Customer Service Excellence (CSE) as well as conduct risk. Conduct risk management information is also reviewed at Executive Committee meetings at product level, at STB ExCo and STB Board.

The KRIs vary across the business units to reflect the relevant conduct risks; the business units' KRIs are aggregated for measurement against the Group's risk appetite.

### Senior Managers Regime

A new regime, to enhance the accountability of individuals operating in banks, insurers and PRA-authorized investment firms, was implemented in the Financial Services (Banking Reform) Act 2013 and commenced from 7 March 2016. This regime was proposed in the Parliamentary Commission on Banking Standards Report (June 2013) and replaced the Approved Persons regime.

The new requirements introduce conduct rules which apply to all bank employees and additional rules for senior management. A specific Senior Manager Regime applies to the Bank's Board members and certain executive and senior managers, requiring these individuals to have regulatory approval, specific prescribed responsibilities and ongoing assessment by the Bank to ensure these persons remain "fit and proper". A further Certification Regime applies to other employees who pose a "risk of significant harm" to the firm, requiring the fit and proper test to be applied before the individual commences the role and then on an ongoing basis.

The Bank has embraced the new regime and made the changes required to comply. Senior Manager functions have been mapped across, responsibilities allocated and job descriptions amended where required. Training has been delivered across the Bank and an annual certification framework put in place. Changes to governance arrangements that have resulted from the change in regime are set out in the Corporate Governance statement beginning on page 48. Secure Trust Bank submitted its application for the "grandfathering application" on 2 February 2016, setting out responsibilities for existing Approved Persons who migrated to their equivalent Senior Management Functions on 7 March 2016.

### Regulatory Risk

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

The Group seeks to manage regulatory risks through the following elements of the Group wide risk management framework:

- Governance and control processes for new products and services;
- Advice and guidance on the application and interpretation of laws and regulations applicable to the Group's products, new initiatives and projects;
- Investment in the infrastructure and ongoing enhancement of the regulatory training programme.

Additional training has been delivered for key focus areas in 2015 including:

- Vulnerable customers and complaints handling;
- Horizon scanning to identify regulatory developments which are managed through impact assessment and implementation programmes;
- Liaison with regulatory bodies regarding authorisations and permissions;
- Information requests and reporting requirements;
- Consumer Rights Act implementation;
- Risk based monitoring and assurance programmes to ensure the Group remains compliant with regulatory requirements.



## Capital, leverage and liquidity

### Capital

The Group's capital management policy is focused on optimising shareholder value over the long-term. Processes exist to ensure that capital is allocated to achieve targeted risk adjusted returns whilst ensuring appropriate surpluses are held above the minimum regulatory requirements. The Board reviews the capital position at every Board meeting.

In accordance with the EU's Capital Requirements Directive (CRD) and the required parameters set out in the EU's Capital Requirements Regulation (CRR), the Group's Internal Capital Adequacy Assessment Process (ICAAP), which is aggregated into the Arbutnot Banking Group's ICAAP, is embedded in the risk management framework of the Group. It is subject to ongoing updates and revisions where necessary, but as a minimum an annual review is undertaken as part of the business planning process. The ICAAP brings together the risk management framework, including stress testing using a range of scenarios, and the financial disciplines of business planning and capital management.

Not all material risks can be mitigated by capital, but where capital is appropriate the Board has adopted a 'Pillar I plus' approach to determine the level of capital the Group needs to hold.

This method takes the Pillar I capital formula calculations as a starting point, and then considers whether each of the calculations delivers a sufficient capital sum adequate to cover anticipated risks. Where it is considered that the Pillar I calculations do not reflect the risk, an additional capital add-on in Pillar 2 is applied, as per the Individual Capital Guidance (ICG) issued to the Bank by the PRA.

The Group's regulatory capital is divided into:

- Common Equity Tier 1 which comprises shareholders' funds, after deducting intangible assets and deferred tax assets which have arisen due to losses.
- Tier 2 which comprises the collective allowance for impairment.

The 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 financial year with all of the externally imposed capital requirements to which they are subject.

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 CRR.

The Group is required by the PRA to report its capital on a solo consolidated basis. The solo-consolidated group includes all entities where a solo consolidation waiver has been received from the PRA; this excludes the V12 Finance Group and the Debt Managers Group. At the year end the solo-consolidated group had the following capital resources and Total Risk Exposure (TRE). In accordance with CRR, the TRE reflects both credit risks and operational risks.

The increase in CET1 capital has been driven by retained profit marginally offset by an increase in intangibles. An analysis of CET1 capital can be found in Note 6 to the financial statements.

Total Risk Exposure has increased by 54% to £998.6 million reflecting the significant growth in both Business Finance and Consumer Lending.

The CET1 capital ratio is the ratio of CET1 divided by the TRE and was 13.6% at the year end. This compares to 18.7% at the end of 2014 again reflecting the growth in lending resulting in an increase in TRE during 2015. The conditional sale of ELG is expected to increase the CET1 capital ratio and provide additional capital for future planned growth.



### Capital and CRD IV Ratios

As at 31 December

	2015 £m	2014 £m
<b>Capital :</b>		
Common Equity Tier 1 (CET 1) capital	135.8	121.4
Total Tier 2 capital	3.1	2.0
Total capital	138.9	123.4
Total Risk Exposure (TRE)	998.6	649.2
<b>CRD IV ratios:</b>		
Common Equity Tier 1 (CET1) ratio (solo consolidated)	13.6	18.7
Leverage Ratio	10.4	14.7

## Leverage

The Basel III framework introduced a relatively simple, transparent, non-risk based leverage ratio to act as a supplementary measure to the risk-based capital requirements. The leverage ratio is intended to restrict the build-up of leverage in the banking sector to avoid destabilising deleveraging processes that can damage the broader financial system and the economy, whilst reinforcing the risk-based requirements with a complementary simple, non-risk based 'backstop' measure.

The Basel III leverage ratio is defined by the CRR as Tier 1 capital divided by on and off sheet asset exposure values, expressed as a percentage. The minimum leverage ratio requirement of 4% will be imposed on the Bank from 2018, subject to a review in 2017.

As shown in the table above, the Bank has a leverage ratio at 31 December 2015 of 10.4%, comfortably ahead of the minimum requirement.

## Liquidity

The Group continues to manage its liquidity on a conservative basis by holding high quality liquid assets (HQLA) and utilising predominantly retail funding from customer deposits, with only limited funding coming from the wholesale markets. In December 2012, Secure Trust Bank was admitted as a participant in the Bank of England's Sterling Money Market Operations under the Sterling Monetary

Framework, to participate in the Discount Window Facility. From July 2013, the Group was permitted to draw down facilities under the Funding for Lending Scheme (FLS). FLS monies are maintained as a liquidity buffer, above that required to support lending.

At 31 December 2015 and throughout the year, the Group had significant surplus liquidity over the minimum requirements due to its stock of HQLA, in the form of the Bank of England Reserve Account and Bank of England Treasury Bills. As shown in the table below, total liquid assets increased by 20% to £147.1 million, with the HQLA balance of £135.6m representing a proportional increase from 67% to 92% of total liquid assets.

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

The Liquidity Coverage Ratio (LCR), introduced by the Basel Committee on Banking Supervision in 2013, applied to the Group from 1 October 2015. The objective of the LCR is to promote the short term resilience of the liquidity risk profile of banks, by ensuring that they have an adequate stock of unencumbered high-quality liquid assets that can be converted easily and immediately in private markets into cash to meet their liquidity needs for a 30 calendar day liquidity stress scenario.

The PRA completed its consultation on the minimum LCR requirements to apply in the United Kingdom in 2015, and set levels marginally higher than those prescribed in the CRR during the transition period. The PRA have set the minimum at 80% from 1 October 2015, 90% from 1 January 2017 and 100% from 1 January 2018, coming into line with the CRR at this point.

The Group's LCR, and other measures used by management to manage liquidity risk, are described in the Principal Risks and Uncertainties section of the Strategic Report.

By order of the Board

**Neeraj Kapur**  
 Chief Financial Officer

16 March 2016



## Liquid Assets

As at 31 December

	2015 £m	2014 £m
<b>Liquid Assets :</b>		
Aaa - Aa3	135.6	82.5
A1 - A3	6.2	19.8
Unrated	5.3	20
	<b>147.1</b>	<b>122.3</b>
Less assets held for sale	(1.7)	–
<b>Statutory balance sheet total</b>	<b>145.4</b>	<b>122.3</b>



# Culture

**The culture of the Group has been aligned with the Group's values, which are detailed on page 4. The Group aims for its employees to be both customer and colleague centric, innovative and inspiring, whilst being compliant, safe and trustworthy.**

We have invested in our Business Leadership Development Programme for all our people leaders and in cultural shaping and embedding sessions for all employees. This is also extended to all new employees at their induction to the business. Business Leadership centres on improving customer focused performance through the successful application of management tools and employee engagement.

We are moving forward rapidly and recognise that our leadership team must develop its knowledge and apply new skills in order to take a full and proactive role in our Grow, Sustain and Love Strategy.

## Customer outcomes

Customer focus is at the heart of what the Group does and how our employees behave. Our products are consistently straightforward in their design and aim to offer value to our customers. This has attracted a significant increase in customers to the Bank, with overall customer numbers increasing during the year by more than 33% to 570,759 by the end of 2015.

Following an in-depth review and external assessment of the Group, we have retained the Customer Service Excellence standard. This means that our customer service has been shown to meet Government standards of excellence, as benchmarked against other high-performing organisations. The Customer Service Excellence standard tests areas that are most important for our customers, such as delivery, timeliness, information, professionalism and staff attitude. It also tests whether the Bank

understands the needs of its customers and how satisfied they are with the service they receive. An independent external assessor carried out on-site reviews to examine our documents, reports and research. During the final assessment the assessor met with customers, partners and staff to ask about the services we provide, the partnerships we have and improvements that are being made. Following the site visit, the assessor presented recommendations to a panel of judges. The assessor was particularly impressed with our staff and commented about their professionalism, honesty and positivity about working here, as well as our customer ethics.

The bank has also received various awards including Best Savings Provider, Best Challenger Bank and Best Charity Saving Account Provider from Savings Champion, as well as other awards for our Motor Finance business and an industry award for individual achievement.

The Bank utilises Feefo, which is an independent online review system, in order to obtain customer feedback on its consumer facing products. The ratings and comments made by the customers who reply to the request are monitored by senior management of the Bank. If there are any poor or bad ratings received, attempts are made to contact the customer, in order to resolve any issues. Service improvement ideas received via Feefo from customers are also considered by the Bank. The ratings and comments are available on the Group's websites, [www.securetrustbank.com](http://www.securetrustbank.com) and [www.moneyway.co.uk](http://www.moneyway.co.uk).

## Active partners for business

The Group continues to foster strong, mutually beneficial relationships, with stakeholders and business introducers. The underlying philosophy is to make it as easy as possible for introducers to do business with us and to continually seek to improve the ways we work together. This approach to relationships has contributed to the renewal of a number of contracts with key partners including the Association of Cycle Traders and

Evans Cycles. It is also a major factor in the gaining of substantial new business partnerships including those with a number of high profile football clubs and Halfords. The move into SME finance has also allowed us to provide more support to businesses in the UK.

## Investors in People award

Secure Trust Bank currently holds the highly coveted Investors in People (IIP) Silver Accreditation. Only 5.7% of IIP accredited organisations achieve Silver and we are extremely proud to be one of the prestigious few. The Investors in People Standard is a framework of best practice, awarded to well-run organisations that meet set criteria in areas including learning and development and leadership skills as well as recognition and reward. The review process involved numerous members of the Secure Trust Bank team being picked at random for an interview with the assessor, in which they were asked about areas including how they felt about the Bank, learning and development opportunities and business strategy. The assessment saw the motivation and enthusiasm of the team shine through, acknowledging that the strategy and values of the Bank have been effectively embedded throughout all operations. Other areas for acknowledgement included the strong focus on the development of leadership and management capabilities, the range of means by which employees are asked for their views and opinions on key matters, and strong and our impressive record of delivering effective learning, training and development opportunities and the open, transparent and trusting culture of the business.

## Employee support

The success enjoyed by the Group is also creating numerous opportunities for our staff as evidenced by average Group full time equivalent employee numbers increasing from 608 to 706 during 2015. Each new employee gets a structured induction and development framework, whilst all employees have clear performance objectives aligned to the Group's strategy and values.

Financial support and study time allowances are also helping more than a quarter of Secure Trust Bank's employees to take academic qualifications ranging from apprenticeships to Masters Degrees. The majority of promotions continue to go to internal staff which evidences the opportunities within the Group. As the size of the Group increases these opportunities will further expand.

Secure Trust Bank celebrates exceptional performance by awarding monthly Customer Service Excellence Awards and Be Valued Awards, of which over 679 had been given to staff during the year. Individuals are also recognised through the annual 'Outstanding Achievers' award.

On a quarterly basis, the Chief Executive Officer reviews employee suggestions for improving performance, efficiency and effectiveness, and awards a cash prize for the best suggestion. There have been 207 'bright ideas' submitted during 2015.

### Professional qualifications

Employees are able to obtain professional qualifications through the Bank's association with the ifs University College. These qualifications include Diplomas and Certificates in Retail Banking Conduct of Business and Team Leading, Customer Service and Financial Services apprenticeships.



The ifs University College is a registered educational charity incorporated by Royal Charter. It has a remit to provide the financial services industry with a skilled, effective and competent workforce whilst also promoting a better understanding of finance amongst consumers. The ifs is the only educational body with a specific focus on finance that has the power to award its own degrees. Its formal qualifications range from A-Level equivalents for the 14-19 age group, to degree and Masters programmes for financial professionals. The ifs also offers professional development, competence maintenance

and executive education programmes through its alumni membership service.

### Employee Council

The Bank operates an Employee Council, which has employee representatives from each department of the Bank. The Council meets on a regular basis to encourage a two way process of communication between employees and directors. The aim of the Employee Council is to promote employee engagement and give representatives the opportunity to represent the views of the employees in a forum which can make a positive difference.

### Charitable and environmental considerations

The Bank raised over £50,000 over a 2 year period for its nominated charity, Birmingham Children's Hospital, through a number of organised events, including sponsored parachute jumps, abseiling, dress down days, various running events and an annual flagship cycling event. Riders of all abilities cycled across the Warwickshire countryside on three pre-set routes of 15k, 50k and 100k.

The Group tries to limit its footprint on the environment through the use of energy saving initiatives, recycling consumables and encouraging greener travel methods for its employees.

### Employee opinion

The 'Your Voice' employee survey is one of the most important ways the Bank has to examine what we are doing well and what we can do to improve and engage with you in a number of vital areas. To do this, feedback is addressed at both a corporate and a local level.

A campaign of 'Bring it to the 4' has been used to address the results of the 'Your Voice' survey where we identified areas for improvement. These broadly fall into the four pillars of: Fair Deal, Giving Something Back, Personal Growth and Wellbeing.

At a corporate level we are continually working on initiatives we have in place and those that will be considered for development in order to address these areas.

We provide regular communication to all employees, keeping them up to date with our progress. While this campaign is running at a corporate level, it is also imperative that the results and associated actions are interpreted at a local departmental and business level in each of the Group businesses.



### Awards & Accreditation



The prestigious Customer Service Excellence Award was developed by the Cabinet Office to acknowledge excellence in public services.



iP is an exacting national standard that helps organisations to improve performance through their people and also strive for continuous improvement.



## Board of Directors



**Sir Henry Angest LLL, Hon.F.UHI**  
Non-Executive Chairman



Sir Henry Angest is Chairman and Chief Executive of Arbuthnot Banking Group PLC as well as Chairman of Arbuthnot Latham & Co., Limited. He gained extensive national and international experience as an executive of The Dow Chemical Company and Dow Banking Corporation. He was Chairman of the Banking Committee of the London Investment Banking Association and a director of the Institute of Directors. He is a Past Master of the Worshipful Company of International Bankers. Sir Henry is appointed by Arbuthnot Banking Group to the board of Secure Trust Bank.



**Paul Lynam ACIB, AMCT, Fifs**  
Chief Executive Officer



Paul Lynam joined Secure Trust Bank in September 2010, having spent 22 years working for NatWest and RBS. He is a Fellow of the ifs University College and an Associate of the Chartered Institute of Bankers and the Association of Corporate Treasurers. Paul was the Managing Director, Banking, running RBS/ NatWest's SME banking business across the UK and spent four years as the Managing Director of Lombard North Central PLC, running the largest asset finance and leasing business in Europe. Paul is the chairman of the British Bankers Association Challenger Bank Panel.



**The Rt Hon Lord Forsyth of Drumlean PC Kt**  
Independent Non-Executive Director



Michael Forsyth is a director of J&J Denholm and Denholm Logistics, former Chairman of Hyperion Insurance Group, and former Deputy Chairman of JP Morgan UK and Evercore Partners International. He was appointed to the Privy Council in 1995, knighted in 1997, and joined the House of Lords in 1999. He was a member of the House of Commons for 14 years and served in Government for 10 years, latterly as a Cabinet Minister. Michael Forsyth was appointed to the board of Secure Trust Bank on 1 March 2014.



**Paul Marrow ACIB**  
Independent Non-Executive Director



Paul Marrow has over 40 years' banking experience and has over the last decade been responsible for the Commercial Banking and Specialist Corporate Banking business divisions of RBS Group in the UK. Paul is currently the Chairman of JCB Finance Limited, a joint venture between J C Bamford Excavators Limited and RBS Group, and a non-executive director of Arbuthnot Latham & Co., Limited. Paul was appointed to the board of Secure Trust Bank on 3 March 2011.



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

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Neeraj Kapur has over 25 years' financial services experience spent in both the accounting and banking industries. He is a Chartered Banker, a Fellow of the Institute of Chartered Accountants in England & Wales, and Council and Chair of the ICAEW Financial Services Faculty. Neeraj qualified as a Chartered Accountant with Arthur Andersen, and spent 11 years working in professional practice before joining RBS in 2001. He has undertaken a number of roles which included Chief Financial Officer of Lombard North Central PLC. Neeraj was appointed to the board of Secure Trust Bank on 31 May 2011.



**Andrew Salmon ACA  
 Non-Executive Director**

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Andrew Salmon joined Arbuthnot Banking Group PLC in 1997 and is its Chief Operating Officer and Head of Business Development. He was previously a director of Hambros Bank Limited and qualified as a Chartered Accountant with KPMG. Andrew is appointed by Arbuthnot Banking Group to the board of Secure Trust Bank.



**Alan Karter LLB (Hons)  
 Company Secretary**

Alan Karter is a Scottish and English qualified solicitor. He was a partner at the international law firm Simmons & Simmons until 2012. While in private practice he advised the Bank on its listing on AIM in 2011. He joined Arbuthnot Banking Group PLC as Head of Legal Affairs in 2012 and was appointed Company Secretary of Secure Trust Bank on 31 August 2014.

**Committees**

- Audit Committee members
- Risk Committee members
- Assets and Liabilities Committee members
- Remuneration Committee members
- Nomination Committee members



# Directors' report

**The directors submit their report, the related Strategic Report and the audited financial statements of Secure Trust Bank PLC (the 'Company') for the year ended 2015.**

## Report and financial statements

The 'Group' includes the Company and its subsidiaries. The Strategic Report is set out beginning on page 20.

## Principal activities and review

The principal activity of the Group is banking including deposit taking and secured and unsecured lending.

## Results and dividend

The results for the year are shown on page 56. The profit for the year after taxation attributable to equity holders of the Company amounted to £28.7 million (2014: £20.5 million). An analysis of the movement in profit after taxation between the current and preceding year is contained in the Financial Review beginning on page 30.

The directors recommend the payment of a final dividend of 55 pence per share which, together with the interim dividend of 17 pence per share paid on 18 September 2015, represents total dividends for the year of 72 pence per share (2014: 68 pence per share). The final dividend, if approved by members at the Annual General Meeting, will be paid on 6 May 2016 to shareholders on the register at the close of business on 8 April 2016.

The Board is also proposing to pay a special dividend of 165 pence per share for 2016. The dividend is dependent on the completion of the sale of ELG, which includes regulatory approval of the change of control, transferral of ownership and the inclusion of the gain within the Company's capital resources. Following completion, the Board would also review the financial position and prospects of the Company further before declaring any such special dividend.

## Dividend Policy

The directors have recently reviewed the dividend policy of the Company. The following sets out the dividend policy of the Company following the review.

The directors have adopted a progressive dividend policy which takes into account the Company's capital requirements, earnings and cash flow in the long term and has regard to the provisions of the Relationship Agreement between the Company and Arbutnot Banking Group PLC.

It is intended that a dividend will be declared by the Company at the time of publishing the Company's interim and year-end results. The Company generally will pay an interim dividend in September which is determined and approved by the directors in conjunction with the approval and announcement of the interim results for the half year; and a final dividend which is recommended by the directors and approved by shareholders at the Annual General Meeting each year.

As a public company, the shares in which are listed on the AIM market of the London Stock Exchange, the dividends are paid to shareholders on the register at a set record date. The record and payment dates are set in conjunction with the Company's brokers having regard to Stock Exchange requirements.

Payment of all dividends is restricted to profits available for distribution which are determined in accordance with company law. Subject to compliance with all legal requirements the amount of the dividend is set by the directors. The directors will have regard to current and projected capital, liquidity, earnings and market expectations in determining the amount of the dividend. All dividends must be declared and paid in compliance with all applicable laws and the Articles of Association of the Company. On occasion, the Company may declare and pay a special dividend resulting from special circumstances. Any such special dividend will be approved in accordance with the dividend policy of the Company, having regard to the particular circumstances such as timing of announcement.

### Future developments

The Strategic Report as well as the Chairman's Statement and the Chief Executive's Statement contain a fair review of likely future trends and factors that might affect the development, performance and position of the Group.

### Share capital

The share capital of the Company comprises ordinary shares with a nominal value of 40p each. As at 16 March 2016 the Company had 18,191,894 ordinary shares in issue. Each ordinary share entitles the holder to one vote.

No shares were issued during 2015.

### Substantial shareholders

As at 16 March 2016 the Company was aware of the substantial holdings in its issued ordinary share capital as set out below.

### Directors and their share interests

The directors of the Company are Sir Henry Angest, Lord Forsyth of Drumlean, Neeraj Kapur, Paul Lynam, Paul Marrow and Andrew Salmon. Carol Sergeant was a director throughout 2015 but retired as a director on 31 December 2015. All the directors, other than Carol Sergeant, served on the Board throughout the financial year and up to the date of signing these financial statements. Biographical information about each director is shown on page 42.

