



Secure Trust Bank PLC **Annual Report & Accounts 2013**

**A pioneering approach to simple,
straightforward banking**

Registered Number 00541132

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Introduction

Secure Trust Bank is a longstanding established UK bank, having been incorporated in 1954. Its core business is to provide banking services including a range of lending solutions and savings products. The Group's diversified lending portfolio currently focuses on unsecured personal loans, motor and retail finance whilst its lending is entirely funded by customer deposits, with no exposure to wholesale funding. 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, reflecting the group's cautious approach to risk. The group also provides current accounts to UK customers who may not be adequately served by other banks.

The Group operates from its head office in Solihull, West Midlands and had 550 full-time equivalent employees at 31 December 2013. It has been a subsidiary of the Arbutnot Banking Group since 1985. The Group successfully listed on the