Paul Lynam retires under Article 82 of the Articles of Association and, being eligible, offers himself for re-election. Paul Lynam has a service agreement with the Company.

According to the information kept under Section 3 of the Disclosure and Transparency Rules 2006, the directors and their beneficial interests, and that of their families, in the ordinary shares of the Company at the dates shown were as shown below.

Apart from the interests disclosed above, no director was interested at any time during the year in the share capital of Group companies.

Sir Henry Angest, Paul Lynam and Andrew Salmon are directors of the ultimate parent company Arbutnot Banking Group PLC and their interests in the share capital and share options of group companies are shown in the Directors' Report of that company.

### Board Committees

The report of the Remuneration Committee which begins on page 52 will be the subject of an Ordinary Resolution at the Annual General Meeting.

Information on the Audit, Nomination, Risk and Assets and Liabilities Committees is included in the Corporate Governance statement beginning on page 48.

### Employment policies and equal opportunities

The Group is an inclusive and equal opportunities employer that relies on HR specialists to ensure compliance with all applicable laws governing employment practices and to advise on all HR policies and practices, including recruitment and selection, training and career development, and promotion and retirement. Group policies seek to create a workplace that has an open atmosphere of trust, honesty and respect. Harassment or discrimination of any kind is not tolerated. This principle applies to all aspects of employment from recruitment and promotion, through to termination and all other terms and conditions of employment.

### Employee communications and involvement

The Group has processes in place for communicating with its employees. Employee communications include information about the performance of the Group, on major matters affecting their work, employment or workplace and to encourage employees to get involved in social or community events. These communications aim to achieve a common awareness for all employees of the financial and economic factors affecting the performance of the Group.



### Substantial shareholders

	Ordinary shares	Percentage of issued ordinary share capital
Arbutnot Banking Group PLC	9,444,538	51.92%
Steven A Cohen	1,510,412	8.30%
Ruffer	1,124,979	6.18%
Threadneedle Investments	935,490	5.14%
Unicorn Asset Management	929,420	5.11%
Standard Life Investments	794,918	4.37%



### Directors and their share interests

Beneficial interests	At 1 January 2015	Acquired during the year following the exercise of options	Sold during the year	At 31 December 2015 and 16 March 2016
Neeraj Kapur	1,000	–	–	1,000
Paul Lynam	9,110	–	–	9,110
Paul Marrow	5,440	–	–	5,440
Andrew Salmon	7,500	–	–	7,500
Carol Sergeant*	6,600	–	–	6,600

\*Retired as a director on 31 December 2015.



## Directors' report continued

### Political donations and expenditure

The Group made no political donations and incurred no political expenditure during the year (2014: nil).

### Auditor

KPMG LLP was reappointed as auditor at the Annual General Meeting held in 2015. A resolution for its reappointment as auditor will be proposed at the 2016 Annual General Meeting. KPMG LLP has indicated its willingness to continue in office.

Each director in office at the date of this Directors' Report confirms that so far as the director is aware, there is no relevant audit information of which the Company's auditor is unaware and each director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

### Going concern

In assessing the Group as a going concern, the directors have given consideration to the factors likely to affect its future performance and development, the Group's financial position and the principal risks and uncertainties facing the Group, as set out in the Strategic Report, including the Group's exposure to credit, liquidity and market risk and the mechanisms for dealing with these risks. 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.

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

### Annual General Meeting

The next Annual General Meeting of the Company will be held on 4 May 2016.

At the Annual General Meeting a special resolution will be proposed authorising the Company to make market purchases of ordinary shares within the limits set out in the resolution. The resolution is in a similar form to that proposed at the 2015 Annual General Meeting. The directors have no present intention of exercising the authority granted by the resolution, but regard it as a useful tool to have available.

By order of the Board

**A J Karter**  
Secretary

16 March 2016



## Directors' responsibility statement

The directors are responsible for preparing the Annual Report and the Group and parent company financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare group and parent company financial statements for each financial year. As required by the AIM Rules of the London Stock Exchange they are required to prepare the group financial statements in accordance with IFRSs as adopted by the EU and applicable law and have elected to prepare the parent company financial statements on the same basis.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and parent company and of their profit or loss for that period. In preparing each of the group and parent company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and the parent company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.



# Corporate Governance statement

## Secure Trust Bank has a strong and effective Corporate Governance framework.

The Board endorses the principles of openness, integrity and accountability which underlie good corporate governance and takes into account the provisions of the UK Corporate Governance Code in so far as they are considered appropriate to the Group's size and circumstances. Moreover, the Group contains businesses authorised to undertake regulated business under the Financial Services and Markets Act 2000 which are regulated by the Prudential Regulatory Authority and the Financial Conduct Authority. Accordingly, the Group operates to the high standards of corporate accountability and regulatory compliance appropriate for such businesses.

The implementation in 2016 of the new individual accountability regime in the United Kingdom in respect of regulated financial services businesses has caused the Group to review its governance arrangements and the responsibilities of senior managers within the Group for particular areas of activity. Further details of the new regime are given in the Principal Risks and Uncertainties section of the Strategic Review.

During 2015 the Group reviewed its governance arrangements and made some changes, which are reflected in the Governance Manual which captures in one place the principal elements of the governance arrangements applicable to the Group. The Governance Manual is reviewed by the Board and updated regularly.

This section of the Report and Accounts summarises key elements of the governance arrangements applicable to the Group

### The Board

The Group is led and controlled by an effective Board of Directors which, at the year end, comprised Sir Henry Angest (Non-Executive Chairman), Paul Lynam (Chief Executive Officer), Neeraj Kapur (Chief Financial Officer), and three other non-executive directors. Carol Sergeant, one of the independent non-executive directors, retired as a director on 31 December 2015.

Under the Company's Articles of Association and pursuant to the Relationship Agreement between the Company and its parent company, Arbutnot Banking Group PLC ("ABG"), one third of the directors are appointed by ABG, one third of the directors are full time executive directors and one third of the directors are independent directors. Sir Henry Angest and Andrew Salmon were appointed as directors by ABG.

The Board meets regularly throughout the year. Substantive agenda items have briefing papers, which are circulated in a timely manner before each meeting. The Board ensures that it is supplied with all the information that it requires and requests, in a form and of a quality to enable it to fulfil its duties.

In addition to determining and overseeing the implementation of the strategy of the Company and of the Group and exercising oversight of executive management, certain items are reserved for decision by the Board. These matters include material acquisitions and disposals, the issue of capital and any transactions outside the ordinary course.

The Company Secretary is responsible for ensuring that Board processes and procedures are appropriately followed and support effective decision making. All directors have access to the Company Secretary's advice and services and directors may obtain independent professional advice in the course of their duties, if necessary, at the Company's expense.

The Board has delegated certain of its responsibilities to individual executives and to committees. The standing committees of the Board are described below.

### Audit Committee

Membership of the Audit Committee is limited to non-executive directors and the current Audit Committee comprises Paul Marrow as Chairman, Andrew Salmon and Lord Forsyth, who was appointed in January 2016. Carol Sergeant was a member of the Audit Committee

throughout 2015 until her retirement as a director on 31 December 2015.

The primary responsibilities of the Audit Committee are to review arrangements established by the directors for compliance with regulatory and financial reporting requirements, monitor the integrity of the Group and subsidiary statutory accounts, oversee the work of the external auditors, monitor and review the scope, results and effectiveness of the Company's internal audit function and liaise with the Audit Committee of ABG.

The Audit Committee's responsibilities include reviewing the Group's system of internal control and the process for evaluating and monitoring risk. The Committee also considers any other matters which might have a financial impact on the Company, including the Group's arrangement by which staff may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters. The Audit Committee has the authority to obtain any information it requires from any employee or external party, and at least once a year meets with the Company's external auditors and internal audit function without any executive directors being present.

Over the course of the year, the Audit Committee has overseen the establishment of an effective internal audit function and approved the Group's internal audit plan. The timely resolution of issues raised by internal audit has been closely monitored and the performance in 2015 has been very encouraging. The Committee has also tracked improvements in the Group's reconciliation processes, which have seen differences significantly reduced without requiring material write-offs.

The Committee also reviews the appointment, terms of engagement, independence and objectivity of the external auditors, including the level of non-audit services provided, and ensures that there is an appropriate and independent audit relationship. The Audit Committee provides a forum

for discussing with the Group's external auditors their report on the annual accounts.

During 2015 and 2016 there has been particular engagement with the external auditors on key areas of judgement in relation to the audited accounts, leading to an enhanced audit process. The Group has also implemented recommendations made by the external auditors in relation to their audit of the accounts for earlier years.

The present auditors have held office since 2009 and the senior statutory auditor changed in 2012.

#### Risk Committee

The Risk Committee is chaired by Paul Marrow and its other members are Paul Lynam and Andrew Salmon. Paul Marrow replaced Andrew Salmon as chairman of the Risk Committee with effect from 26 January 2016. This change was prompted by changes in governance arising from the implementation of the individual accountability regime.

The primary responsibilities of the Risk Committee are to approve specific risk policies for the Company and its subsidiaries; approve trading positions in excess of the limits set by the management of the Group; oversee the development, implementation and maintenance of the Group's overall risk management framework and its risk appetite, strategy, principles and policies; oversee the Group's risk exposures, risk/return and proposed improvements to the Group's risk management framework; oversee adherence to the risk principles, policies and standards adopted by the wider group; and keep the wider group regularly informed of any risk issues or breaches faced by the Group which may affect the wider group.

During 2015 the Risk Committee has overseen developments in the Group's operational and conduct risk management capability, including the strengthening of the team and improvements to systems and processes. These improvements are discussed in more detail in the Principal Risks and Uncertainties section of the

Strategic Report, beginning on page 34. The Committee has also focused during the year on the ongoing challenges of cyber-crime, the robustness of the Group's information security processes and the changes in risk profile brought about by the new SME business streams.

#### Assets and Liabilities Committee

The Assets and Liabilities Committee (ALCO) is responsible for implementing and controlling the liquidity and asset and liability management risk appetite established by the Board. The Committee is also responsible for ensuring the high level financial control over the Bank's balance sheet and the associated risks undertaken in the course of its business. The Committee sets and controls capital deployment, treasury strategy guidelines and limits focusing on the effects of the future plans and strategy on STB's assets and liabilities. ALCO is chaired by Paul Lynam and its members are a mix of directors (STB and ABG) and senior management (from the Bank and from the wider group). The committee meets monthly.

#### Remuneration Committee

Membership of the Remuneration Committee is limited to non-executive directors of the Company. The members of the Committee are Sir Henry Angest (Chairman of the Committee), Paul Marrow, Lord Forsyth and Andrew Salmon. Carol Sergeant was a member of the Committee until her retirement as a director on 31 December 2015. Lord Forsyth and Andrew Salmon were appointed as members of the Committee with effect from 1 January 2016. The Remuneration Committee meets on an ad hoc basis when required. It met twice in 2015.

The Remuneration Committee has responsibility for producing recommendations on the overall remuneration policy for directors and for setting the remuneration of individual executive directors, both for review by the Board. Remuneration is set having regard to any roles that may be performed by such directors as directors of any other group companies.



## Corporate Governance statement continued

The Committee applies the Company's remuneration policy and monitors its implementation, reviews the Remuneration Report, considers and if thought fit awards any incentives to be offered under long term and share incentive schemes and pension arrangements, subject to the achievement of specific criteria. Members of the Committee do not vote on their own remuneration.

Further information about the Remuneration Committee and details of the directors' remuneration are set out in the separate Remuneration Report.

### Nomination Committee

The Nomination Committee is chaired by Sir Henry Angest and its other members throughout 2015 were Paul Marrow and Carol Sergeant (until her retirement as a director on 31 December 2015). Lord Forsyth and Andrew Salmon became members of the Committee on 1 January 2016. The Committee did not meet in 2015.

The primary responsibilities of the Nomination Committee are to review the number of directors and the balance between executive and independent directors, recommend new independent director and executive director appointments to the Board and the length of term for which a non-executive director may be expected to serve. The Committee must have regard to the terms of the Relationship Agreement between the

Company and ABG. Before a Board appointment is made the skills, knowledge and experience required for a particular appointment are evaluated and a recommendation made to the Board. The Committee would expect to interview any candidate for appointment as a director of the Company.

### Committee Attendance

The attendance of Board and Committee members during the year is set out in the table below. Figures are only provided where the Board member is a member of the Committee concerned:

### Committee Effectiveness

Each of these committees has written terms of reference, which require consideration of the committee's effectiveness. The Board keeps the governance arrangements under review, and the terms of reference of both the Audit Committee and Risk Committee were amended during 2015 to take account of the development of the Group and its risk management practices and market practice. No material issues were noted in respect of the effectiveness of the Board or any of the committees.

### Other Committees

The Board may also appoint ad hoc committees for a particular purpose. In 2015 it did so in connection with the sale of the ELG.

The day-to-day governance of the Group also involves executive and other committees. These are not committees of the Board but are established to oversee the operations of the Group and provide appropriate governance.

### Shareholder Communications

The Company maintains a regular dialogue with its principal shareholders, including its parent company, and makes full use of the Annual General Meeting and other General Meetings (when held) to communicate with investors.

The Company aims to present a balanced and understandable assessment in all its reports to shareholders, its regulators and the wider public. Regulatory announcements and other information about the Group can be found at [www.securetrustbank.com](http://www.securetrustbank.com).

### Internal control and financial reporting

The Board has overall responsibility for the Group's system of internal control and for reviewing its effectiveness. Such a system is designed to manage rather than eliminate risk of failure to achieve business objectives and can only provide reasonable but not absolute assurance against the risk of material misstatement or loss.

The Board has adopted a Group Risk Appetite Statement which sets out the Board's attitude to risk and internal control. Key risks identified by the directors are formally reviewed and assessed at least



### Committee Attendance

	Board	Audit Committee	Risk Committee	ALCO	Remuneration Committee
Number of meetings during 2015	8	6	4	12	2
Sir Henry Angest	8	–	–	–	2
Lord Forsyth of Drumlean*	7	–	–	–	–
Paul Lynam	8	–	4	10	–
Neeraj Kapur	8	–	–	10	–
Paul Marrow	8	6	4	–	2
Andrew Salmon	8	6	4	11	–
Carol Sergeant	7	6	–	–	–

\* Lord Forsyth was appointed to the Audit, Remuneration and Nomination Committees in January 2016.

The Nomination Committee did not meet in 2015.

once a year by the Board and are also reviewed by the Risk Committee at its meetings. Key business risks are also identified, evaluated and managed by operating management on an ongoing basis. The Board and the Risk Committee also receive regular reports on any risk matters. Significant risks identified in connection with the development of new activities are considered by the Board and the Risk Committee in conjunction with the approval of any such new activity.

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

During 2015 the Group continued to develop its internal audit function.

By order of the Board

**A J Karter**  
Secretary

16 March 2016



# Remuneration report

## Membership of the Remuneration Committee is limited to non-executive directors. The present members of the Committee are Sir Henry Angest (Chairman), Lord Forsyth, Paul Marrow and Andrew Salmon.

Carol Sergeant ceased to be member of the Committee on her retirement as a director on 31 December 2015. Lord Forsyth and Andrew Salmon were appointed as members of the Committee with effect from 1 January 2016.

The Committee has responsibility for producing recommendations on the overall remuneration policy for directors and for setting the remuneration of individual executive directors, both for review by the Board. Remuneration is set having regard to any roles that may be performed by such directors as directors of any other Group companies. The Committee applies the Company's remuneration policy and monitors its implementation, reviews the Remuneration Report, considers and, if thought fit, awards any incentives to be offered under the Company's Share Option Scheme, other long-term incentive schemes and pension arrangements, subject to the achievement of specific criteria. Members of the Committee do not vote on their own remuneration.

The Committee also deals with remuneration related issues under the Prudential Regulation Authority's Remuneration Code applicable to the Group.

### Remuneration policy

The Remuneration Committee determines the remuneration of individual directors having regard to the size and nature of the business; the importance of attracting, retaining and motivating management of the appropriate calibre without paying more than is necessary for this purpose; remuneration data for comparable positions; the need to align the interests of executives with those of shareholders;

and an appropriate balance between current remuneration and longer term performance-related rewards.

The remuneration package can comprise a combination of basic annual salary and benefits (including pension), a discretionary annual bonus award related to the Committee's assessment of the contribution made by the executive during the year and longer term incentives, including executive share options and similar awards. Pension benefits take the form of annual contributions paid by the Company to individual money purchase schemes. The Remuneration Committee reviews salary levels each year based on the performance of the Group during the preceding financial period. This review does not necessarily lead to increases in salary levels.

The Board reviewed and approved the group remuneration policy at its meeting in November 2015. There were no changes to the policy in 2015. This is a group policy that applies to the parent company (Arbuthnot Banking Group) and to the Group.

During 2015 the Group implemented applicable provisions required under the Prudential Regulation Authority's Remuneration Code having regard to the treatment of the Group under the Remuneration Code and disapplied provisions that it is permitted to disapply (deferral over a three to five year period; performance adjustment (or malus); delivery in shares or share-based instruments; and retention of shares/instruments). The Company and its subsidiaries are all considered to be Tier III institutions, due to the size of their relevant total assets. The Company is therefore satisfied that the so called bonus cap does not currently apply to it, and expects this to remain the case in light of the recent announcement by the PRA and FCA in relation to their application of the guidelines issued by the European Banking Authority in December 2015. The Company also understands that the principle of proportionality has been accepted and this is expected to mean that the Company can continue to disapply parts of the

Remuneration Code. Shareholders passed a resolution at the Annual General Meeting in 2014 permitting discretionary bonuses to be up to two times annual basic salary and if the so called bonus cap were to apply to the Company that permission would continue to apply. No director received a bonus of more than one times salary during 2015.

### Directors' service contracts

Paul Lynam and Neeraj Kapur both have service contracts terminable at any time on 12 months' notice in writing by either party. Lord Forsyth and Paul Marrow have service contracts terminable at any time on three months' notice in writing by either party. Sir Henry Angest and Andrew Salmon have service contracts with Arbuthnot Banking Group PLC and their details are disclosed in the financial statements of that company.

### Share Option Scheme

On 17 October 2011 the Company established The Secure Trust Bank Share Option Scheme (the "Share Scheme") which is administered by the Remuneration Committee. A detailed description of the Share Scheme, including Scheme Conditions, is contained in Note 27 of the financial statements.

The market price for each ordinary share at the Company's year-end was 3,288p. The highest and lowest market price for each ordinary share during the year was 3,385p and 2,740p respectively.

### Phantom Share Option Scheme

On 16 March 2015 the Remuneration Committee approved the establishment of a four year Phantom Share Option Scheme (the "Phantom Scheme"), to provide effective long-term incentive. Under the scheme, no actual shares would be issued by the Company, and those granted awards under it would be entitled to a payment by reference to the increase in the value of an ordinary share in the Company over an initial value determined by the Remuneration Committee. For those who are granted awards under the new scheme who were employed in November 2014, the four years commenced from that date and the initial value was set at £25 per ordinary

share, being the price at which the shares resulting from the exercise of the first tranche of share options under the Share Scheme were sold in November 2014. As at 31 December 2015 there were 326,917 (2014: nil) phantom share options awarded to scheme members. An accrual, based on the market price per ordinary share at the Company's year-end has been included in staff costs detailed in Note 8. The Phantom Scheme is, similarly to the Share Scheme, subject to the achievement of objective performance conditions as determined by the Remuneration Committee. The scheme is a cash settled long-term incentive scheme and operates to motivate, incentivise and assist in the retention of the services of individuals who are regarded as important to the successful performance of the business and increasing shareholder value.

#### Directors' emoluments

This part of the remuneration report is audited information.

The salaries of Sir Henry Angest and Andrew Salmon are paid by Arbutnot Banking Group PLC and

disclosed in the Arbutnot Banking Group PLC consolidated financial statements. The cost of the provision of the services of Sir Henry Angest and Andrew Salmon, of £60,000 and £45,000 respectively, have been recharged to the Company in accordance with the Services and Relationship Agreements created at the time of the IPO in 2011 (2014: £60,000 and £45,000 respectively).

The emoluments of the highest paid director were £1,459,000 for the year ended 31 December 2015 (2014: £3,671,000), including contributions made to a money purchase scheme of £35,000 (2014: £35,000).

Phantom Options of 187,500 and 31,250 were awarded to Paul Lynam and Neeraj Kapur respectively during 2015.

The benefits in kind include private medical health insurance and car allowances.

The Remuneration Committee carefully considers all factors in determining the bonuses awarded to directors each year.

The bonuses awarded to Neeraj Kapur and Paul Lynam by the Remuneration Committee were made in recognition of both the performance of the business as well as each individual's performance during the year. Under the existing bonus scheme 25% of their annual bonus is deferred each year and is paid out in the subsequent year following approval by the Remuneration Committee. The deferred part of the 2014 bonus has been approved and will be released in March 2016.

Retirement benefit contributions are being paid for two directors who served during 2015 (2014: Two).

#### Sir Henry Angest Chairman of the Remuneration Committee

16 March 2016



#### Directors' emoluments

	2015 £000	2014 £000
Salary and fee payments (including bonuses and benefits in kind)	2,091	1,674
Gains from the exercise of share options	–	5,659
Pension contributions	60	60
	<b>2,151</b>	<b>7,393</b>

	Salary/fees		Bonus		Benefits		Pension		Gains from the exercise of share options		Total	
	2015 £000	2014 £000	2015 £000	2014 £000	2015 £000	2014 £000	2015 £000	2014 £000	2015 £000	2014 £000	2015 £000	2014 £000
M Forsyth	55	42	–	–	–	–	–	–	–	–	55	42
N Kapur	275	213	175	150	22	18	25	25	–	629	497	1,035
P Lynam	900	600	500	500	24	21	35	35	–	2,515	1,459	3,671
P Marrow	85	80	–	–	–	–	–	–	–	–	85	80
A Salmon	–	–	–	–	–	–	–	–	–	2,515	–	2,515
C Sergeant	55	50	–	–	–	–	–	–	–	–	55	50
	<b>1,370</b>	<b>985</b>	<b>675</b>	<b>650</b>	<b>46</b>	<b>39</b>	<b>60</b>	<b>60</b>	<b>–</b>	<b>5,659</b>	<b>2,151</b>	<b>7,393</b>



# Independent Auditor's report

## to the members of Secure Trust Bank PLC

**We have audited the financial statements of Secure Trust Bank PLC for the year ended 31 December 2015 set out on pages 56 to 111.**

The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

In addition to our audit of the financial statements, the directors have engaged us to audit the information in the Directors' Remuneration Report that is described as having been audited, which the directors have decided to prepare (in addition to that required to be prepared) as if the company were required to comply with the requirements of Schedule 8 to The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI 2008 No. 410) made under the Companies Act 2006.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and, in respect of the separate opinion in relation to the Directors' Remuneration Report and reporting on corporate governance, on terms that have been agreed. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and, in respect of the separate opinion in relation to the Directors' Remuneration Report, those matters that we have agreed to state to them in our report, and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

### Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 47, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at [www.frc.org.uk/auditscopeukprivate](http://www.frc.org.uk/auditscopeukprivate).

### Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2015 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the EU;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006;
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

### Opinion on other matters prescribed by the Companies Act 2006 and under the terms of our engagement

In our opinion:

- the part of the Directors' Remuneration Report which we were engaged to audit has been properly prepared in accordance with Schedule 8 to The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 made under the Companies Act 2006, as if those requirements were to apply to the company; and
- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

### Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the Companies Act 2006 and under the terms of our engagement we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements and the part of the Directors' Remuneration Report which we were engaged to audit are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

**Andrew Walker**  
**(Senior Statutory Auditor)**  
for and on behalf of KPMG LLP,  
Statutory Auditor

Chartered Accountants  
One Snowhill  
Snow Hill Queensway  
Birmingham  
B4 6GH

16 March 2016



## Consolidated statement of comprehensive income

	Note	Year ended 31 December 2015 £million	Year ended 31 December 2014 £million
Interest receivable and similar income		100.5	63.4
Interest expense and similar charges		(21.6)	(14.2)
<b>Net interest income</b>	7	<b>78.9</b>	<b>49.2</b>
Fee and commission income		16.9	16.1
Fee and commission expense		(3.7)	(1.6)
<b>Net fee and commission income</b>		<b>13.2</b>	<b>14.5</b>
<b>Operating income</b>		<b>92.1</b>	<b>63.7</b>
Net impairment losses on loans and advances to customers		(16.8)	(8.7)
Operating expenses	8	(50.5)	(37.5)
<b>Profit before income tax</b>		<b>24.8</b>	<b>17.5</b>
Income tax expense	10	(5.5)	(3.6)
<b>Profit for the period – Continuing operations</b>		<b>19.3</b>	<b>13.9</b>
Profit for the period – Discontinued operations	33	9.4	6.6
<b>Profit for the period</b>		<b>28.7</b>	<b>20.5</b>
<b>Other comprehensive income, net of income tax:</b>			
Cash flow hedging reserve			
– Net amount transferred to profit or loss		–	0.4
<b>Other comprehensive income for the period, net of income tax</b>		<b>–</b>	<b>0.4</b>
<b>Total comprehensive income for the period</b>		<b>28.7</b>	<b>20.9</b>
<b>Profit attributable to:</b>			
<b>Equity holders of the Company</b>		<b>28.7</b>	<b>20.5</b>
<b>Total comprehensive income attributable to:</b>			
<b>Equity holders of the Company</b>		<b>28.7</b>	<b>20.9</b>
<b>Earnings per share for profit attributable to the equity holders of the Company during the period</b> (expressed in pence per share):			
Basic earnings per share - Continuing operations		106.1	82.8
Basic earnings per share - Discontinued operations		51.7	39.5
<b>Basic earnings per share</b>	11	<b>157.8</b>	<b>122.3</b>
Diluted earnings per share - Continuing operations		104.1	81.2
Diluted earnings per share - Discontinued operations		50.7	38.7
<b>Diluted earnings per share</b>	11	<b>154.8</b>	<b>119.9</b>

The notes on pages 63 to 111 are an integral part of these consolidated financial statements



## Consolidated statement of financial position

	Note	At 31 December 2015 £million	At 31 December 2014 £million
<b>ASSETS</b>			
Cash and balances at central banks		131.8	81.2
Loans and advances to banks	12	9.8	39.8
Loans and advances to customers	13	960.6	622.5
Debt securities held-to-maturity	15	3.8	16.3
Property, plant and equipment	18	8.5	8.1
Intangible assets	16	7.0	8.2
Deferred tax assets	24	0.3	1.0
Other assets	20	7.1	5.2
Assets held for sale	33	118.5	–
<b>Total assets</b>		<b>1,247.4</b>	<b>782.3</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Liabilities</b>			
Due to banks	21	35.0	15.9
Deposits from customers	22	1,033.1	608.4
Current tax liabilities		3.2	3.6
Other liabilities	23	26.2	29.5
Liabilities held for sale	33	8.7	–
<b>Total liabilities</b>		<b>1,106.2</b>	<b>657.4</b>
<b>Equity attributable to owners of the parent</b>			
Share capital	26	7.3	7.3
Share premium		79.3	79.3
Retained earnings		54.4	38.1
Revaluation reserve		0.2	0.2
<b>Total equity</b>		<b>141.2</b>	<b>124.9</b>
<b>Total liabilities and equity</b>		<b>1,247.4</b>	<b>782.3</b>

The financial statements on pages 56 to 111 were approved by the Board of Directors on 16 March 2016 and were signed on its behalf by:

**P Lynam**  
Chief Executive Officer

**N Kapur**  
Chief Financial Officer

The notes on pages 63 to 111 are an integral part of these consolidated financial statements



## Company statement of financial position

	Note	At 31 December 2015 £million	At 31 December 2014 £million
<b>ASSETS</b>			
Cash and balances at central banks		131.8	81.2
Loans and advances to banks	12	9.2	37.9
Loans and advances to customers	13	932.7	500.1
Debt securities held-to-maturity	15	3.8	16.3
Property, plant and equipment	18	4.2	3.7
Intangible assets	16	3.2	1.3
Investments	17	3.7	3.7
Deferred tax assets	24	0.6	0.3
Other assets	20	146.0	116.2
<b>Total assets</b>		<b>1,235.2</b>	<b>760.7</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Liabilities</b>			
Due to banks	21	36.4	15.9
Deposits from customers	22	1,033.1	608.4
Current tax liabilities		0.3	1.5
Other liabilities	23	30.2	22.2
<b>Total liabilities</b>		<b>1,100.0</b>	<b>648.0</b>
<b>Equity attributable to owners of the parent</b>			
Share capital	26	7.3	7.3
Share premium		79.3	79.3
Retained earnings		48.6	26.1
<b>Total equity</b>		<b>135.2</b>	<b>112.7</b>
<b>Total liabilities and equity</b>		<b>1,235.2</b>	<b>760.7</b>

The Company has elected to take the exemption under section 408 of the Companies Act 2006 not to present the parent company profit and loss account. The profit for the parent company for the year is presented in the Company Statement of Changes in Equity.

The financial statements on pages 56 to 111 were approved by the Board of Directors on 16 March 2016 and were signed on its behalf by:

**P Lynam**  
Chief Executive Officer

**N Kapur**  
Chief Financial Officer

Registered number: 00541132

The notes on pages 63 to 111 are an integral part of these consolidated financial statements



## Consolidated statement of changes in equity

	Share capital £million	Share premium £million	Revaluation reserve £million	Cash flow hedging reserve £million	Retained earnings £million	Total £million
<b>Balance at 1 January 2014</b>	6.3	28.2	0.2	(0.4)	27.3	61.6
<b>Total comprehensive income for the period</b>						
Profit for 2014	–	–	–	–	20.5	20.5
<b>Other comprehensive income, net of income tax</b>						
Cash flow hedging reserve						
– Net amount transferred to profit and loss	–	–	–	0.4	–	0.4
<b>Total other comprehensive income</b>	–	–	–	<b>0.4</b>	–	<b>0.4</b>
<b>Total comprehensive income for the period</b>	–	–	–	<b>0.4</b>	<b>20.5</b>	<b>20.9</b>
<b>Transactions with owners, recorded directly in equity</b>						
<b>Contributions by and distributions to owners</b>						
Dividends	–	–	–	–	(10.2)	(10.2)
Charge for share based payments	–	–	–	–	0.5	0.5
Issue of ordinary shares	1.0	52.3	–	–	–	53.3
Transaction costs on issue of shares	–	(1.2)	–	–	–	(1.2)
<b>Total contributions by and distributions to owners</b>	<b>1.0</b>	<b>51.1</b>	–	–	<b>(9.7)</b>	<b>42.4</b>
<b>Balance at 31 December 2014</b>	<b>7.3</b>	<b>79.3</b>	<b>0.2</b>	–	<b>38.1</b>	<b>124.9</b>
<b>Total comprehensive income for the period</b>						
Profit for 2015	–	–	–	–	28.7	28.7
<b>Total comprehensive income for the period</b>	–	–	–	–	<b>28.7</b>	<b>28.7</b>
<b>Transactions with owners, recorded directly in equity</b>						
<b>Contributions by and distributions to owners</b>						
Dividends	–	–	–	–	(12.6)	(12.6)
Charge for share based payments	–	–	–	–	0.2	0.2
<b>Total contributions by and distributions to owners</b>	–	–	–	–	<b>(12.4)</b>	<b>(12.4)</b>
<b>Balance at 31 December 2015</b>	<b>7.3</b>	<b>79.3</b>	<b>0.2</b>	–	<b>54.4</b>	<b>141.2</b>

The notes on pages 63 to 111 are an integral part of these consolidated financial statements



## Company statement of changes in equity

	Share capital £million	Share premium £million	Cash flow hedging reserve £million	Retained earnings £million	Total £million
<b>Balance at 1 January 2014</b>	6.3	28.2	(0.4)	12.8	46.9
<b>Total comprehensive income for the period</b>					
Profit for 2014	–	–	–	23.0	23.0
Cash flow hedging reserve – Net amount transferred to profit or loss	–	–	0.4	–	0.4
<b>Total other comprehensive income</b>	–	–	<b>0.4</b>	–	<b>0.4</b>
<b>Total comprehensive income for the period</b>	–	–	<b>0.4</b>	<b>23.0</b>	<b>23.4</b>
<b>Transactions with owners, recorded directly in equity</b>					
<b>Contributions by and distributions to owners</b>					
Dividends	–	–	–	(10.2)	(10.2)
Charge for share based payments	–	–	–	0.5	0.5
Issue of ordinary shares	1.0	52.3	–	–	53.3
Transaction costs on issue of shares	–	(1.2)	–	–	(1.2)
<b>Total contributions by and distributions to owners</b>	<b>1.0</b>	<b>51.1</b>	–	<b>(9.7)</b>	<b>42.4</b>
<b>Balance at 31 December 2014</b>	<b>7.3</b>	<b>79.3</b>	–	<b>26.1</b>	<b>112.7</b>
<b>Total comprehensive income for the period</b>					
Profit for 2015	–	–	–	34.9	34.9
<b>Total comprehensive income for the period</b>	–	–	–	<b>34.9</b>	<b>34.9</b>
<b>Transactions with owners, recorded directly in equity</b>					
<b>Contributions by and distributions to owners</b>					
Dividends	–	–	–	(12.6)	(12.6)
Charge for share based payments	–	–	–	0.2	0.2
<b>Total contributions by and distributions to owners</b>	–	–	–	<b>(12.4)</b>	<b>(12.4)</b>
<b>Balance at 31 December 2015</b>	<b>7.3</b>	<b>79.3</b>	–	<b>48.6</b>	<b>135.2</b>

The notes on pages 63 to 111 are an integral part of these consolidated financial statements



## Consolidated statement of cash flows

	Note	Year ended 31 December 2015 £million	Year ended 31 December 2014 £million
<b>Cash flows from operating activities</b>			
Profit for the year		19.3	13.9
Adjustments for:			
Income tax expense	10	5.5	3.6
Depreciation of property, plant and equipment	18	0.5	0.4
Amortisation of intangible assets	16	1.3	1.2
Impairment losses on loans and advances to customers		16.8	8.7
Share based compensation		0.2	0.5
Cash flows from operating profits before changes in operating assets and liabilities		43.6	28.3
Changes in operating assets and liabilities:			
- net decrease in debt securities held to maturity		12.5	-
- net decrease/(increase) in loans and advances to banks		15.0	(11.3)
- net increase in loans and advances to customers		(448.8)	(227.7)
- net (increase)/decrease in other assets		(2.6)	2.9
- net increase in amounts due to banks		19.1	15.8
- net increase in deposits from customers		424.7	171.8
- net decrease in other liabilities		(6.0)	(1.3)
Income tax paid		(4.2)	(0.8)
<b>Net cash inflow/(outflow) from operating activities</b>		<b>53.3</b>	<b>(22.3)</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	18	(1.1)	(3.5)
Purchase of computer software	16	(2.3)	(0.8)
<b>Net cash flows from investing activities</b>		<b>(3.4)</b>	<b>(4.3)</b>
<b>Cash flows from financing activities</b>			
Net inflow on issue of share capital		-	52.1
Dividends paid		(12.6)	(10.2)
<b>Net cash flows from financing activities</b>		<b>(12.6)</b>	<b>41.9</b>
<b>Net increase in cash and cash equivalents - Continuing operations</b>		<b>37.3</b>	<b>15.3</b>
Net increase in cash and cash equivalents - Discontinued operations		-	0.7
Cash and cash equivalents at 1 January		106.0	90.0
<b>Cash and cash equivalents at 31 December</b>	28	<b>143.3</b>	<b>106.0</b>

The notes on pages 63 to 111 are an integral part of these consolidated financial statements



## Company statement of cash flows

	Note	Year ended 31 December 2015 £million	Year ended 31 December 2014 £million
<b>Cash flows from operating activities</b>			
Profit for the year		34.9	23.0
Adjustments for:			
Income tax expense		2.0	4.8
Depreciation of property, plant and equipment	18	0.3	0.2
Amortisation of intangible assets	16	0.3	0.3
Impairment losses on loans and advances to customers		17.1	8.7
Share based compensation		0.2	0.5
Cash flows from operating profits before changes in operating assets and liabilities		54.8	37.5
Changes in operating assets and liabilities:			
– net decrease in debt securities held to maturity		12.5	–
– net decrease/(increase) in loans and advances to banks		15.0	(11.3)
– net increase in loans and advances to customers		(449.7)	(224.9)
– net increase in other assets		(29.8)	(15.2)
– net increase in amounts due to banks		20.5	15.8
– net increase in deposits from customers		424.7	171.8
– net increase in other liabilities		7.7	7.0
Income tax paid		(3.2)	(2.9)
<b>Net cash inflow/(outflow) from operating activities</b>		<b>52.5</b>	<b>(22.2)</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	18	(0.8)	(3.4)
Purchase of computer software	16	(2.2)	(0.7)
<b>Net cash flows from investing activities</b>		<b>(3.0)</b>	<b>(4.1)</b>
<b>Cash flows from financing activities</b>			
Net inflow on issue of share capital		–	52.1
Dividends paid		(12.6)	(10.2)
<b>Net cash flows from financing activities</b>		<b>(12.6)</b>	<b>41.9</b>
<b>Net increase in cash and cash equivalents</b>		<b>36.9</b>	<b>15.6</b>
Cash and cash equivalents at 1 January		104.1	88.5
<b>Cash and cash equivalents at 31 December</b>	28	<b>141.0</b>	<b>104.1</b>

The notes on pages 63 to 111 are an integral part of these consolidated financial statements



# Notes to the consolidated financial statements

## 1. Accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

### 1.1 Reporting entity

Secure Trust Bank PLC is a company incorporated in the United Kingdom (referred to as 'the Company'). The registered address of the Company is One Arleston Way, Solihull, West Midlands, B90 4LH. The consolidated financial statements of the Company as at and for the year ended 31 December 2015 comprise Secure Trust Bank PLC and its subsidiaries (together referred to as 'the Group' and individually as 'subsidiaries'). The Group is primarily involved in banking and financial services.

### 1.2 Basis of presentation

The Group's consolidated financial statements and the Company's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs as adopted or early adopted by the Group and endorsed by the EU) and the Companies Act 2006 applicable to companies reporting under IFRS. They have been prepared under the historical cost convention, as modified by the revaluation of land and buildings and financial instruments at fair value through profit or loss. The consolidated financial statements are presented in pounds sterling, which is the Group's functional and presentational currency.

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

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

The consolidated financial statements were authorised for issue by the Board of Directors on 16 March 2016.

The following International Financial Reporting Standards have been issued which are not yet effective and which have not been adopted early:

- IFRS 9 'Financial instruments' (effective for annual periods beginning after 1 January 2018). This is the IASB's replacement of IAS 39 'Financial Instruments: Recognition and Measurement'. Phase one of this standard deals with the classification and measurement of financial assets and represents a significant change from the existing requirements in IAS 39. The standard contains three primary measurement categories for financial assets: 'amortised cost', 'fair value through other comprehensive income' and 'fair value through profit or loss' and eliminates the existing categories of 'held to maturity', 'available for sale' and 'loans and receivables'. Phase two of the standard covers impairment, with a new expected loss impairment model that will require expected credit losses to be accounted for from when financial instruments are first recognised and lowers the threshold for the recognition of full lifetime expected losses. Phase three covers general hedge accounting and introduces a substantially reformed model for hedge accounting with enhanced disclosure about risk management activity. The new model aligns the accounting treatment with risk management activities. The expected impact of this standard on the Group is set out in Principal risks and uncertainties beginning on page 34.
- IFRS 15 'Revenue from contracts with customers' (effective for annual periods beginning after 1 January 2018). This standard replaces a number of existing standards and interpretations and applies to contracts with customers, but does not apply to insurance contracts, financial instruments or lease contracts, which are in the scope of other IFRSs. It also does not apply if two companies in the same line of business exchange non-monetary assets to facilitate sales to other parties. The standard specifies how and when an IFRS reporter will recognise revenue as well as requiring such entities to provide users of financial statements with more informative relevant disclosures. It introduces a new revenue recognition model that recognises revenue either at a point in time or over time. The model features a principles-based five-step model to be applied to all contracts with customers. This standard is unlikely to have a material impact on the Group.



## Notes to the consolidated financial statements continued

### 1. Accounting policies *continued*

- IFRS 16, 'Leases' (effective from 1 January 2019). The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract i.e. the customer ('lessee') and the supplier ('lessor'). IFRS 16 replaces the previous leases standard, IAS 17 Leases, and related interpretations. IFRS 16 eliminates the classification of leases as either operating leases or finance leases for a lessee. Instead all leases are treated in a similar way to finance leases applying IAS 17. Leases are 'capitalised' by recognising the present value of the lease payments and showing them either as lease assets (right-of-use assets) or together with property, plant and equipment. If lease payments are made over time, a company also recognises a financial liability representing its obligation to make future lease payments. The most significant effect of the new requirements in IFRS 16 will be an increase in lease assets and financial liabilities. Accordingly, for companies with material off balance sheet leases, there will be a change to key financial metrics derived from the company's assets and liabilities (for example, leverage ratios).

The above standards have not yet been endorsed by the EU.

### 1.3 Consolidation

#### *Subsidiaries*

Subsidiaries are all investees controlled by the Group. The Group controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Subsidiaries are fully consolidated from the date on which control is transferred to the Group.

The acquisition method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the Statement of Comprehensive Income.

The parent company's investments in subsidiaries are recorded at cost less, where appropriate, provision for impairment in value.

Inter-company transactions, balances and unrealised gains and losses on transactions between Group companies are eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

#### *Non-current assets held for sale and discontinued operations*

Subsidiaries are de-consolidated from the date that control ceases. Under IFRS 5, the Group classifies a non-current asset as held-for-sale if its carrying amount will be recovered mainly through selling the asset rather than through usage. The classification also applies to disposal groups, which are a group of assets and liabilities which an entity intends to dispose of in a single transaction.

The conditions for a non-current asset or disposal group to be classified as held-for-sale are as follows:

- the assets must be available for immediate sale in their present condition and its sale must be highly probable;
- the asset must be currently marketed actively at a price that is reasonable in relation to its current fair value;
- the sale should be completed, or expected to be so, within a year from the date of the classification; and
- the actions required to complete the planned sale will have been made, and it is unlikely that the plan will be significantly changed or withdrawn.

## 1. Accounting policies *continued*

### 1.4 Interest income and expense

Interest income and expense are recognised in the Statement of Comprehensive Income for all instruments measured at amortised cost and held to maturity using the effective interest method.

The effective interest method calculates the amortised cost of a financial asset or a financial liability and allocates the interest income or interest expense over the relevant period. The effective interest rate is the rate that discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group takes into account all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

### 1.5 Net fee and commission income

Fees and commissions which are not considered integral to the effective interest rate are generally recognised on an accruals basis when the service has been provided. Fees and commissions income consists principally of weekly and monthly fees from the OneBill and Current Account products, arrears fees in the Everyday Loans business along with associated insurance commissions and commissions earned on debt collection activities in the Debt Managers business. Fee and commission expenses consist primarily of fees and commission relating to the Current Account product.

### 1.6 Financial assets and financial liabilities

The Group classifies its financial assets at fair value through profit or loss, loans and receivables or held-to-maturity and classifies its financial liabilities as other financial liabilities. Management determines the classification of its investments at initial recognition. A financial asset or financial liability is measured initially at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue.

#### *(a) Financial assets at fair value through profit or loss*

This category comprises derivative financial instruments which are utilised by the Group for hedging purposes. Financial assets at fair value through profit or loss are initially recognised on the date from which the Group becomes a party to the contractual provisions of the instrument. Subsequent measurement of financial assets held in this category are carried at fair value through profit or loss.

#### *(b) Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable. Loans are recognised when the funds are advanced to customers. Loans and receivables are carried at amortised cost using the effective interest method (see below).

#### *(c) Held-to-maturity*

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. Held-to-maturity investments are carried at amortised cost using the effective interest method.

#### *(d) Other financial liabilities*

Other financial liabilities are non-derivative financial liabilities with fixed or determinable payments. Other financial liabilities are recognised when cash is received from the depositors. Other financial liabilities are carried at amortised cost using the effective interest method. The fair value of other liabilities repayable on demand is assumed to be the amount payable on demand at the Statement of Financial Position date.



## Notes to the consolidated financial statements continued

### 1. Accounting policies *continued*

#### *Derecognition*

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Group has transferred substantially all of the risks and rewards of ownership. In transactions in which the Group neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset and it retains control over the asset, the Group continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset. There have not been any instances where assets have only been partially derecognised. The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expire.

#### *Amortised cost measurement*

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition, minus principal payments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

#### *Fair value measurement*

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of assets and liabilities traded in active markets are based on current bid and offer prices respectively. If the market for a financial instrument is not active the Group establishes a fair value by using an appropriate valuation technique. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same for which market observable prices exist, net present value and discounted cash flow analysis.

### 1.7 Foreign currencies

Transactions in foreign currencies are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated into the Company's functional currency at the rates prevailing on the balance sheet date. Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in the profit and loss account for the period.

### 1.8 Derivative financial instruments and hedge accounting

For the Group, these comprise cash flow hedges. These are recognised at their fair value and are shown in the Statement of Financial Position as assets when their face value is positive and as liabilities when their face value is negative.

Cash flow hedges are used to hedge against fluctuations in future cash flows from interest rate movements on variable rate customer deposits. On initial purchase the derivative is valued at fair value and then the effective portion of the change in the fair value of the hedging instrument is recognised in equity (cash flow hedging reserve) until the gain or loss on the hedged items is realised, when it is amortised; the ineffective portion of the hedging instrument is recognised immediately in profit or loss.

On initial designation of the hedge, the Group formally documents the relationship between the hedging instruments and the hedged items, including the risk management objective and strategy in undertaking the hedge, together with the method that will be used to assess the effectiveness of the hedging relationship. The Group makes an assessment, both at the inception of the hedge relationship as well as on an ongoing basis, as to whether the hedging instruments are expected to be highly effective in offsetting the changes in the fair value or cash flows of the respective hedged items during the period for which the hedge is designated, and whether the actual results of each hedge are within a range of 80-125%. The Group makes an assessment for a cash flow hedge of a forecast transaction, as to whether the forecast transaction is highly probable to occur and presents an exposure to variations in cash flows that could ultimately affect profit or loss.

If a hedging derivative expires or is sold, terminated, or exchanged, or the hedge no longer meets the criteria for cash flow hedge accounting, or the hedge designation is revoked, then hedge accounting is discontinued prospectively. In a discontinued hedge of a forecast transaction the cumulative amount recognised in other comprehensive income from the period when the hedge was effective is reclassified from equity to profit or loss as a reclassification adjustment when the forecast transaction occurs and affects profit or loss. If the forecast transaction is no longer expected to occur, then the balance in other comprehensive income is reclassified immediately to profit or loss as a reclassification adjustment.

## 1. Accounting policies *continued*

### 1.9 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the Statement of Financial Position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

### 1.10 Impairment of financial assets

#### *Assets carried at amortised cost*

On an ongoing basis the Group assesses whether there is objective evidence that a financial asset or group of financial assets is impaired. Objective evidence is the occurrence of a loss event, after the initial recognition of the asset, that impacts on the estimated future cash flows of the financial asset or group of financial assets, and can be reliably estimated.

The criteria that the Group uses to determine that there is objective evidence of an impairment loss include, but are not limited to, the following:

- Delinquency in contractual payments of principal or interest;
- Breach of financial covenants or contractual obligations;
- Cash flow difficulties experienced by the borrower; and
- Initiation of bankruptcy proceedings.

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the Statement of Comprehensive Income. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

The Group considers evidence of impairment for loans and advances at both a specific asset and collective level. All individually significant loans and advances are assessed for specific impairment. Those found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. In assessing collective impairment the Group uses historical trends of the probability of default, emergence period, the timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be significantly different to historic trends.

When a loan is uncollectible, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of the provision for loan impairment in the Statement of Comprehensive Income.

A customer's account may be modified to assist customers who are in or have recently overcome financial difficulties and have demonstrated both the ability and willingness to meet the current or modified loan contractual payments. Loans that have renegotiated or deferred terms, resulting in a substantial modification to the cash flows, are no longer considered to be past due but are treated as new loans recognised at fair value, provided the customers comply with the renegotiated or deferred terms.

### 1.11 Intangible assets

#### *(a) Goodwill*

Goodwill represents the excess of the cost of the acquisition over the fair value of the Group's share of the net identifiable assets acquired at the date of acquisition. Goodwill is held at cost less accumulated impairment losses and is deemed to have an infinite life.

The Group reviews the goodwill for impairment at least annually or when events or changes in economic circumstances indicate that impairment may have taken place. Impairment losses are recognised in the Statement of Comprehensive Income if the carrying amount exceeds the recoverable amounts.



## Notes to the consolidated financial statements continued

### 1. Accounting policies *continued*

#### (b) Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised on the basis of the expected useful lives, which are between three to ten years.

Costs associated with developing or maintaining computer software programs are recognised as an expense as incurred unless it is probable that the expenditure will enable the asset to generate future economic benefits in excess of its originally assessed standard of performance.

#### (c) Other intangibles

The acquisition of subsidiaries is accounted for in accordance with IFRS 3 'Business Combinations', which requires the recognition of the identifiable assets acquired and liabilities assumed at their acquisition date fair values. As part of this process, it is necessary to recognise certain intangible assets which are separately identifiable and which are not included on the acquiree's balance sheet.

Other intangible assets include trademarks, customer relationships, broker relationships and technology. The intangible assets recognised as part of the Everyday Loans and V12 Finance Group acquisitions have been recorded at fair value and are being amortised over their expected useful lives, which are between five and ten years, apart from Everyday Loans broker relationships, which are being amortised over three years. The intangible asset relating to Everyday Loans has been reclassified as an asset held for sale and has not been amortised since the conditional sale was agreed.

#### 1.12 Property, plant and equipment

Property is held at historic cost as modified by subsequent revaluations less depreciation. The Group has elected under IAS 16.31 to measure its property at fair value. Revaluations are kept up to date such that the carrying amount does not differ materially from its fair value as required by IAS 16.34. Revaluation of assets and any subsequent disposal are addressed through the revaluation reserve and any changes are transferred to retained earnings.

Plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Depreciation is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, which are subject to regular review:

Land	not depreciated
Freehold buildings	50 years
Leasehold improvements	shorter of life of lease or 7 years
Computer equipment	3 to 5 years
Other equipment	5 to 10 years

Gains and losses on disposals are determined by comparing proceeds with carrying amounts. These are included in the Statement of Comprehensive Income.

#### 1.13 Leases

##### (a) As a lessor

Assets leased to customers under agreements which transfer substantially all the risks and rewards of ownership, with or without ultimate legal title, are classified as finance leases. When assets are held subject to finance leases, the present value of the lease payments is recognised as a receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. Lease income is recognised over the term of the lease using the net investment method, which reflects a constant periodic rate of return.

##### (b) As a lessee

Rentals made under operating leases are recognised in the Statement of Comprehensive Income on a straight-line basis over the term of the lease.

## 1. Accounting policies *continued*

### 1.14 Cash and cash equivalents

For the purposes of the Statement of Cash Flows, cash and cash equivalents comprise cash in hand and demand deposits, and cash equivalents comprise highly liquid investments which are convertible into cash with an insignificant risk of changes in value with a maturity of three months or less at the date of acquisition, including certain loans and advances to banks and short-term highly liquid debt securities.

### 1.15 Employee benefits

#### *(a) Post-retirement obligations*

The Group contributes to defined contribution schemes for the benefit of certain employees. The schemes are funded through payments to insurance companies or trustee-administered funds at the contribution rates agreed with individual employees. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as an employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available. There are no post-retirement benefits other than pensions.

#### *(b) Share-based compensation*

The fair value of equity settled share-based payment awards are calculated at grant date and recognised over the period in which the employees become unconditionally entitled to the awards (the vesting period). The amount is recognised as personnel expenses in profit and loss, with a corresponding increase in equity. The Group adopts a Black-Scholes valuation model in calculating the fair value of the share options as adjusted for an attrition rate of members of the scheme and a probability of pay-out reflecting the risk of not meeting the terms of the scheme over the vesting period. The number of share options that are expected to vest are reviewed at least annually.

The fair value of cash settled share-based payments is recognised as personnel expenses in the profit or loss with a corresponding increase in liabilities over the vesting period. The liability is remeasured at each reporting date and at settlement date based on the fair value of the options granted, with a corresponding adjustment to personnel expenses.

When share-based payments are changed from cash settled to equity settled and there is no change in the fair value of the replacement award, it is seen as a modification to the terms and conditions on which the equity instruments were granted and is not seen as the settlement and replacement of the instruments. Accordingly, the liability in the Statement of Financial Position is reclassified to equity and the prospective charge to the profit or loss from the modification reflects the spreading of the initial grant date fair value of the award over the remaining vesting period in line with the policy on equity settled awards.

### 1.16 Share issue costs

Incremental costs directly attributable to the issue of an equity instrument are deducted from the initial measurement of the equity instruments. Costs associated with the listing of shares are expensed immediately.

### 1.17 Taxation

Current income tax which is payable on taxable profits is recognised as an expense in the period in which the profits arise.

Deferred tax is provided in full on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the Statement of Financial Position date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets and liabilities, and they relate to taxes levied by the same tax authority on the same taxable entity, or on different tax entities, when they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

Deferred tax assets are recognised where it is probable that future taxable profits will be available against which the temporary differences can be utilised.



## Notes to the consolidated financial statements

### continued

#### 1. Accounting policies *continued*

##### 1.18 Dividends

Dividends on ordinary shares are recognised in equity in the period in which they are approved.

##### 1.19 Significant items

Items which are material by both size and nature (i.e. outside of the normal operating activities of the Group) are treated as significant items and disclosed separately on the face of the Statement of Comprehensive Income. The separate reporting of these items helps to provide an indication of the Group's underlying business performance.

##### 1.20 Funding for Lending Scheme

Under the applicable International Accounting Standard, IAS 39, if a security is lent under an agreement to return it to the transferor, as is the case for eligible securities lent by institutions to the Bank of England under the FLS, then the security is not derecognised because the transferor retains all the risks and rewards of ownership. The UK Treasury Bills borrowed from the Bank of England under the FLS are not recognised on the Statement of Financial Position of the institution until such time as they are subject to a repurchase agreement with a third party, as they will not meet the criteria for derecognition by the Bank of England. When the UK Treasury Bills are pledged as part of a sale and repurchase agreement with a third party, amounts borrowed from the third party are recognised on the Statement of Financial Position.

#### 2. Critical judgements and estimates

The Group makes certain judgements and estimates which affect the reported amounts of assets and liabilities. Critical judgements and the assumptions used in calculating estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

##### 2.1 Impairment losses on loans and advances to customers

The Group reviews its loan portfolios to assess impairment at least on a half-yearly basis. The basis for evaluating impairment losses is described in accounting policy 1.10. In determining whether an impairment loss should be recorded in the Statement of Comprehensive Income, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio.

This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the Group. Loans and advances are identified as impaired by taking account of the age of the debt's delinquency and the product type.

The impairment provision is calculated by applying a percentage rate to the balance of different ages and categories of impaired debt. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and recent actual loss experience.

Within the Real Estate Finance and Asset Finance businesses, accounts which are impaired are assessed against the discounted cashflows expected to arise in order to identify any impairment provisions. Collective provisions are assessed only to the extent that there is sufficient data to justify an inherent level of losses within the current portfolios.

For specific Invoice Finance clients assessment is made as to the collectability of outstanding invoices in relation to the amounts lent against them. If there is a deficit against outstanding invoices then other security is considered in terms of value and collectability. If there is an overall shortfall then the unsecured amount is assessed as to whether a provision is required. For collective provisions a view of the overall level of non-collectability in the portfolio is taken. The level of provision required is under review as the product is new to the Bank therefore data is developing, so we have estimated a level appropriate based on other data available in the industry.

Where financial assets are individually evaluated for impairment, management uses their best estimates in calculating the net present value of future cash flows. Management has to make judgements on the financial position of the counterparty and the net realisable value of collateral (where held), in determining the expected future cash flows.

In assessing collective impairment the Group uses historical trends of the probability of default, the timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be significantly different to historic trends.

## 2. Critical judgements and estimates *continued*

As described in Note 1.10, certain customers' accounts may be modified to such an extent that they are no longer considered to be past due but, rather, are treated as new loans. There is judgement involved in determining the level of modification that results in this reassessment and with regard to the fair value at which the renegotiated loans are recorded. The Group makes these judgements based on analyses of the loans involved and consideration of market rates of interest.

To the extent that the default rates differ from those estimated by 10%, the allowance for impairment on loans and advances would change by an estimated £5.1 million.

### 2.2 Share Option Scheme valuations

The valuation of the equity settled Share Option Scheme was determined at the original grant date of 2 November 2011 using Black-Scholes valuation models. In the opinion of the directors the terms of the scheme are such that there remains a number of key uncertainties to be considered when calculating the probability of pay-out, which are set out below. The directors also considered the probability of option holder attrition prior to the vesting dates, details of which are also set out below.

Uncertainties in the regulatory environment continue. Any tightening of capital requirements will impact on the ability of the Company to exploit future market opportunities and furthermore may inhibit its ability to maintain the required growth in distributions. Taking these into account, the probability of pay-out has been judged as 100% for the remaining share options (SOS2) which vest on 2 November 2016.

Although one participant in the Share Option Scheme left the Company during 2012 and was consequently withdrawn from the Scheme, the directors consider that there is no further uncertainty surrounding whether the remaining participants will all still be in situ and eligible at the vesting date. Therefore the directors have assumed no attrition rate for the remaining share options over the scheme period.

The valuation of the cash settled Share Option Scheme was determined at 31 December 2015 using Black-Scholes valuation models. In the opinion of the directors the terms of the scheme are such that there remains a number of key uncertainties to be considered when calculating the probability of pay-out, which are considered to be similar to those set out above.

### 2.3 Average life of lending

IAS 39 requires interest earned from lending to be measured under the effective interest rate method. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset.

Management must therefore use judgement to estimate the expected life of each instrument and hence the expected cash flows relating to it. The accuracy of these estimates would therefore be affected by unexpected market movements resulting in altered customer behaviour, inaccuracies in the models used compared to actual outcomes and incorrect assumptions.

### 2.4 PPI Provisioning

The Group provides for its best estimate of redress payable in respect of historical sales of PPI, by considering the likely future uphold rate for claims, in the context of confirmed issues and historical experience. The likelihood of potential new claims is projected forward to 2018, as management believe this to be an appropriate time horizon, recognising the significant decline in recent claims experience and the increasing subjectivity beyond that. 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. The amounts are included within accruals.



## Notes to the consolidated financial statements

### continued

### 3. Maturity analysis of consolidated assets and liabilities

The table below shows the contractual maturity analysis of the Group's assets and liabilities as at 31 December 2015:

At 31 December 2015	Due within one year £million	Due after more than one year £million	Total £million
<b>ASSETS</b>			
Cash and balances at central banks	131.8	–	131.8
Loans and advances to banks	9.8	–	9.8
Loans and advances to customers	439.7	520.9	960.6
Debt securities held-to-maturity	3.8	–	3.8
Property, plant and equipment	–	8.5	8.5
Intangible assets	–	7.0	7.0
Deferred tax assets	–	0.3	0.3
Other assets	7.1	–	7.1
Assets held for sale	118.5	–	118.5
<b>Total assets</b>	<b>710.7</b>	<b>536.7</b>	<b>1,247.4</b>
<b>LIABILITIES</b>			
Due to banks	35.0	–	35.0
Deposits from customers	563.3	469.8	1,033.1
Current tax liabilities	3.2	–	3.2
Other liabilities	22.5	3.7	26.2
Liabilities held for sale	8.7	–	8.7
<b>Total liabilities</b>	<b>632.7</b>	<b>473.5</b>	<b>1,106.2</b>

The table below shows the contractual maturity analysis of the Group's assets and liabilities as at 31 December 2014:

At 31 December 2014	Due within one year £million	Due after more than one year £million	Total £million
<b>ASSETS</b>			
Cash and balances at central banks	81.2	–	81.2
Loans and advances to banks	39.8	–	39.8
Loans and advances to customers	220.7	401.8	622.5
Debt securities held-to-maturity	16.3	–	16.3
Property, plant and equipment	–	8.1	8.1
Intangible assets	–	8.2	8.2
Deferred tax assets	1.0	–	1.0
Other assets	5.2	–	5.2
<b>Total assets</b>	<b>364.2</b>	<b>418.1</b>	<b>782.3</b>
<b>LIABILITIES</b>			
Due to banks	15.9	–	15.9
Deposits from customers	342.4	266.0	608.4
Current tax liabilities	3.6	–	3.6
Other liabilities	25.2	4.3	29.5
<b>Total liabilities</b>	<b>387.1</b>	<b>270.3</b>	<b>657.4</b>

The directors do not consider that the behavioural maturity is significantly different to the contractual maturity.

### 3. Maturity analysis of consolidated assets and liabilities *continued*

The table below shows the contractual maturity analysis of the Company's assets and liabilities as at 31 December 2015:

At 31 December 2015	Due within one year £million	Due after more than one year £million	Total £million
<b>ASSETS</b>			
Cash and balances at central banks	131.8	–	131.8
Loans and advances to banks	9.2	–	9.2
Loans and advances to customers	423.2	509.5	932.7
Debt securities held-to-maturity	3.8	–	3.8
Property, plant and equipment	–	4.2	4.2
Intangible assets	–	3.2	3.2
Investments	–	3.7	3.7
Deferred tax assets	–	0.6	0.6
Other assets	146.0	–	146.0
<b>Total assets</b>	<b>714.0</b>	<b>521.2</b>	<b>1,235.2</b>
<b>LIABILITIES</b>			
Due to banks	36.4	–	36.4
Deposits from customers	563.3	469.8	1,033.1
Current tax liabilities	0.3	–	0.3
Other liabilities	30.2	–	30.2
<b>Total liabilities</b>	<b>630.2</b>	<b>469.8</b>	<b>1,100.0</b>

The table below shows the contractual maturity analysis of the Company's assets and liabilities as at 31 December 2014:

At 31 December 2014	Due within one year £million	Due after more than one year £million	Total £million
<b>ASSETS</b>			
Cash and balances at central banks	81.2	–	81.2
Loans and advances to banks	37.9	–	37.9
Loans and advances to customers	172.8	327.3	500.1
Debt securities held-to-maturity	16.3	–	16.3
Property, plant and equipment	–	3.7	3.7
Intangible assets	–	1.3	1.3
Investments	–	3.7	3.7
Deferred tax asset	–	0.3	0.3
Other assets	116.2	–	116.2
<b>Total assets</b>	<b>424.4</b>	<b>336.3</b>	<b>760.7</b>
<b>LIABILITIES</b>			
Due to banks	15.9	–	15.9
Deposits from customers	342.4	266.0	608.4
Current tax liabilities	1.5	–	1.5
Other liabilities	22.2	–	22.2
<b>Total liabilities</b>	<b>382.0</b>	<b>266.0</b>	<b>648.0</b>

The directors do not consider that the behavioural maturity is significantly different to the contractual maturity.



## Notes to the consolidated financial statements

### continued

#### 4. Classification of financial assets and liabilities

The tables below set out the Group's financial assets and financial liabilities into the respective classifications:

At 31 December 2015	Held to maturity £million	Loans and receivables £million	Other financial assets and liabilities £million	Total carrying amount £million	Fair value £million	Fair value hierarchy level
Cash and balances at central banks	–	131.8	–	131.8	131.8	Level 1
Loans and advances to banks	–	9.8	–	9.8	9.8	Level 2
Loans and advances to customers	–	960.6	–	960.6	960.6	Level 3
Debt securities held-to-maturity	3.8	–	–	3.8	3.8	Level 1
Other financial assets	–	–	2.9	2.9	2.9	Level 3
Assets held for sale	–	–	118.5	118.5	118.5	Level 3
	<b>3.8</b>	<b>1,102.2</b>	<b>121.4</b>	<b>1,227.4</b>	<b>1,227.4</b>	
Due to banks	–	–	35.0	35.0	35.0	Level 2
Deposits from customers	–	–	1,033.1	1,033.1	1,033.1	Level 3
Other financial liabilities	–	–	13.8	13.8	13.8	Level 3
Liabilities held for sale	–	–	8.7	8.7	8.7	Level 3
	<b>–</b>	<b>–</b>	<b>1,090.6</b>	<b>1,090.6</b>	<b>1,090.6</b>	

At 31 December 2014	Held to maturity £million	Loans and receivables £million	Other financial assets and liabilities £million	Total carrying amount £million	Fair value £million	Fair value hierarchy level
Cash	–	81.2	–	81.2	81.2	Level 1
Loans and advances to banks	–	39.8	–	39.8	39.8	Level 2
Loans and advances to customers	–	622.5	–	622.5	630.1	Level 3
Debt securities held-to-maturity	16.3	–	–	16.3	16.3	Level 1
	<b>16.3</b>	<b>743.5</b>	<b>–</b>	<b>759.8</b>	<b>767.4</b>	
Due to banks	–	–	15.9	15.9	15.9	Level 2
Deposits from customers	–	–	608.4	608.4	617.7	Level 3
Other financial liabilities	–	–	17.8	17.8	17.8	Level 3
	<b>–</b>	<b>–</b>	<b>642.1</b>	<b>642.1</b>	<b>651.4</b>	

All assets and liabilities are carried at amortised cost. Therefore the fair value hierarchy noted above relates to the disclosure in this note only.

The directors consider that the fair value of financial assets and liabilities is not materially different to their carrying value, with the exception of assets and liabilities held for sale, which are disclosed in note 33.

#### 4. Classification of financial assets and liabilities *continued*

The tables below set out the Company's financial assets and financial liabilities into the respective classifications:

At 31 December 2015	Held to maturity £million	Loans and receivables £million	Other financial assets and liabilities £million	Total carrying amount £million	Fair value £million	Fair value hierarchy level
Cash and balances at central banks	–	131.8	–	131.8	131.8	Level 1
Loans and advances to banks	–	9.2	–	9.2	9.2	Level 2
Loans and advances to customers	–	932.7	–	932.7	932.7	Level 3
Debt securities held-to-maturity	3.8	–	–	3.8	3.8	Level 1
Other financial assets	–	–	142.7	142.7	142.7	Level 3
	<b>3.8</b>	<b>1,073.7</b>	<b>142.7</b>	<b>1,220.2</b>	<b>1,220.2</b>	
Due to banks	–	–	36.4	36.4	36.4	Level 2
Deposits from customers	–	–	1,033.1	1,033.1	1,033.1	Level 3
Other financial liabilities	–	–	8.3	8.3	8.3	Level 3
	<b>–</b>	<b>–</b>	<b>1,077.8</b>	<b>1,077.8</b>	<b>1,077.8</b>	
At 31 December 2014	Held to maturity £million	Loans and receivables £million	Other financial assets and liabilities £million	Total carrying amount £million	Fair value £million	Fair value hierarchy level
Cash and balances at central banks	–	81.2	–	81.2	81.2	Level 1
Loans and advances to banks	–	37.9	–	37.9	37.9	Level 2
Loans and advances to customers	–	500.1	–	500.1	507.6	Level 3
Debt securities held-to-maturity	16.3	–	–	16.3	16.3	Level 1
	<b>16.3</b>	<b>619.2</b>	<b>–</b>	<b>635.5</b>	<b>643.0</b>	
Due to banks	–	–	15.9	15.9	15.9	Level 2
Deposits from customers	–	–	608.4	608.4	617.7	Level 3
Other financial liabilities	–	–	15.5	15.5	15.5	Level 3
	<b>–</b>	<b>–</b>	<b>639.8</b>	<b>639.8</b>	<b>649.1</b>	

All assets and liabilities are carried at amortised cost. Therefore the fair value hierarchy noted above relates to the disclosure in this note only.

The directors consider that the fair value of assets and liabilities is not materially different to their carrying value.



## Notes to the consolidated financial statements continued

### 4. Classification of financial assets and liabilities *continued*

#### Fair value classification

The tables above include the fair values and fair value hierarchies of the Group and Company's financial assets and liabilities. The Group measures fair value using the following fair value hierarchy that reflects the significance of the inputs used in making measurements:

- Level 1: Quoted prices in active markets for identical assets or liabilities
- Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Details of the measurement of the fair values is disclosed below:

#### *Cash and balances at central banks*

The fair value of cash and balances at central banks was calculated based upon the present value of the expected future principal and interest cash flows. The rate used to discount the cash flows was the market rate of interest at the balance sheet date.

At the end of December 2015 the fair value of cash and balances at central banks was calculated to be equivalent to their carrying value.

#### *Loans and advances to banks*

The fair value of loans and advances to banks was calculated based upon the present value of the expected future principal and interest cash flows. The rate used to discount the cash flows was the market rate of interest at the balance sheet date.

At the end of December 2015 the fair value of loans and advances to banks was calculated to be equivalent to their carrying value.

#### *Loans and advances to customers*

The fair value of loans and advances to customers was calculated based upon the present value of the expected future principal and interest cash flows. Prudent assumptions were applied regarding the risk of default. The rate used to discount the cash flows was the credit adjusted market rate of interest at the balance sheet date.

#### *Debt securities held-to-maturity*

The fair value of debt securities held-to-maturity was calculated based upon the present value of the expected future principal and interest cash flows. The rate used to discount the cash flows was the market rate of interest at the balance sheet date.

At the end of December 2015 the fair value of debt securities held-to-maturity was calculated to be equivalent to their carrying value.

#### *Due to banks*

The fair value of amounts due to banks was calculated based upon the present value of the expected future principal and interest cash flows. The rate used to discount the cash flows was the market rate of interest at the balance sheet date.

At the end of December 2015 the fair value of amounts due to banks was calculated to be equivalent to their carrying value due to the short maturity term of the amounts due.

#### *Deposits from customers*

The fair value of deposits from customers was calculated based upon the present value of the expected future principal and interest cash flows. The rate used to discount the cash flows was the market rate of interest at the balance sheet date for the notice deposits and deposit bonds, given that the Group offers competitive interest rates on its savings products.

#### *Other financial liabilities*

The fair value of other financial liabilities was calculated based upon the present value of the expected future principal cash flows.

At the end of December 2015 the fair value of other financial liabilities was calculated to be equivalent to their carrying value due to the short maturity term of the other liabilities. The other financial liabilities include all other liabilities other than non-interest accruals.

## 5. Financial risk management

### Strategy

By their nature, the Group's activities are principally related to the use of financial instruments. The directors and senior management of the Group have formally adopted a Group Risk Appetite Statement which sets out the Board's attitude to risk and internal controls. Key risks identified by the directors are formally reviewed and assessed at least once a year by the Board, in addition to which key business risks are identified, evaluated and managed by operating management on an ongoing basis by means of procedures such as physical controls, credit and other authorisation limits and segregation of duties. The Board also receives regular reports on any risk matters that need to be brought to its attention. Significant risks identified in connection with the development of new activities are subject to consideration by the Board. There are budgeting procedures in place and reports are presented regularly to the Board detailing the results of each principal business unit, variances against budget and prior year, and other performance data.

A more detailed description of the risk governance structure is contained in the Corporate Governance Statement beginning on page 48.

The principal risks inherent in the Group's business are credit, market, liquidity and operational risk.

#### *(a) Credit risk*

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

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

Impairment provisions are provided for losses that have been incurred 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 they consider this to be the most significant risk to the business.

Exposure to 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. The assets undergo a scoring process to mitigate risk and are monitored by the Board. Disclosures relating to arrears on loans and advances to customers are disclosed in Note 13.

The Board monitors the ratings of the counterparties in relation to the Group's loans and advances to banks. Disclosures of these at the year end are contained in Note 12. There is no direct exposure to the Eurozone and peripheral Eurozone countries.

Motor Finance loans are secured against motor vehicles. The new SME lending products, Real Estate Finance and Asset Finance loans, are secured against property and tangible assets respectively. Details of the collateral held in respect of these loans are detailed in Note 13.



## Notes to the consolidated financial statements

### continued

#### 5. Financial risk management *continued*

The maximum exposure to credit risk for the Company and the Group was as follows:

	Group		Company	
	2015 £million	2014 £million	2015 £million	2014 £million
<b>Credit risk exposures relating to on-balance sheet assets are as follows:</b>				
Cash and balances at central banks	131.8	81.2	131.8	81.2
Loans and advances to banks	9.8	39.8	9.2	37.9
Loan and advances to customers	960.6	622.5	932.7	500.1
Debt securities held-to-maturity	3.8	16.3	3.8	16.3
Trade receivables	1.5	0.9	1.4	0.6
Amounts due from related companies	1.3	0.8	142.0	114.6
Assets held for sale	118.5	–	–	–
<b>Credit risk exposures relating to off-balance sheet assets are as follows:</b>				
Loan commitments	138.6	96.0	138.6	96.0
<b>At 31 December</b>	<b>1,365.9</b>	<b>857.5</b>	<b>1,359.5</b>	<b>846.7</b>

The above table represents the maximum credit risk exposure (net of impairment) to the Company and Group at 31 December 2015 and 2014 without taking account of any collateral held or other credit enhancements attached. For on-balance-sheet assets, the exposures are based on the net carrying amounts as reported in the Statement of Financial Position.

## 5. Financial risk management *continued*

### Concentration risk

Management assesses the potential concentration risk from geographic, product and individual loan concentration. Due to the well diversified nature of the Group's lending operations the directors do not consider there to be a material exposure arising from concentration risk. The increase in lending balances and loan commitments in the London region is principally due to the increase in Real Estate Finance activities during the year. This lending does not give rise to a material exposure due to the security held against each individual loan. The concentration by product and location of the Group and Company's lending to customers and loan commitments are detailed below:

Group	Loans and advances to customers				Loan commitments	
	2015 Continuing operations £million	2015 Discontinued operations £million	2015 Total £million	2014 Total £million	2015 Continuing operations and Total £million	2014 Total £million
<b>Concentration by product:</b>						
Business lending						
Real estate finance	368.0	–	368.0	133.8	109.0	95.8
Asset finance	70.7	–	70.7	4.5	20.1	–
Commercial finance	29.3	–	29.3	5.0	9.3	–
Unsecured lending:						
Personal lending	74.3	114.3	188.6	181.4	–	–
Motor	165.7	–	165.7	137.9	0.2	0.2
Retail	220.4	–	220.4	116.7	–	–
Other	32.2	–	32.2	43.2	–	–
<b>At 31 December</b>	<b>960.6</b>	<b>114.3</b>	<b>1,074.9</b>	<b>622.5</b>	<b>138.6</b>	<b>96.0</b>
<b>Concentration by region:</b>						
East Anglia	89.4	10.4	99.8	41.3	28.1	7.2
East Midlands	41.4	11.3	52.7	36.0	1.1	–
London	300.6	17.0	317.6	177.5	55.0	41.6
North East	24.5	–	24.5	36.4	0.6	17.6
North West	73.4	7.6	81.0	60.9	4.9	–
Northern Ireland	8.3	15.6	23.9	8.6	–	–
Scotland	62.7	3.0	65.7	42.4	2.0	–
South East	125.5	5.8	131.3	82.2	28.4	17.8
South West	44.2	8.4	52.6	34.7	4.4	10.5
Wales	35.1	5.3	40.4	25.7	1.4	–
West Midlands	59.0	4.9	63.9	44.1	4.0	1.3
Yorkshire and the Humber	52.4	13.5	65.9	32.7	3.0	–
Overseas	44.1	11.5	55.6	–	5.7	–
<b>At 31 December</b>	<b>960.6</b>	<b>114.3</b>	<b>1,074.9</b>	<b>622.5</b>	<b>138.6</b>	<b>96.0</b>

The above table relates to the location of the borrower. The majority of the overseas borrowers are Real Estate Finance clients. All of the property secured against Real Estate Finance loans is based in the United Kingdom.



## Notes to the consolidated financial statements

### continued

#### 5. Financial risk management *continued*

Company	Loans and advances to customers		Loan commitments	
	2015 £million	2014 £million	2015 £million	2014 £million
<b>Concentration by product:</b>				
Business lending				
Real estate finance	368.0	133.7	109.0	95.8
Asset finance	70.7	4.5	20.1	–
Commercial finance	29.3	5.0	9.3	–
Unsecured lending:				
Personal lending	74.3	87.6	–	–
Motor	165.7	137.9	0.2	0.2
Retail	220.4	116.7	–	–
Other	4.3	14.7	–	–
<b>At 31 December</b>	<b>932.7</b>	<b>500.1</b>	<b>138.6</b>	<b>96.0</b>
<b>Concentration by region:</b>				
East Anglia	87.0	35.6	28.1	7.2
East Midlands	39.4	24.7	1.1	–
London	297.5	149.3	55.0	41.6
North East	23.2	17.8	0.6	17.6
North West	69.9	43.5	4.9	–
Northern Ireland	7.8	6.0	–	–
Scotland	59.5	36.0	2.0	–
South East	122.2	74.5	28.4	17.8
South West	42.6	29.2	4.4	10.5
Wales	33.5	20.6	1.4	–
West Midlands	56.4	32.4	4.0	1.3
Yorkshire and the Humber	50.0	30.5	3.0	–
Overseas	43.7	–	5.7	–
<b>At 31 December</b>	<b>932.7</b>	<b>500.1</b>	<b>138.6</b>	<b>96.0</b>

## 5. Financial risk management *continued*

### **Forbearance**

Secure Trust Bank does not reschedule contractual arrangements where customers default on their repayments. Under its Treating Customers Fairly (TCF) policies, however, the Company may offer the customer the option to reduce or defer payments for a short period. If the request is granted, the account continues to be monitored in accordance with the Group's impairment provisioning policy. Such debts retain the customer's normal contractual payment due dates and will be treated the same as any other defaulting cases for impairment purposes. Arrears tracking will continue on the account with any impairment charge being based on the original contractual due dates for all products.

The Everyday Loans policy on forbearance is that a customer's account may be modified to assist customers who are in or, have recently overcome, financial difficulties and have demonstrated both the ability and willingness to meet the current or modified loan contractual payments. These may be modified by way of a reschedule or deferment of repayments. Rescheduling of debts retains the customers' contractual due dates, whilst the deferment of repayments extends the payment schedule up to a maximum of four payments in a twelve month period. As at 31 December 2015 the gross balance of rescheduled loans included in the Consolidated Statement of Financial Position was £14.9 million, with an allowance for impairment on these loans of £1.0 million. The gross balance of deferred loans was £3.4 million with an allowance for impairment on these of £0.6 million. (31 December 2014: the gross balance of rescheduled loans was £14.7 million, with an allowance for impairment of £1.0 million. The gross balance of deferred loans was £3.0 million with an allowance for impairment of £0.4 million).

### *(b) Market risk*

Market risks arise from open positions in interest rate and currency products, all of which are exposed to general and specific market movements. The Group and Company have no significant exposures to foreign currencies and therefore there is no significant currency risk.

### **Interest rate risk**

Interest rate risk is the potential adverse impact on the Company and Group's future cash flows from changes in interest rates and arises from the differing interest rate risk characteristics of the Company and Group's assets and liabilities. In particular, fixed rate savings and borrowing products expose the Group to the risk that a change in interest rates could cause either a reduction in interest income or an increase in interest expense relative to variable rate interest flows. The Group seeks to 'match' interest rate risk on either side of the Statement of Financial Position. However, this is not a perfect match and interest rate risk is present on money market deposits of a fixed rate nature, fixed rate loans and fixed rate savings products. The Group monitors the interest rate mismatch on a daily basis in conjunction with liquidity and capital.

The interest rate mismatch is monitored, throughout the maturity bandings of the book on a parallel scenario for 50 and 200 basis points movements. The Group considers the 50 and 200 basis points movement to be appropriate for scenario testing given the current economic outlook and industry expectations. This typically results in a pre-tax mismatch of £1.0m or less (2014: £0.8m or less) for the Company and Group, with the same impact to equity pre-tax.

### **Interest rate sensitivity gap**

The following tables summarise the re-pricing periods for the assets and liabilities in the Company and Group, including derivative financial instruments which are principally used to hedge exposure to interest rate risk. Items are allocated to time bands by reference to the earlier of the next contractual interest rate re-price and the maturity date.



## Notes to the consolidated financial statements

### continued

#### 5. Financial risk management *continued*

Group As at 31 December 2015	Within 3 months £million	More than 3 months but less than 6 months £million	More than 6 months but less than 1 year £million	More than 1 year but less than 5 years £million	More than 5 years £million	Non interest bearing £million	Total £million
<b>ASSETS</b>							
Cash and balances at central banks	131.8	–	–	–	–	–	131.8
Loans and advances to banks	9.8	–	–	–	–	–	9.8
Debt securities held-to-maturity	3.8	–	–	–	–	–	3.8
Loans and advances to customers	163.4	138.4	172.2	520.9	–	(34.3)	960.6
Other assets	–	–	–	–	–	22.9	22.9
Assets held for sale	118.5	–	–	–	–	–	118.5
<b>Total assets</b>	<b>427.3</b>	<b>138.4</b>	<b>172.2</b>	<b>520.9</b>	<b>–</b>	<b>(11.4)</b>	<b>1,247.4</b>
<b>LIABILITIES AND EQUITY</b>							
Due to banks	–	35.0	–	–	–	–	35.0
Deposits from customers	97.9	371.0	94.4	432.0	37.8	–	1,033.1
Other liabilities	–	–	–	–	–	29.4	29.4
Liabilities held for sale	8.7	–	–	–	–	–	8.7
Equity	–	–	–	–	–	141.2	141.2
<b>Total liabilities and equity</b>	<b>106.6</b>	<b>406.0</b>	<b>94.4</b>	<b>432.0</b>	<b>37.8</b>	<b>170.6</b>	<b>1,247.4</b>
<b>Interest rate sensitivity gap</b>	<b>320.7</b>	<b>(267.6)</b>	<b>77.8</b>	<b>88.9</b>	<b>(37.8)</b>	<b>(182.0)</b>	
<b>Cumulative gap</b>	<b>320.7</b>	<b>53.1</b>	<b>130.9</b>	<b>219.8</b>	<b>182.0</b>	<b>–</b>	
<b>ASSETS</b>							
Cash	81.2	–	–	–	–	–	81.2
Loans and advances to banks	24.8	15.0	–	–	–	–	39.8
Loans and advances to customers	102.1	69.9	114.2	366.8	0.2	(30.7)	622.5
Debt securities held-to-maturity	16.3	–	–	–	–	–	16.3
Other assets	–	–	–	–	–	22.5	22.5
<b>Total assets</b>	<b>224.4</b>	<b>84.9</b>	<b>114.2</b>	<b>366.8</b>	<b>0.2</b>	<b>(8.2)</b>	<b>782.3</b>
<b>LIABILITIES AND EQUITY</b>							
Due to banks	15.9	–	–	–	–	–	15.9
Deposits from customers	248.9	18.2	37.3	236.5	29.7	37.8	608.4
Other liabilities	–	–	–	–	–	33.1	33.1
Equity	–	–	–	–	–	124.9	124.9
<b>Total liabilities and equity</b>	<b>264.8</b>	<b>18.2</b>	<b>37.3</b>	<b>236.5</b>	<b>29.7</b>	<b>195.8</b>	<b>782.3</b>
Impact of derivative instruments	(20.0)	20.0	–	–	–	–	
<b>Interest rate sensitivity gap</b>	<b>(60.4)</b>	<b>86.7</b>	<b>76.9</b>	<b>130.3</b>	<b>(29.5)</b>	<b>(204.0)</b>	
<b>Cumulative gap</b>	<b>(60.4)</b>	<b>26.3</b>	<b>103.2</b>	<b>233.5</b>	<b>204.0</b>	<b>–</b>	

## 5. Financial risk management *continued*

Company As at 31 December 2015	Within 3 months £million	More than 3 months but less than 6 months £million	More than 6 months but less than 1 year £million	More than 1 year but less than 5 years £million	More than 5 years £million	Non interest bearing £million	Total £million
<b>ASSETS</b>							
Cash and balances at central banks	131.8	–	–	–	–	–	131.8
Loans and advances to banks	9.2	–	–	–	–	–	9.2
Debt securities held-to-maturity	3.8	–	–	–	–	–	3.8
Loans and advances to customers	145.7	133.2	164.9	509.5	–	(20.6)	932.7
Other assets	–	–	–	–	–	157.7	157.7
<b>Total assets</b>	<b>290.5</b>	<b>133.2</b>	<b>164.9</b>	<b>509.5</b>	<b>–</b>	<b>137.1</b>	<b>1,235.2</b>
<b>LIABILITIES AND EQUITY</b>							
Due to banks	–	35.0	–	–	–	1.4	36.4
Deposits from customers	97.9	371.0	94.4	432.0	37.8	–	1,033.1
Other liabilities	–	–	–	–	–	30.5	30.5
Equity	–	–	–	–	–	135.2	135.2
<b>Total liabilities and equity</b>	<b>97.9</b>	<b>406.0</b>	<b>94.4</b>	<b>432.0</b>	<b>37.8</b>	<b>167.1</b>	<b>1,235.2</b>
<b>Interest rate sensitivity gap</b>	<b>192.6</b>	<b>(272.8)</b>	<b>70.5</b>	<b>77.5</b>	<b>(37.8)</b>	<b>(30.0)</b>	
<b>Cumulative gap</b>	<b>192.6</b>	<b>(80.2)</b>	<b>(9.7)</b>	<b>67.8</b>	<b>30.0</b>	<b>–</b>	

Company As at 31 December 2014	Within 3 months £million	More than 3 months but less than 6 months £million	More than 6 months but less than 1 year £million	More than 1 year but less than 5 years £million	More than 5 years £million	Non interest bearing £million	Total £million
<b>ASSETS</b>							
Cash and balances at central banks	81.2	–	–	–	–	–	81.2
Loans and advances to banks	22.9	15.0	–	–	–	–	37.9
Loans and advances to customers	59.6	43.9	69.2	345.9	0.3	(18.8)	500.1
Debt securities held-to-maturity	16.3	–	–	–	–	–	16.3
Other assets	–	–	–	–	–	125.2	125.2
<b>Total assets</b>	<b>180.0</b>	<b>58.9</b>	<b>69.2</b>	<b>345.9</b>	<b>0.3</b>	<b>106.4</b>	<b>760.7</b>
<b>LIABILITIES AND EQUITY</b>							
Due to banks	15.9	–	–	–	–	–	15.9
Deposits from customers	248.9	18.2	37.3	236.5	29.7	37.8	608.4
Other liabilities	–	–	–	–	–	23.7	23.7
Equity	–	–	–	–	–	112.7	112.7
<b>Total liabilities and equity</b>	<b>264.8</b>	<b>18.2</b>	<b>37.3</b>	<b>236.5</b>	<b>29.7</b>	<b>174.2</b>	<b>760.7</b>
Impact of derivative instruments	(20.0)	20.0	–	–	–	–	
<b>Interest rate sensitivity gap</b>	<b>(104.8)</b>	<b>60.7</b>	<b>31.9</b>	<b>109.4</b>	<b>(29.4)</b>	<b>(67.8)</b>	
<b>Cumulative gap</b>	<b>(104.8)</b>	<b>(44.1)</b>	<b>(12.2)</b>	<b>97.2</b>	<b>67.8</b>	<b>–</b>	



## Notes to the consolidated financial statements

### continued

#### 5. Financial risk management *continued*

##### (c) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. The liquidity requirements of the Group are met through withdrawing funds from its Bank of England Reserve Account to cover any short-term fluctuations and, longer term funding to address any structural liquidity requirements.

The Company has a formal governance structure in place to manage and mitigate liquidity risk on a day to day basis. The Board sets and approves the Company's liquidity risk management strategy. The Assets and Liabilities Committee ('ALCO'), comprising senior executives of the Company, monitors liquidity risk. Key liquidity risk management information is reported by the Treasury function and monitored by the Chief Executive Officer and Chief Financial Officer on a daily basis. The ALCO meets monthly to review liquidity risk against set thresholds and risk indicators including early warning indicators, liquidity risk tolerance levels and ILAAP metrics.

The Group relies on deposits from customers. During the current year the Company issued over £172 million of fixed rate deposit bonds to customers over terms ranging from 1 to 7 years. These were issued to broadly match the term lending by the Company.

The PRA requires a firm to maintain at all times liquidity resources which are adequate, both as to amount and quality, to ensure that there is no significant risk that its liabilities cannot be met as they fall due. There is also a requirement that a firm ensures its liquidity resources contain an adequate buffer of high quality, unencumbered assets (i.e. Government Securities in the liquidity asset buffer); and it maintains a prudent funding profile. The liquidity assets buffer is a pool of highly liquid assets that can be called upon to create sufficient liquidity to meet liabilities on demand, particularly in a period of liquidity stress. The liquidity resources outside the buffer must either be marketable assets with a demonstrable secondary market that the firm can access, or a credit facility that can be activated in times of stress.

The Group has a Board approved ILAAP. The liquidity buffer required by the ILAAP has been put in place and maintained since that time. Liquidity resources outside of the buffer are made up of deposits placed at the Bank of England. The ILAAP is updated annually.

The Liquidity Coverage Ratio (LCR) regime has applied to the Group from 1 October 2015, requiring management of net 30 day cash outflows as a proportion of high quality liquid assets. STB has set a more prudent internal limit. The actual LCR has significantly exceeded both limits throughout the year.

The Group is exposed to daily calls on its available cash resources from current accounts, maturing deposits and loan draw-downs. The Group maintains significant cash resources to meet all of these needs as they fall due.

The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Group. It is unusual for banks to be completely matched, as transacted business is often of uncertain term and of different types.

The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest bearing liabilities as they mature are important factors in assessing the liquidity of the Group and its exposure to changes in interest rates.

The key measure used by the Group for managing liquidity risk is the ratio of net liquid assets to deposits from customers. For this purpose net liquid assets are considered to be loans and advances to banks and cash and balances at central banks. At the year end this ratio was 14.1% (2014: 19.9%).

## 5. Financial risk management *continued*

The tables below analyse the contractual undiscounted cash flows for the Group's financial liabilities and assets into relevant maturity groupings:

At 31 December 2015	Carrying amount £million	Gross nominal inflow/ (outflow) £million	Not more than 3 months £million	More than 3 months but less than 1 year £million	More than 1 year but less than 5 years £million	More than 5 years £million
<b>Non-derivative financial liabilities</b>						
Due to banks	(35.0)	(35.0)	(35.0)	–	–	–
Deposits from customers	(1,033.1)	(1,078.0)	(442.9)	(142.7)	(449.5)	(42.9)
Other financial liabilities	(13.8)	(13.8)	(13.8)	–	–	–
Liabilities held for sale	(8.7)	(8.7)	(8.7)	–	–	–
	<b>(1,090.6)</b>	<b>(1,135.5)</b>	<b>(500.4)</b>	<b>(142.7)</b>	<b>(449.5)</b>	<b>(42.9)</b>

<b>Non-derivative financial assets</b>						
Cash and balances at central banks	131.8	131.8	131.8	–	–	–
Loans and advances to banks	9.8	9.8	9.8	–	–	–
Debt securities held to maturity	3.8	3.8	3.8	–	–	–
Loans and advances to customers	960.6	1,194.5	130.8	335.6	728.1	–
Other financial assets	2.9	2.9	2.9	–	–	–
Assets held for sale	118.5	118.5	118.5	–	–	–
	<b>1,227.4</b>	<b>1,461.3</b>	<b>397.6</b>	<b>335.6</b>	<b>728.1</b>	<b>–</b>

<b>Liquidity mismatch</b>	<b>136.8</b>	<b>325.8</b>	<b>(102.8)</b>	<b>192.9</b>	<b>278.6</b>	<b>(42.9)</b>
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At 31 December 2014	Carrying amount £million	Gross nominal inflow/ (outflow) £million	Not more than 3 months £million	More than 3 months but less than 1 year £million	More than 1 year but less than 5 years £million	More than 5 years £million
<b>Non-derivative financial liabilities</b>						
Due to banks	(15.9)	(15.9)	(15.9)	–	–	–
Deposits from customers	(608.4)	(635.2)	(87.3)	(257.6)	(255.0)	(35.3)
Other financial liabilities	(17.8)	(17.8)	(17.8)	–	–	–
	<b>(642.1)</b>	<b>(668.9)</b>	<b>(121.0)</b>	<b>(257.6)</b>	<b>(255.0)</b>	<b>(35.3)</b>

<b>Non-derivative financial assets</b>						
Cash and balances at central banks	81.2	81.2	81.2	–	–	–
Loans and advances to banks	39.8	39.8	24.8	15.0	–	–
Debt securities held to maturity	16.3	16.3	11.3	5.0	–	–
Loans and advances to customers	622.5	788.4	109.9	186.2	486.1	6.2
	<b>759.8</b>	<b>925.7</b>	<b>227.2</b>	<b>206.2</b>	<b>486.1</b>	<b>6.2</b>

<b>Liquidity mismatch</b>	<b>117.7</b>	<b>256.8</b>	<b>106.2</b>	<b>(51.4)</b>	<b>231.1</b>	<b>(29.1)</b>
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## Notes to the consolidated financial statements

### continued

#### 5. Financial risk management *continued*

The tables below analyse the contractual undiscounted cash flows for the Company's financial liabilities and assets into relevant maturity groupings:

At 31 December 2015	Carrying amount £million	Gross nominal inflow/ (outflow) £million	Not more than 3 months £million	More than 3 months but less than 1 year £million	More than 1 year but less than 5 years £million	More than 5 years £million
<b>Non-derivative financial liabilities</b>						
Due to banks	(36.4)	(36.4)	(36.4)	–	–	–
Deposits from customers	(1,033.1)	(1,078.0)	(442.9)	(142.7)	(449.5)	(42.9)
Other financial liabilities	(8.3)	(8.3)	(8.3)	–	–	–
	<b>(1,077.8)</b>	<b>(1,122.7)</b>	<b>(487.6)</b>	<b>(142.7)</b>	<b>(449.5)</b>	<b>(42.9)</b>
<b>Non-derivative financial assets</b>						
Cash and balances at central banks	131.8	131.8	131.8	–	–	–
Loans and advances to banks	9.2	9.2	9.2	–	–	–
Debt securities held to maturity	3.8	3.8	3.8	–	–	–
Loans and advances to customers	932.7	1,160.9	127.1	321.7	712.1	–
Other assets	1.4	1.4	1.4	–	–	–
	<b>1,078.9</b>	<b>1,307.1</b>	<b>273.3</b>	<b>321.7</b>	<b>712.1</b>	<b>–</b>
<b>Liquidity mismatch</b>	<b>1.1</b>	<b>184.4</b>	<b>(214.3)</b>	<b>179.0</b>	<b>262.6</b>	<b>(42.9)</b>
At 31 December 2014	Carrying amount £million	Gross nominal inflow/ (outflow) £million	Not more than 3 months £million	More than 3 months but less than 1 year £million	More than 1 year but less than 5 years £million	More than 5 years £million
<b>Non-derivative financial liabilities</b>						
Due to banks	(15.9)	(15.9)	(15.9)	–	–	–
Deposits from customers	(608.4)	(635.2)	(87.3)	(257.6)	(255.0)	(35.3)
Other financial liabilities	(15.5)	(15.5)	(15.5)	–	–	–
	<b>(639.8)</b>	<b>(666.6)</b>	<b>(118.7)</b>	<b>(257.6)</b>	<b>(255.0)</b>	<b>(35.3)</b>
<b>Non-derivative financial assets</b>						
Cash and balances at central banks	81.2	81.2	81.2	–	–	–
Loans and advances to banks	37.9	37.9	22.9	15.0	–	–
Loans and advances to customers	500.1	622.5	68.2	172.5	381.8	–
Debt securities held to maturity	16.3	16.3	11.3	5.0	–	–
	<b>635.5</b>	<b>757.9</b>	<b>183.6</b>	<b>192.5</b>	<b>381.8</b>	<b>–</b>
<b>Liquidity mismatch</b>	<b>(4.3)</b>	<b>91.3</b>	<b>64.9</b>	<b>(65.1)</b>	<b>126.8</b>	<b>(35.3)</b>

The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest bearing financial liabilities as they mature are important factors in assessing the liquidity of the Company and Group and its exposure to changes in interest rates and exchange rates.

Other financial liabilities, as shown above, do not include non-interest accruals as these are not classed as financial liabilities.

## 5. Financial risk management *continued*

### *(d) Operational risk (unaudited)*

Operational risk is 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. Operational risks arise from all of the Group's operations.

The Group's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Group's reputation with overall cost effectiveness and innovation. In all cases, the Group's policy requires compliance with all applicable legal and regulatory requirements.

The Corporate Governance statement beginning on page 48 describes the Group's system of internal controls which are used to mitigate against operational risk. An operational risk department within the Bank also supports and provides assurance to the business in recognising, assessing and managing risk. Compliance with Group standards is supported by a programme of periodic reviews undertaken by an internal audit function. The results of the internal audit reviews are discussed with the Company's senior management with summaries submitted to the Group Audit Committee.

## 6. Capital management

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

In accordance with the EU's Capital Requirements Directive IV (CRD IV) and the required parameters set out in the EU's Capital Requirements Regulation (CRR), the Group's Internal Capital Adequacy Assessment Process (ICAAP), which is aggregated into the Arbuthnot Banking Group's ICAAP, is embedded in the risk management framework of the Group and is subject to ongoing updates and revisions when necessary. However, at a minimum, the ICAAP is updated annually as part of the business planning process. The ICAAP is a process that brings together the management framework (i.e. the policies, procedures, strategies, and systems that the Group has implemented to identify, manage and mitigate its risks) and the financial disciplines of business planning and capital management.

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

Pillar 3 complements the minimum capital requirements (Pillar 1) and the supervisory review process (Pillar 2). Its aim is to encourage market discipline by developing a set of disclosure requirements which would allow market participants to assess key pieces of information on a firm's capital, risk exposures and risk assessment processes. Pillar 3 disclosures for the Arbuthnot Banking Group for the year ended 31 December 2015 are published as a separate document on the Arbuthnot Banking Group website.



## Notes to the consolidated financial statements

### continued

#### 6. Capital management *continued*

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

	2015 £million	2014 £million
<b>Tier 1</b>		
Share capital	7.3	7.3
Share premium	79.3	79.3
Retained earnings	53.1	38.7
Revaluation reserve	0.2	0.2
Goodwill	(0.3)	(0.3)
Intangible assets net of attributable deferred tax	(3.8)	(2.8)
Deferred tax assets due to losses	–	(1.0)
<b>Common Equity Tier 1 capital</b>	<b>135.8</b>	<b>121.4</b>
<b>Tier 2</b>		
Collective allowance for impairment of loans and advances	3.1	2.0
<b>Total Tier 2 capital</b>	<b>3.1</b>	<b>2.0</b>
<b>Own Funds</b>	<b>138.9</b>	<b>123.4</b>
<b>Reconciliation to total equity:</b>		
Goodwill and other intangible assets net of attributable deferred tax	4.1	3.1
Collective allowance for impairment of loans and advances	(3.1)	(2.0)
Deferred tax assets due to losses	–	1.0
Net cumulative profits/(losses) of non-solo consolidated entities	1.3	(0.6)
<b>Total equity</b>	<b>141.2</b>	<b>124.9</b>

The Group forms part of the Arbutnot Banking Group's ICAAP which includes a summary of the capital required to mitigate the identified risks in its regulated entities and the amount of capital that the Group has available. The PRA sets ICG for each UK bank calibrated by reference to its Capital Resources Requirement, broadly equivalent to 8% of risk weighted assets and thus representing the capital required under Pillar 1 of the Basel III framework. The ICAAP is a key input into the PRA's ICG setting process, which addresses the requirements of Pillar 2 of the Basel III framework. The PRA's approach is to monitor the available capital resources in relation to the ICG requirement. The Group maintains an extra internal buffer and capital ratios are reviewed on a monthly basis to ensure that external and internal requirements are adhered to.

## 7. Net interest income

	2015 £million	2014 £million
Cash and balances at central banks	0.7	0.3
Loans and advances to banks	0.2	0.1
Loans and advances to customers	99.6	62.8
Debt securities held-to-maturity	–	0.2
<b>Interest receivable and similar income</b>	<b>100.5</b>	<b>63.4</b>
Deposits from customers	(21.6)	(14.2)
<b>Interest expense and similar charges</b>	<b>(21.6)</b>	<b>(14.2)</b>
<b>Net interest income</b>	<b>78.9</b>	<b>49.2</b>

Net interest income shown above excludes £39.2 million (2014: £30.2 million) of interest on loans and advances to customers in respect of discontinued operations, as shown in note 33.

In the previous year £0.2 million of interest income arising from debt securities held-to-maturity was included as interest income on loans and advances to banks.

## 8. Operating expenses

	2015 Continuing £million	2015 Discontinued £million	2015 Total £million	2014 Continuing £million	2014 Discontinued £million	2014 Total £million
Staff costs, including those of directors:						
Wages and salaries	24.7	10.0	34.7	16.4	9.3	25.7
Social security costs	2.6	1.1	3.7	1.3	1.1	2.4
Pension costs	0.7	0.6	1.3	0.4	0.5	0.9
Share based payment transactions	1.4	–	1.4	1.5	–	1.5
Depreciation of property, plant and equipment (Note 18)	0.5	0.1	0.6	0.4	0.1	0.5
Amortisation of intangible assets (Note 16)	1.4	0.9	2.3	1.2	1.3	2.5
Operating lease rentals	1.2	0.8	2.0	0.7	0.9	1.6
Other administrative expenses	18.0	7.7	25.7	15.6	5.8	21.4
<b>Total operating expenses</b>	<b>50.5</b>	<b>21.2</b>	<b>71.7</b>	<b>37.5</b>	<b>19.0</b>	<b>56.5</b>

Remuneration of the auditor and its associates, excluding VAT, was as follows:	2015 £'000	2014 £'000
Fees payable to the Company's auditor for the audit of the Company's annual accounts	190	138
Fees payable to the Company's auditor for other services:		
The audit of the Company's subsidiaries, pursuant to legislation	122	115
Audit related assurance services	21	17
Tax advisory services	49	47
Corporate finance services	–	115
All other non-audit services	146	292
	<b>528</b>	<b>724</b>

All other non-audit services incurred during 2014 included £183,000 relating to advice received on the transitioning of consumer credit licensing from the Office of Fair Trading to the Financial Conduct Authority.



## Notes to the consolidated financial statements

### continued

#### 9. Average number of employees

	2015	2014
Directors	7	7
Management	78	69
Administration	621	532
<b>Total</b>	<b>706</b>	<b>608</b>

#### 10. Income tax expense

	2015 Continuing operations £million	2015 Discontinued operations £million	2015 Total £million	2014 Continuing operations £million	2014 Discontinued operations £million	2014 Total £million
<b>Current taxation</b>						
Corporation tax charge – current year	5.4	2.5	7.9	3.3	1.9	5.2
Corporation tax charge – adjustments in respect of prior years	0.6	(1.0)	(0.4)	–	–	–
	<b>6.0</b>	<b>1.5</b>	<b>7.5</b>	<b>3.3</b>	<b>1.9</b>	<b>5.2</b>
<b>Deferred taxation</b>						
Deferred tax charge – current year	(0.5)	(0.1)	(0.6)	0.2	–	0.2
Deferred tax charge – adjustments in respect of prior years	–	0.9	0.9	0.1	0.1	0.2
	<b>(0.5)</b>	<b>0.8</b>	<b>0.3</b>	<b>0.3</b>	<b>0.1</b>	<b>0.4</b>
<b>Income tax expense</b>	<b>5.5</b>	<b>2.3</b>	<b>7.8</b>	<b>3.6</b>	<b>2.0</b>	<b>5.6</b>
Tax reconciliation						
Profit before tax	24.8	11.7	36.5	17.5	8.6	26.1
Tax at 20.25% (2014: 21.5%)	5.0	2.4	7.4	3.8	1.8	5.6
Permanent differences	(0.3)	–	(0.3)	(0.2)	–	(0.2)
Prior period adjustments	0.8	(0.1)	0.7	–	0.2	0.2
<b>Income tax expense for the year</b>	<b>5.5</b>	<b>2.3</b>	<b>7.8</b>	<b>3.6</b>	<b>2.0</b>	<b>5.6</b>

At 31 December 2015 the Group had accumulated tax losses of £nil (2014: £5.0 million). These tax losses were recovered in the current year, consequently the Group has no longer recognised a deferred tax asset (2014: £1.0 million).

On 2 July 2013 the Government substantively enacted a reduction in the main rate of UK corporation tax from 23% to 21% with effect from 1 April 2014 and then from 21% to 20% with effect from 1 April 2015. Further reductions to 19% (effective from 1 April 2017) and to 18% (effective 1 April 2020) were substantively enacted on 26 October 2015. This will reduce the Company's future current tax charge accordingly.

#### 11. Earnings per ordinary share

##### Basic

Basic earnings per ordinary share are calculated by dividing the profit attributable to equity holders of the parent of £28.7 million (2014: £20.5 million) by the weighted average number of ordinary shares 18,191,894 (2014: 16,725,876) in issue during the year.

## 11. Earnings per ordinary share *continued*

### Diluted

Diluted earnings per ordinary share are calculated by dividing the profit attributable to equity holders of the parent of £28.7 million (2014: £20.5 million) by the weighted average number of ordinary shares in issue during the year, as noted above, as well as the number of dilutive share options in issue during the year.

The number of dilutive shares in issue at the year end was 352,147, being based on the number of options granted of 460,419, the exercise price of 720 pence per option and the average share price during the year of 3,061.75 pence.

## 12. Loans and advances to banks

Group	2015 £million	2014 £million
Placements with banks included in cash and cash equivalents (Note 28)	9.8	24.8
Other loans and advances to banks	–	15.0
	<b>9.8</b>	<b>39.8</b>

Included within loans and advances to banks are amounts placed with Arbutnot Latham & Co., Limited, a related company, of £5.3 million (31 December 2014: £20.0 million).

Moody's long-term ratings:

Group	2015 £million	2014 £million
A1	0.1	–
A2	(1.4)	19.8
A3	5.8	–
No rating	5.3	20.0
	<b>9.8</b>	<b>39.8</b>

The £1.4 million negative balance above represents an overdraft attributable to continuing operations. When amounts included in loans and advances to banks attributable to discontinued operations are taken into account, the overall balance is in credit.

Company	2015 £million	2014 £million
Placements with banks included in cash and cash equivalents	3.9	22.9
Other loans and advances to banks included in cash and cash equivalents	5.3	–
Cash and cash equivalents (Note 28)	9.2	22.9
Other loans and advances to banks	–	15.0
	<b>9.2</b>	<b>37.9</b>

Moody's long-term ratings:

Company	2015 £million	2014 £million
A1	0.1	–
A2	–	17.9
A3	3.8	–
No rating	5.3	20.0
	<b>9.2</b>	<b>37.9</b>

None of the loans and advances to banks are either past due or impaired.



## Notes to the consolidated financial statements

### continued

#### 13. Loans and advances to customers

Group	2015 £million	2014 £million
Gross loans and advances	994.9	656.6
Less: allowances for impairment on loans and advances (Note 14)	(34.3)	(34.1)
	<b>960.6</b>	<b>622.5</b>

The fair value of loans and advances to customers is shown in Note 4. For a maturity profile of loans and advances to customers, refer to Note 3.

Loans and advances to customers include finance lease receivables as follows:

Group	2015 £million	2014 £million
Gross investment in finance lease receivables:		
– No later than 1 year	121.4	80.2
– Later than 1 year and no later than 5 years	244.0	164.4
– Later than 5 years	0.9	–
	366.3	244.6
Unearned future finance income on finance leases	(109.0)	(81.2)
<b>Net investment in finance leases</b>	<b>257.3</b>	<b>163.4</b>

The net investment in finance leases may be analysed as follows:

– No later than 1 year	73.3	46.0
– Later than 1 year and no later than 5 years	183.2	117.4
– Later than 5 years	0.8	–
	<b>257.3</b>	<b>163.4</b>

Loans and advances to customers can be further summarised as follows:

Group	2015 £million	2015 %	2014 £million	2014 %
Neither past due nor impaired	939.1	94.4%	581.9	88.7%
Past due but not impaired	–	0.0%	0.3	0.0%
Past due up to 90 days and impaired	24.8	2.5%	30.3	4.6%
Past due after 90 days and impaired	31.0	3.1%	44.1	6.7%
Gross	994.9	100.0%	656.6	100.0%
Less: allowance for impairment	(34.3)		(34.1)	
<b>Net</b>	<b>960.6</b>		<b>622.5</b>	

### 13. Loans and advances to customers *continued*

Gross amounts of loans and advances to customers that were past due up to 90 days were as follows:

Group	2015 £million	2014 £million
Past due up to 30 days	16.5	22.6
Past due 30 - 60 days	5.5	5.3
Past due 60 - 90 days	2.8	2.7
<b>Total</b>	<b>24.8</b>	<b>30.6</b>

Interest income on loans classified as impaired totalled £6.0 million (31 December 2014: £3.1 million).

Company	2015 £million	2014 £million
Gross loans and advances	953.3	518.1
Less: allowances for impairment on loans and advances (Note 14)	(20.6)	(18.0)
	<b>932.7</b>	<b>500.1</b>

The fair value of loans and advances to customers is shown in Note 4.

For a maturity profile of loans and advances to customers, refer to Note 3.

Company	2015 £million	2014 £million
Gross investment in finance lease receivables		
No later than 1 year	103.9	61.9
Later than 1 year and no later than 5 years	232.3	151.4
Later than 5 years	0.9	–
	337.1	213.3
Unearned future finance income on finance leases	(103.3)	(75.4)
<b>Net investment in finance leases</b>	<b>233.8</b>	<b>137.9</b>

The net investment in finance leases may be analysed as follows:

No later than 1 year	60.3	32.1
Later than 1 year and no later than 5 years	172.7	105.8
Later than 5 years	0.8	–
	<b>233.8</b>	<b>137.9</b>

The prior year finance lease receivables have been restated, as certain of the Company's loans and advances to customers have been reclassified as finance leases. These changes had no effect on net assets or profits of the prior period.



## Notes to the consolidated financial statements

### continued

#### 13. Loans and advances to customers *continued*

Loans and advances to customers can be further summarised as follows:

Company	2015 £million	2015 %	2014 £million	2014 %
Neither past due nor impaired	916.0	96.1%	461.7	89.1%
Past due up to 90 days and impaired	24.5	2.6%	26.2	5.1%
Past due after 90 days and impaired	12.8	1.3%	30.2	5.8%
Gross	953.3	100.0%	518.1	100.0%
Less: allowance for impairment	(20.6)		(18.0)	
<b>Net</b>	<b>932.7</b>		<b>500.1</b>	

Gross amounts of loans and advances to customers that were past up to 90 days were as follows:

Company	2015 £million	2014 £million
Past due up to 30 days	16.3	20.4
Past due 30 – 60 days	5.5	4.0
Past due 60 – 90 days	2.7	1.8
<b>Total</b>	<b>24.5</b>	<b>26.2</b>

The majority of the loans are unsecured personal loans with an average size at inception of £5,000; therefore the portfolio does not have a significant concentration to any individuals, sectors or geographic locations.

At 31 December 2015 loans and advances to customers of £56.4 million were pre-positioned under the Bank of England's Funding for Lending Scheme and were available for use as collateral within the scheme (2014: £11.5 million).

At 31 December 2015, £36.0 million of UK Treasury Bills were drawn under the Funding for Lending Scheme (2014: £15.0 million). During the year, these Treasury Bills were pledged as part of a sale and repurchase agreement with an original maturity period of six months (2014: three months). Monies arising as a result are disclosed in note 21.

£0.2 million (2014: £0.2 million) is a standard mortgage loan secured upon residential property and this is neither past due nor impaired. The residential property over which the mortgage loan is secured has a fair value of £0.2 million based on other recent property sales, and a loan to value ratio of 72% (2014: 76%).

£368.0 million (2014: £133.7 million) of the loans are secured upon residential or commercial property and these are neither past due nor impaired. All loans secured are at a loan to value ratio of less than 80%. All property valuations at loan inception, and the majority of development stage valuations, are performed by independent Chartered Surveyors, who perform their work in accordance with the Royal Institution of Chartered Surveyors Valuation – Professional Standards.

£165.7 million (2014: £137.9 million) of the loans are secured against motor vehicles where the security is discharged when the buyer exercises an option to buy the goods at a predetermined price at the end of the loan term. Management's estimate of the fair value of the motor vehicles was £127.1 million (2014: £109.5 million), giving a loan to value ratio of 130.4% (2014: 125.9%).

## 14. Allowances for impairment of loans and advances

A reconciliation of the allowance accounts for losses on loans and advances is as follows:

<b>Group</b>	2015 £million	2014 £million
Specific allowances for impairment		
At 1 January	32.1	25.5
Provision for impairment losses	24.3	15.1
Loans written off during the year as uncollectible	(19.4)	(8.5)
Transfer to assets held for sale	(4.7)	–
<b>At 31 December</b>	<b>32.3</b>	<b>32.1</b>
Collective allowances for impairment		
At 1 January	2.0	1.6
Provision for impairment losses	1.1	0.4
Transfer to assets held for sale	(1.1)	–
<b>At 31 December</b>	<b>2.0</b>	<b>2.0</b>
<b>Total allowances for impairment</b>	<b>34.3</b>	<b>34.1</b>
<b>Company</b>	2015 £million	2014 £million
Specific allowances for impairment		
At 1 January	16.9	21.9
Provision for impairment losses	16.5	8.5
Release of allowance for impairment on the sale of debt	(12.1)	(12.5)
Loans written off during the year as uncollectible	(2.8)	(1.0)
<b>At 31 December</b>	<b>18.5</b>	<b>16.9</b>
Collective allowances for impairment		
At 1 January	1.1	1.0
Provision for impairment losses	1.0	0.1
<b>At 31 December</b>	<b>2.1</b>	<b>1.1</b>
<b>Total allowances for impairment</b>	<b>20.6</b>	<b>18.0</b>

## 15. Debt securities held-to-maturity

Debt securities of £3.8 million (31 December 2014: £16.3 million) represent UK Treasury Bills. The Group's intention is to hold them to maturity and, therefore, they are stated in the Statement of Financial Position at amortised cost.

All of the debt securities held-to-maturity had a rating agency designation at 31 December 2015, based on Moody's long-term ratings of Aa1. None of the debt securities held-to-maturity are either past due or impaired.



## Notes to the consolidated financial statements

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#### 16. Intangible assets

Group	Goodwill £million	Computer software £million	Other intangible assets £million	Total £million
<b>Cost or valuation</b>				
At 1 January 2014	1.0	6.5	7.3	14.8
Additions	–	0.8	–	0.8
<b>At 31 December 2014</b>	<b>1.0</b>	<b>7.3</b>	<b>7.3</b>	<b>15.6</b>
Additions	–	2.3	–	2.3
Transfer to assets held for disposal	–	(0.3)	(5.1)	(5.4)
<b>At 31 December 2015</b>	<b>1.0</b>	<b>9.3</b>	<b>2.2</b>	<b>12.5</b>
<b>Accumulated amortisation</b>				
At 1 January 2014	–	(2.7)	(2.2)	(4.9)
Amortisation charge	–	(1.1)	(1.4)	(2.5)
<b>At 31 December 2014</b>	<b>–</b>	<b>(3.8)</b>	<b>(3.6)</b>	<b>(7.4)</b>
Amortisation charge	–	(1.2)	(1.1)	(2.3)
Transfer to assets held for disposal	–	0.2	4.0	4.2
<b>At 31 December 2015</b>	<b>–</b>	<b>(4.8)</b>	<b>(0.7)</b>	<b>(5.5)</b>
<b>Net book amount</b>				
<b>At 31 December 2014</b>	<b>1.0</b>	<b>3.5</b>	<b>3.7</b>	<b>8.2</b>
<b>At 31 December 2015</b>	<b>1.0</b>	<b>4.5</b>	<b>1.5</b>	<b>7.0</b>

## 16. Intangible assets *continued*

Company	Goodwill £million	Computer software £million	Total £million
<b>Cost or valuation</b>			
At 1 January 2014	0.3	2.6	2.9
Additions	–	0.7	0.7
<b>At 31 December 2014</b>	<b>0.3</b>	<b>3.3</b>	<b>3.6</b>
Additions	–	2.2	2.2
<b>At 31 December 2015</b>	<b>0.3</b>	<b>5.5</b>	<b>5.8</b>
<b>Accumulated amortisation</b>			
At 1 January 2014	–	(2.0)	(2.0)
Amortisation charge	–	(0.3)	(0.3)
<b>At 31 December 2014</b>	<b>–</b>	<b>(2.3)</b>	<b>(2.3)</b>
Amortisation charge	–	(0.3)	(0.3)
<b>At 31 December 2015</b>	<b>–</b>	<b>(2.6)</b>	<b>(2.6)</b>
<b>Net book amount</b>			
<b>At 31 December 2014</b>	<b>0.3</b>	<b>1.0</b>	<b>1.3</b>
<b>At 31 December 2015</b>	<b>0.3</b>	<b>2.9</b>	<b>3.2</b>

An annual impairment review is undertaken on the carrying value of the Group's intangible assets to determine whether an impairment event has occurred.

## 17. Investments

Company	Shares at cost £million	Impairment provisions £million	Net investments £million
At 31 December 2014 and 1 January 2014	3.7	–	3.7
<b>At 31 December 2015</b>	<b>3.7</b>	<b>–</b>	<b>3.7</b>

Shares in subsidiary undertakings of Secure Trust Bank plc at 31 December 2015 are stated at cost less any provision for impairment. All subsidiary undertakings are unlisted and none are banking institutions. The subsidiary undertakings were all incorporated in the UK and wholly owned via Ordinary shares. All subsidiary undertakings are included in the consolidated financial statements and have an accounting reference date of 31 December.



## Notes to the consolidated financial statements

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#### 17. Investments *continued*

Details are as follows:

	Principal activity
Owned directly	
Debt Managers (Services) Limited	Debt collection company
Everyday Loans Holdings Limited *	Holding company
Secure Homes Services Limited	Property rental
STB Leasing Limited	Leasing
V12 Finance Group Limited	Holding company
Owned indirectly via intermediate holding companies	
Everyday Loans Limited *	Sourcing and servicing of unsecured and secured loans
Everyday Lending Limited *	Provider of unsecured and secured loans
V12 Personal Finance Limited	Dormant
V12 Retail Finance Limited	Sourcing and servicing of unsecured loans

\*Included in assets held for sale.

#### 18. Property, plant and equipment

Group	Freehold land and buildings £million	Leasehold improvements £million	Computer and other equipment £million	Total £million
<b>Cost or valuation</b>				
At 1 January 2014	4.4	0.4	8.9	13.7
Additions	2.7	–	0.9	3.6
Disposals	–	–	(0.5)	(0.5)
<b>At 31 December 2014</b>	<b>7.1</b>	<b>0.4</b>	<b>9.3</b>	<b>16.8</b>
Additions	–	0.2	1.2	1.4
Transfer to assets held for disposal	–	(0.6)	(0.4)	(1.0)
<b>At 31 December 2015</b>	<b>7.1</b>	<b>–</b>	<b>10.1</b>	<b>17.2</b>
<b>Accumulated depreciation</b>				
At 1 January 2014	(0.4)	(0.2)	(8.1)	(8.7)
Depreciation charge	(0.1)	(0.1)	(0.3)	(0.5)
Disposals	–	–	0.5	0.5
<b>At 31 December 2014</b>	<b>(0.5)</b>	<b>(0.3)</b>	<b>(7.9)</b>	<b>(8.7)</b>
Depreciation charge	(0.1)	(0.1)	(0.4)	(0.6)
Transfer to assets held for disposal	–	0.4	0.2	0.6
<b>At 31 December 2015</b>	<b>(0.6)</b>	<b>–</b>	<b>(8.1)</b>	<b>(8.7)</b>
<b>Net book amount</b>				
<b>At 31 December 2014</b>	<b>6.6</b>	<b>0.1</b>	<b>1.4</b>	<b>8.1</b>
<b>At 31 December 2015</b>	<b>6.5</b>	<b>–</b>	<b>2.0</b>	<b>8.5</b>

## 18. Property, plant and equipment *continued*

Company	Freehold property £million	Computer and other equipment £million	Total £million
<b>Cost</b>			
At 1 January 2014	–	8.5	8.5
Additions	2.7	0.7	3.4
Disposals	–	(0.5)	(0.5)
<b>At 31 December 2014</b>	<b>2.7</b>	<b>8.7</b>	<b>11.4</b>
Additions	–	0.8	0.8
<b>At 31 December 2015</b>	<b>2.7</b>	<b>9.5</b>	<b>12.2</b>
<b>Accumulated depreciation</b>			
At 1 January 2014	–	(8.0)	(8.0)
Depreciation charge	–	(0.2)	(0.2)
Disposals	–	0.5	0.5
<b>At 31 December 2014</b>	<b>–</b>	<b>(7.7)</b>	<b>(7.7)</b>
Depreciation charge	–	(0.3)	(0.3)
<b>At 31 December 2015</b>	<b>–</b>	<b>(8.0)</b>	<b>(8.0)</b>
<b>Net book amount</b>			
<b>At 31 December 2014</b>	<b>2.7</b>	<b>1.0</b>	<b>3.7</b>
<b>At 31 December 2015</b>	<b>2.7</b>	<b>1.5</b>	<b>4.2</b>

The Group's freehold properties are the Registered Office of the Company, which is fully utilised for the Group's own purposes, and Secure Trust House, Boston Drive, Bourne End SL8 5YS, the majority of which is also used for the Group's own purposes.

The directors have assessed the value of the Group's freehold property at the year-end through comparison to current rental yields on similar properties in the same area and do not believe that the fair value of freehold property is materially different from its carrying value.

The carrying value of freehold land which is included in the total carrying value of freehold land and buildings and which is not depreciated is £1.7 million (2014: £1.7 million).

The historical cost of freehold property included at valuation is as follows:

	2015 £million	2014 £million
Cost	7.5	7.5
Accumulated depreciation	(1.3)	(1.2)
<b>Net book amount</b>	<b>6.2</b>	<b>6.3</b>



## Notes to the consolidated financial statements

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#### 19. Derivative financial instruments

In order to protect its floating rate deposit book from increases in Bank of England base rates above 1.5%, the Group entered into an interest rate cap on 30 June 2011, with a notional amount of £20 million and a maturity date of 30 June 2015. The losses recognised in other comprehensive income in relation to the interest rate cap previously are not expected to be recovered in future periods, therefore they were transferred to profit or loss in 2014. The Moody's long term rating of the counterparty was A2.

#### 20. Other assets

Group	2015 £million	2014 £million
Trade receivables	1.5	0.9
Amounts due from related companies	1.3	0.8
Prepayments and accrued income	4.3	3.5
	<b>7.1</b>	<b>5.2</b>

Company	2015 £million	2014 £million
Trade receivables	1.4	0.6
Amounts due from related companies	142.0	114.6
Prepayments and accrued income	2.6	1.0
	<b>146.0</b>	<b>116.2</b>

#### 21. Due to banks

Group	2015 £million	2014 £million
Amounts due to other credit institutions	35.0	15.9
	<b>35.0</b>	<b>15.9</b>

Company	2015 £million	2014 £million
Amounts due to other credit institutions	36.4	15.9
	<b>36.4</b>	<b>15.9</b>

Amounts due to banks for the current year represent monies arising from the sale and repurchase of drawings under the Funding for Lending Scheme. These are due for repayment in March 2015.

#### 22. Deposits from customers

Group and Company	2015 £million	2014 £million
Current/demand accounts	39.5	37.8
Term deposits	993.6	570.6
	<b>1,033.1</b>	<b>608.4</b>

For a maturity profile of deposits from customers, refer to Note 3.

## 23. Other liabilities

Group	2015 £million	2014 £million
Trade payables	13.8	10.9
Amounts due to related companies	0.1	0.3
Accruals and deferred income	12.3	18.3
	<b>26.2</b>	<b>29.5</b>

Company	2015 £million	2014 £million
Trade payables	8.3	4.2
Amounts due to related companies	10.4	4.6
Accruals and deferred income	11.5	13.4
	<b>30.2</b>	<b>22.2</b>

Within Group trade payables at 31 December 2015 there is £3.7 million (2014: £4.3 million) collateral held from RentSmart. The Group buys assets which are then leased to customers of RentSmart and the Group pays RentSmart a commission, which is recognised within operating income. In return, RentSmart continues to operate the agreement, retains the credit risk and provides the Group with a collateral amount that is based upon the balance of customer receivables and expected new agreements during the following month.

Within Group and Company accruals and deferred income there is £nil million relating to accrued interest payable (2014: £6.6 million).

### Financial Ombudsman Scheme accrual

The Company's FOS accrual reflects a provision for outstanding potential PPI claims of £2.6m (2014: £2.0m) as at 31 December 2015. The increase in provision is a result of new claims emerging following an extension of the deadline for making claims.

The FCA are currently consulting on a proposed deadline for making PPI claims. The ruling is expected to come into force in Spring 2016 with a deadline of 2 years from the ruling, which would give consumers until Spring 2018 to make a claim.

### Financial Services Compensation Scheme Levy

In common with all regulated UK deposit takers, the Company pays levies to the Financial Services Compensation Scheme ('FSCS') to enable the FSCS to meet claims against it. The FSCS levy consists of two parts: a management expenses levy and a more significant compensation levy. The management expenses levy covers the costs of running the scheme and the compensation levy covers the amount of compensation and associated interest the scheme pays, net of any recoveries it makes using the rights that have been assigned to it.

The Company's FSCS provision reflects market participation up to the reporting date and the accrual of £0.2 million relates to the interest levy for the scheme year 2015/16 which is payable in September 2016. This amount was calculated on the basis of the Company's share of protected deposits and the FSCS's estimate of total interest levies payable for each scheme year. The loan repayment relating to the scheme year 2015/16 was paid by the Company in September 2015.



## Notes to the consolidated financial statements

### continued

#### 24. Deferred taxation

Group	2015 £million	2014 £million
<b>Deferred tax liabilities:</b>		
Unrealised surplus on revaluation of freehold property	0.2	0.2
Other short term timing differences	(0.2)	(0.2)
<b>Deferred tax assets:</b>		
Other short term timing differences	0.3	–
Carried forward losses	–	1.0
<b>Deferred tax assets</b>	<b>0.3</b>	<b>1.0</b>
<b>Deferred tax liabilities:</b>		
At 1 January	–	(0.4)
Profit and loss account	–	0.4
<b>Deferred tax assets:</b>		
At 1 January	1.0	1.9
Profit and loss account	(0.3)	(0.8)
Cash flow hedges	–	(0.1)
Transferred to assets held for sale	(0.4)	–
<b>At 31 December</b>	<b>0.3</b>	<b>1.0</b>
<b>Company</b>	<b>2015 £million</b>	<b>2014 £million</b>
Accelerated capital allowances and other short-term timing differences	0.6	0.3
<b>Deferred tax assets</b>	<b>0.6</b>	<b>0.3</b>
At 1 January	0.3	0.8
Profit and loss account – accelerated capital allowances and other short-term timing differences	0.3	(0.4)
Cash flow hedges	–	(0.1)
<b>Deferred tax assets at 31 December</b>	<b>0.6</b>	<b>0.3</b>

On 2 July 2013 the Government substantively enacted a reduction in the main rate of UK corporation tax from 21% to 20% with effect from 1 April 2015. This will reduce the Group's future current tax charge accordingly. Deferred tax has been calculated based on the enacted rates to the extent that the related temporary or timing differences are expected to reverse in the future periods.

## 25. Contingent liabilities and commitments

### Capital commitments

At 31 December 2015, the Group had no capital commitments (2014: £0.1 million relating to the refurbishment of an Everyday Loans branch).

The Company had no capital commitments (2014: £nil).

### Credit commitments

At 31 December 2015, the Group and Company both had commitments of £138.6 million to extend credit to customers (2014: £96.0 million and £96.0 million respectively).

### Operating lease commitments

The future aggregate lease payments for non-cancellable operating leases are as follows:

Group	2015		2014	
	Land and buildings £million	Other £million	Land and buildings £million	Other £million
Within 1 year	1.0	0.5	0.8	0.3
Between 1 year and 5 years	1.6	0.3	1.5	0.2
Over 5 years	0.3	–	0.1	–
	<b>2.9</b>	<b>0.8</b>	<b>2.4</b>	<b>0.5</b>

Company	2015		2014	
	Land and buildings £million	Other £million	Land and buildings £million	Other £million
Within 1 year	0.1	0.3	–	0.3
Between 1 year and 5 years	0.6	0.2	–	0.1
Over 5 years	0.1	–	0.4	–
	<b>0.8</b>	<b>0.5</b>	<b>0.4</b>	<b>0.4</b>

There are 35 leases classified as land and buildings in the Group (2014: 35). Other leases include motor vehicles and computer hardware.

### Other commitments

At 31 December 2015 a commitment exists to make further payments with regard to the Financial Services Compensation Scheme Levy for 2015 and thereafter. Due to uncertainties regarding the elements in the calculation of the levy and the Group's share thereof, the directors consider this cost to be unquantifiable.

## 26. Share capital

	Number of shares	Ordinary shares £million
At 1 January 2014	15,648,149	6.3
Shares issued during year	2,543,745	1.0
At 31 December 2014	18,191,894	7.3
<b>At 31 December 2015</b>	<b>18,191,894</b>	<b>7.3</b>



## Notes to the consolidated financial statements

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#### 27. Share based payments

On 17 October 2011, the Group established the Share Option Scheme (SOS) entitling three directors and certain senior employees to purchase shares in the Company.

The performance conditions of the Scheme are that for the duration of the vesting period, the dividends paid by the Company must have increased in percentage terms when compared to an assumed dividend of £8 million in respect of the financial year ending 31 December 2012, by a minimum of the higher of the increase in the Retail Prices Index during that period or 5% per annum.

All dividends paid by the Company each year during the vesting period must be paid from the Company's earnings referable to that year. Also from the grant date to the date the Option is exercised, there must be no public criticism by any regulatory authority on the operation of the Company or any of its subsidiaries which has a material impact on the business of the Company.

Options are forfeited if they remain unexercised after a period of more than 10 years from the date of grant. If the participant ceases to be employed by the Group by reason of injury, disability, ill-health or redundancy; or because his employing company ceases to be a shareholder of the Group; or because his employing business is being transferred out of the Group, his option may be exercised within six months after such cessation. In the event of the death of a participant, the personal representatives of a participant may exercise an option, to the extent exercisable at the date of death, within six months after the death of the participant.

On cessation of employment for any other reason (or when a participant serves, or has been served with, notice of termination of such employment), the option will lapse although the Remuneration Committee has discretion to allow the exercise of the option for a period not exceeding six months from the date of such cessation.

In such circumstances, the performance conditions may be modified or waived as the Remuneration Committee, acting fairly and reasonably and taking due consideration of the circumstances, thinks fit. The number of Ordinary Shares which can be acquired on exercise will be pro-rated on a time elapsed basis, unless the Remuneration Committee, acting fairly and reasonably and taking due consideration of the circumstances, decides otherwise. In determining whether to exercise its discretion in these respects, the Remuneration Committee must satisfy itself that the early exercise of an option does not constitute a reward for failure.

On 2 November 2011 934,998 share options were granted at an exercise price of £7.20 per share. Approximately half of the share options were exercised on 2 November 2014 with the remainder being exercisable on 2 November 2016, being classed as share option tranches SOS1 and SOS2 respectively. A total of 14,167 share options have been forfeited since their grant date.

The Share Option Scheme is an equity settled scheme. The original grant date valuation was determined to be £1.69 per option and this valuation has been used in the calculation. An attrition rate of option holders has been assumed of nil for the second tranche of share options. Due to the options being fully conditional knockout options, a probability of pay-out has been assigned based on the likelihood of meeting the performance criteria, which is 100% for SOS2. The Company incurred an expense in relation to share based payments of £0.2 million during 2015, as disclosed in Note 8.

	2015 No. of option holders	2015 SOS2	2014 No. of option holders	2014 SOS2
Directors	3	318,751	3	318,751
Senior management	5	141,668	5	141,668
Share options in issue	8	460,419	8	460,419
Exercise price (£)		7.20		7.20
Grant date value per option (£)		1.69		1.69
<b>Fair value of share options, if all share options were exercised (£million)</b>		<b>0.8</b>		<b>0.8</b>
Behavioural assumption (attrition)		–		–
Probability of pay-out		100%		95%
<b>Assumed value of share options on exercise date (£million)</b>		<b>0.8</b>		<b>0.8</b>
<b>Value of share options at 31 December 2015 (£million)</b>		<b>0.6</b>		<b>0.5</b>

## 27. Share based payments *continued*

### Cash settled share based payments

On 16 March 2015, a four year “phantom” share option scheme was established in order to provide effective long-term incentive to senior management of the Group. Under the scheme, no actual shares would be issued by the Company, but those granted awards under the scheme would be entitled to a cash payment. The amount of the award is calculated by reference to the increase in the value of an ordinary share in the Company over an initial value set at £25 per ordinary share, being the price at which the shares resulting from the exercise of the first tranche of share options under the Share Option Scheme were sold in November 2014.

As at 31 December 2015, 326,917 share options remained outstanding following the departure of one employee from the scheme. An additional 14,000 share options should lapse following the expected departure of a further three employees following the conditional sale of ELG.

As at 31 December 2015, the estimated fair value has been prepared using the Black-Scholes model. Measurement inputs and assumptions used were as follows:

	2015
Expected stock price volatility	27.00%
Expected dividend yield	2.09%
Risk free interest rate	0.72%
Average expected life (years)	2.85

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

	2015 £million	2014 £million
Balance at 1 January	–	–
Charge for the year (included in staff costs - see Note 8 )	1.2	–
<b>Balance at 31 December</b>	<b>1.2</b>	<b>–</b>
Intrinsic value	0.8	–

## 28. Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise the following balances with less than three months' maturity from the date of acquisition.

Group	2015 £million	2014 £million
Cash and balances at central banks	131.8	81.2
Loans and advances to banks (Note 12)	9.8	24.8
	<b>141.6</b>	<b>106.0</b>
Included in assets held for sale		
Loans and advances to banks (Note 33)	1.7	–
	<b>143.3</b>	<b>106.0</b>
<b>Company</b>	<b>2015 £million</b>	<b>2014 £million</b>
Cash and balances at central banks	131.8	81.2
Loans and advances to banks (Note 12)	9.2	22.9
	<b>141.0</b>	<b>104.1</b>



## Notes to the consolidated financial statements

### continued

#### 29. Related party transactions

Related parties of the Company and Group include subsidiaries, Key Management Personnel, close family members of Key Management Personnel and entities which are controlled, jointly controlled or significantly influenced, or for which significant voting power is held, by Key Management Personnel or their close family members.

A number of banking transactions are entered into with related parties in the normal course of business on normal commercial terms. These include deposits only during 2015 and 2014. Except for the directors' disclosures, there were no other Key Management Personnel disclosures, therefore the tables below relate to directors only.

	Directors	
	2015 £million	2014 £million
Loans advanced	0.2	–
<b>Loans outstanding at 31 December</b>	<b>0.2</b>	<b>–</b>
Deposits		
Deposits outstanding at 1 January	0.4	0.3
Additional deposits made during the year	0.1	0.1
<b>Deposits outstanding at 31 December</b>	<b>0.5</b>	<b>0.4</b>

The above loan is part of a £2.5m facility agreed by the Real Estate Finance business with a company in which a director holds 50% of the voting shares, which is secured by property and personal guarantees.

The above transactions arose during the normal course of business and are on substantially the same terms as for comparable transactions with third parties.

The Company undertook the following transactions with other companies in the Arbutnot Banking Group:

	2015 £million	2014 £million
Arbutnot Latham & Co., Ltd – recharge income of shared services	(0.8)	(0.2)
Arbutnot Banking Group PLC – group recharges	0.4	0.4
Everyday Loans Holdings Limited – dividends received	(11.5)	(5.0)
Everyday Loans Limited – management recharge income	–	8.7
Everyday Lending Limited – interest income on loan receivable	(2.9)	(2.6)
Everyday Lending Limited – property and leasing recharges	(0.2)	–
Debt Managers (Services) Limited – income from sale of debt portfolio	(2.4)	(3.1)
Secure Homes Services Limited – dividend received	(2.0)	–
Secure Homes Services Limited – building rental paid	0.4	0.4
STB Leasing Limited – dividend received	(4.0)	–
V12 Finance Group Limited – dividends received	(2.0)	–
V12 Retail Finance Limited – financial intermediary charges – applications proposed	1.7	1.5
V12 Retail Finance Limited – financial intermediary charges – applications accepted	3.4	0.8
V12 Retail Finance Limited – financial intermediary charges – loan set-up and processing	3.3	1.7
V12 Retail Finance Limited – loan book management and servicing fees	4.0	1.7
	<b>(12.6)</b>	<b>4.3</b>

## 29. Related party transactions *continued*

The loans and advances with, and amounts receivable and payable to, related companies are noted below:

Group	2015 £million	2014 £million
Loans and advances to related companies	–	20.0
Amounts receivable from ultimate parent undertaking	1.3	0.8
Amounts due to related companies	(0.1)	(0.3)
	<b>1.2</b>	<b>20.5</b>

Company	2015 £million	2014 £million
Loans and advances to related companies	–	20.0
Amounts receivable from ultimate parent undertaking	1.3	0.8
Amounts receivable from subsidiary undertakings	140.1	113.8
Amounts due to related companies	(10.4)	(4.6)
	<b>131.0</b>	<b>130.0</b>

### Directors' remuneration

The directors' emoluments (including pension contributions and benefits in kind) for the year are disclosed in the Remuneration Report beginning on page 52.

At the year end the ordinary shares held by the directors are disclosed in the Directors' Report beginning on page 44. Details of the directors' holdings of share options, as well as details of those share options exercised during the year, are also disclosed in the Directors' Report.

The interests of any directors who hold shares in the ultimate parent company, Arbutnot Banking Group PLC, are shown in the Directors' Report of the ultimate parent company.

## 30. Operating segments

The Group changed the structure of its internal organisation during the year, and as a result the reportable segments have been restated. The business is currently organised into six main operating segments, which consist of the different products available, disclosed below:

### Business finance

- 1) **Real Estate Finance:** buy-to-let 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 financing.

### Consumer finance

- 4) **Personal Lending:** Unsecured consumer loans sold to customers via brokers and affinity partners.
- 5) **Motor Finance:** Hire purchase agreements secured against the vehicle being financed.
- 6) **Retail Finance:** Point of sale unsecured finance for in-store and online retailers.

### Other

Other includes Current Account, OneBill, Pay4later, Rentsmart and debt collection.

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.



## Notes to the consolidated financial statements

### continued

#### 30. Operating segments *continued*

Year ended 31 December 2015	Interest receivable and similar income £million	Fee and commission income £million	Revenue from external customers £million	Net impairment losses on loans and advances to customers £million	Loans and advances to customers £million
Business finance					
Real Estate Finance	20.2	0.1	<b>20.3</b>	–	<b>368.0</b>
Asset Finance	2.4	–	<b>2.4</b>	–	<b>70.7</b>
Commercial Finance	0.4	1.2	<b>1.6</b>	0.3	<b>29.3</b>
Consumer finance					
Personal Lending	17.2	–	<b>17.2</b>	4.8	<b>74.3</b>
Motor Finance	33.2	0.1	<b>33.3</b>	7.3	<b>165.7</b>
Retail Finance	22.5	1.7	<b>24.2</b>	5.2	<b>220.4</b>
Other	4.6	13.8	<b>18.4</b>	(0.8)	<b>32.2</b>
	<b>100.5</b>	<b>16.9</b>	<b>117.4</b>	<b>16.8</b>	<b>960.6</b>
Discontinued operations and assets held for sale					
Personal Lending	39.2	1.5	<b>40.7</b>	7.5	<b>114.3</b>
	<b>139.7</b>	<b>18.4</b>	<b>158.1</b>	<b>24.3</b>	<b>1,074.9</b>
Year ended 31 December 2014					
Business finance					
Real Estate Finance	2.5	–	<b>2.5</b>	–	<b>133.8</b>
Asset Finance	–	–	–	–	<b>4.5</b>
Commercial Finance	–	0.1	<b>0.1</b>	–	<b>5.0</b>
Consumer finance					
Personal Lending	15.1	–	<b>15.1</b>	3.3	<b>87.5</b>
Motor Finance	27.2	–	<b>27.2</b>	3.9	<b>137.9</b>
Retail Finance	12.8	0.8	<b>13.6</b>	1.2	<b>116.7</b>
Other	5.8	15.2	<b>21.0</b>	0.3	<b>43.2</b>
	<b>63.4</b>	<b>16.1</b>	<b>79.5</b>	<b>8.7</b>	<b>528.6</b>
Discontinued operations and assets held for sale					
Personal Lending	30.2	4.1	<b>34.3</b>	6.6	<b>93.9</b>
	<b>93.6</b>	<b>20.2</b>	<b>113.8</b>	<b>15.3</b>	<b>622.5</b>

The 'other' segment above 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 financial statements.

As interest, fee and commission and operating expenses are not aligned to operating segments for day to day management of the business and cannot be allocated on a reliable basis, profit by operating segment has not been disclosed.

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

### 31. Immediate and ultimate parent company

The Company regards Arbuthnot Banking Group PLC, a company registered in England and Wales, as the immediate and ultimate parent company. Sir Henry Angest, the Group Chairman and Chief Executive has a beneficial interest in 53.7% of the issued share capital of Arbuthnot Banking Group PLC and is regarded by the Company as the ultimate controlling party. A copy of the consolidated financial statements of Arbuthnot Banking Group PLC may be obtained from the Secretary, Arbuthnot Banking Group PLC, Arbuthnot House, 7 Wilson Street, London, EC2M 2SN.

### 32. Events after the balance sheet date

There were no material post balance sheet events in the Group.

### 33. Discontinued operations and assets and liabilities held for sale

On 4 December 2015, the Bank agreed to the conditional sale of its non-standard consumer lending business, ELG, which comprises Everyday Loans Holdings Limited and subsidiary companies Everyday Lending Limited and Everyday Loans Limited, to Non Standard Finance PLC (NSF) for £107 million in cash subject to a net asset adjustment and £20 million in NSF ordinary shares. The Disposal is conditional on regulatory approval and satisfaction of the conditions to the NSF financing. Completion is expected in the near future. On completion, NSF will repay the current intercompany debt of £108 million to STB.

Under the Bank's ownership, ELG has achieved impressive growth, within the constraints imposed upon it as part of a highly regulated banking group. An unsolicited approach revealed that NSF was prepared to pay an attractive valuation for ELG.

The net effect of the Disposal will therefore be to nearly double the equity base of Group to circa £250 million. This substantially improves STB's capital resources and broadens the range of strategic options available to it.

Subject to confirmation by the regulator, the Disposal is expected to improve the Group's CET1 ratio and Leverage ratios to 24% and 18% respectively, on a proforma basis as if the Disposal had occurred on 31 December 2015 (from 15% and 12% on an unadjusted basis as at 30 June 2015). This represents a substantial capital surplus and significant headroom over PRA minimum leverage requirements and will support the strong growth in lending of the Group.

While in the short term the Disposal is expected to reduce earnings, given the disposal of ELG's profit streams, the Board is confident that the proceeds can be reinvested to accelerate the Group's growth prospects and secure new income streams.



## Notes to the consolidated financial statements

### continued

### 33. Discontinued operations and assets and liabilities held for sale *continued*

Details of the discontinued operations profit for the current year and prior year, assets and liabilities held for sale and cash flow of discontinued operations is set out below.

Income statement	Year ended 31 December 2015 £million	Year ended 31 December 2014 £million
Interest receivable and similar income	39.2	30.2
<b>Net interest income</b>	<b>39.2</b>	<b>30.2</b>
Fee and commission income	1.5	4.1
Fee and commission expense	(0.3)	(0.1)
<b>Net fee and commission income</b>	<b>1.2</b>	<b>4.0</b>
<b>Operating income</b>	<b>40.4</b>	<b>34.2</b>
Net impairment losses on loans and advances to customers	(7.5)	(6.6)
Operating expenses	(21.2)	(19.0)
<b>Profit before income tax</b>	<b>11.7</b>	<b>8.6</b>
Income tax expense	(2.3)	(2.0)
<b>Profit for the period – Discontinued operations</b>	<b>9.4</b>	<b>6.6</b>

#### Group

Assets and liabilities held for sale	At 31 December 2015 £million
<b>ASSETS</b>	
Loans and advances to banks	1.7
Loans and advances to customers	114.3
Property, plant and equipment	0.4
Intangible assets	1.2
Deferred tax assets	0.4
Other assets	0.5
<b>Total assets</b>	<b>118.5</b>
<b>LIABILITIES</b>	
Current tax liabilities	3.4
Other liabilities	5.3
<b>Total liabilities</b>	<b>8.7</b>
<b>Net assets held for sale</b>	<b>109.8</b>

### 33. Discontinued operations and assets and liabilities held for sale *continued*

#### Company

Assets held for sale comprises investment in subsidiary undertaking totalling £1.

	Year ended 31 December 2015 £million	Year ended 31 December 2014 £million
Cash flows from discontinued operations		
<b>Cash flows from operating activities</b>		
Profit for the year	7.5	6.6
Adjustments for:		
Income tax expense	2.3	2.0
Depreciation of property, plant and equipment	0.1	0.1
Amortisation of intangible assets	1.0	1.3
Impairment losses on loans and advances to customers	7.5	6.6
Cash flows from operating profits before changes in operating assets and liabilities	18.4	16.6
Changes in operating assets and liabilities:		
– net increase in loans and advances to customers	(27.9)	(19.1)
– net (increase) in other assets	(0.1)	–
– net increase in other liabilities	10.0	5.6
Income tax paid	(0.1)	(2.3)
<b>Net cash inflow from operating activities</b>	<b>0.3</b>	<b>0.8</b>
<b>Cash flows from investing activities</b>		
Purchase of property, plant and equipment	(0.3)	(0.1)
<b>Net cash flows from investing activities</b>	<b>(0.3)</b>	<b>(0.1)</b>
<b>Net increase in cash and cash equivalents</b>	<b>–</b>	<b>0.7</b>
Cash and cash equivalents at 1 January	1.7	1.0
<b>Cash and cash equivalents at 31 December</b>	<b>1.7</b>	<b>1.7</b>

### 34. Country by Country reporting

The Capital Requirements (Country-by-Country Reporting) Regulations 2013 introduced reporting obligations for institutions within the scope of the European Union's Capital Requirements Directive (CRD IV). The requirements aim to give increased transparency regarding the activities of institutions.

The Country-by-Country Information is set out below:

31 December 2015 Name	Nature of activity	Location	Turnover £million	Number of FTE employees	Profit before tax £million	Tax paid on profit £million
Secure Trust Bank PLC	Banking services	UK	158.1	706	36.5	4.2
31 December 2014 Name	Nature of activity	Location	Turnover £million	Number of FTE employees	Profit before tax £million	Tax paid on profit £million
Secure Trust Bank PLC	Banking services	UK	113.8	608	26.1	3.1



## Five year summary (unaudited)

	2015 £million	2014 £million	2013 £million	2012 £million	2011 £million
<b>Profit for the year</b>					
Interest and similar income	139.7	93.6	73.8	44.9	22.9
Interest expense and similar charges	(21.6)	(14.2)	(12.9)	(10.5)	(5.6)
<b>Net interest income</b>	<b>118.1</b>	<b>79.4</b>	<b>60.9</b>	<b>34.4</b>	<b>17.3</b>
Net fee and commission income	14.4	18.5	18.1	12.6	11.2
<b>Operating income</b>	<b>132.5</b>	<b>97.9</b>	<b>79.0</b>	<b>47.0</b>	<b>28.5</b>
Impairment losses on loans and advances	(24.3)	(15.3)	(15.6)	(8.9)	(4.6)
Gain from a bargain purchase	–	–	0.4	9.8	–
Other income	–	–	–	0.1	–
Exceptional costs	–	–	(0.9)	(1.4)	(0.5)
Arbuthnot Banking Group recharges	(0.8)	(0.2)	(0.1)	(0.1)	(1.8)
Operating expenses	(70.9)	(56.3)	(45.7)	(29.3)	(14.3)
<b>Profit before income tax</b>	<b>36.5</b>	<b>26.1</b>	<b>17.1</b>	<b>17.2</b>	<b>7.3</b>
<b>Earnings per share for profit attributable to the equity holders of the Group during the year</b> (expressed in pence per share) – basic	157.8	122.3	78.3	108.9	39.6
<b>Financial position</b>					
Cash and balances at central banks	131.8	81.2	–	–	–
Loans and advances to banks	11.5	39.8	110.0	155.3	139.5
Loans and advances to customers	1,074.9	622.5	391.0	297.6	154.6
Debt securities held-to-maturity	3.8	16.3	–	–	–
Other assets	25.4	22.5	24.9	21.7	13.7
<b>Total assets</b>	<b>1,247.4</b>	<b>782.3</b>	<b>525.9</b>	<b>474.6</b>	<b>307.8</b>
Due to banks	35.0	15.9	0.1	–	–
Deposits from customers	1,033.1	608.4	436.6	398.9	272.1
Other liabilities	38.1	33.1	27.6	19.8	11.9
Total shareholders' equity	141.2	124.9	61.6	55.9	23.8
<b>Total liabilities and shareholders' equity</b>	<b>1,247.4</b>	<b>782.3</b>	<b>525.9</b>	<b>474.6</b>	<b>307.8</b>



## Notice of meeting

NOTICE IS HEREBY GIVEN that the sixty-first Annual General Meeting of the Company will be held at Arbuthnot House, 7 Wilson Street, London EC2M 2SN on Wednesday, 4 May 2016 at 3pm for the following purposes:

### ORDINARY BUSINESS

To consider and, if thought fit, pass the following resolutions which will be proposed as ordinary resolutions:

- 1) To receive and adopt the report of the directors and the financial statements for the year ended 31 December 2015.
- 2) To receive the report of the Remuneration Committee.
- 3) To declare a final dividend in respect of the year ended 31 December 2015 which the directors propose should be 55p per ordinary share, payable on 6 May 2016 to shareholders on the register of members at the close of business on 8 April 2016.
- 4) To re-elect Mr. P. A. Lynam as a director who retires by rotation in accordance with Article 82 of the Articles of Association and offers himself for re-election.
- 5) To re-appoint KPMG LLP as Auditor and to authorise the directors to fix their remuneration.

### SPECIAL BUSINESS

To consider and, if thought fit, pass the following resolution which will be proposed as a special resolution:

- 6) That the Company be and is hereby generally and unconditionally authorised to make market purchases (as defined in section 693(4) of the Companies Act 2006) of ordinary shares of 40p each in the capital of the Company ("ordinary shares") provided that:
  - (a) the maximum number of ordinary shares hereby authorised to be purchased shall be 1,819,200 (being approximately 10% of the issued share capital of the Company as at 8 April 2016);
  - (b) the minimum price which may be paid for an ordinary share shall be 40p;
  - (c) the maximum price which may be paid for an ordinary share shall be 5% above the average of the closing middle market price of the ordinary shares (as derived from the London Stock Exchange Daily Official List) for the 10 business days prior to the day the purchase is made;
  - (d) the authority hereby conferred shall expire on 31 May 2017 or, if earlier, on the conclusion of the next Annual General Meeting of the Company unless such authority is renewed prior to such time; and
  - (e) the Company may enter into contracts to purchase ordinary shares under the authority hereby conferred prior to the expiry of such authority, which contracts will or may be executed wholly or partly after the expiry of such authority, and may make purchases of ordinary shares pursuant to any such contracts.

By order of the Board  
**A.J. Karter**  
Secretary

8 April 2016

**Registered Office**  
One Arlestone Way  
Solihull  
B90 4LH



## Notice of Meeting

continued

### NOTES:

- 1) In accordance with Regulation 41 of the Uncertificated Securities Regulations 2001, the Company gives notice that only those shareholders entered on the relevant register of members (the "Register") for certificated or uncertificated shares of the Company (as the case may be) at 6 p.m. on 2 May 2016 ("the Specified Time") will be entitled to attend or vote at the Annual General Meeting in respect of the number of shares registered in their name at that time. Changes to entries on the Register after the Specified Time will be disregarded in determining the rights of any person to attend or vote at the Annual General Meeting. Should the Annual General Meeting be adjourned to a time not more than 48 hours after the Specified Time, that time will also apply for the purpose of determining the entitlement of members to attend and vote (and for the purpose of determining the number of votes they may cast) at the adjourned Annual General Meeting. Should the Annual General Meeting be adjourned for a longer period, then to be so entitled, members must be entered on the Register at the time which is 48 hours before the time fixed for the adjourned Annual General Meeting, or, if the Company gives notice of the adjourned Annual General Meeting, at the time specified in the notice.
- 2) Members who want to attend and vote should either attend in person or appoint a proxy or corporate representative to attend, speak and vote on his/her behalf. A proxy need not be a member. A paper Form of Proxy is enclosed.

A member may appoint more than one proxy provided that each proxy is appointed to exercise the rights attached to different shares (so a member must have more than one share to be able to appoint more than one proxy). A separate Form of Proxy must be deposited for each proxy appointed. Further copies of the Form of Proxy may be obtained from Capita Asset Services or you may photocopy the Form of Proxy which is enclosed. If multiple proxies are appointed, please indicate on the line provided in each Form of Proxy the number of shares in relation to which the person named in the Form of Proxy is authorised to act as proxy, and also tick the box indicating that the proxy instruction is one of multiple instructions being given. Where multiple proxies are appointed, failure to specify the number of shares to which the proxy appointment relates, or specifying a number which exceeds the number held by the member when totalled with the number specified on other proxy appointments by the same member, will render all the appointments invalid.

Please read carefully the instructions on how to complete the form.

Forms of Proxy, together with the power of attorney or other authority (if any) under which it is signed or a notarially certified copy of such power of attorney or other authority, must be lodged with Capita Asset Services not later than 48 hours before the time for which the Annual General Meeting is convened. Please note that Monday 2 May 2016 is a Bank Holiday in England and Capita Asset Services will not be open for business on that day. All Forms of Proxy must be signed and returned to Capita Asset Services, PXS, 34 Beckenham Road, Beckenham BR3 4TU. All Forms of Proxy from the same member must be returned together in the same envelope.

Completion of a Form of Proxy does not prevent a member from attending and voting in person if he/she is entitled to do so and so wishes.

For assistance with the completion of the Form of Proxy or other matters relating to your shareholding in the Company, please call Capital Asset Services on 0871 664 0300. Calls cost 12p per minute plus the phone company's access charge. If the person calling is outside the United Kingdom, please call +44 371 664 0300. Calls from outside the United Kingdom will be charged at the applicable international rate. Capita Asset Services is open between 9.00 a.m. – 5.30 p.m., Monday to Friday excluding public holidays in England and Wales.

- 3) A corporation which is a member can appoint one or more corporate representatives who may exercise, on its behalf, all its powers as a member provided that no more than one corporate representative exercises powers over the same share.
- 4) As at 7 April 2016 (being the last business day prior to the publication of the Notice of Annual General Meeting) the Company's issued share capital consists of 18,191,894 ordinary shares carrying one vote each.
- 5) There are no service contracts of directors other than ones which may be terminated on up to 12 months' notice at any time. Copies of these service agreements will be available for inspection at the registered office during usual business hours on any weekday (Saturdays and public holidays excepted) from the date of this notice until the date of the Annual General Meeting and at the place of the Annual General Meeting for 15 minutes prior to and during the Annual General Meeting.



## Corporate contacts & advisers

### Secretary & Registered Office

A J Karter LLB (Hons)  
One Arleston Way  
Solihull  
West Midlands  
B90 4LH  
T 0121 693 9100  
F 0121 693 9124

### Advisers

#### **Independent Auditor:**

KPMG LLP  
One Snowhill  
Snow Hill Queensway  
Birmingham  
B4 6GH

#### **Principal Banker:**

Barclays Bank PLC  
38 Hagley Road  
Edgbaston  
Birmingham  
B16 8NY

#### **Stockbrokers:**

Canaccord Genuity Limited  
88 Wood Street  
London  
EC2V 7QR

Stifel Nicolaus Europe Limited  
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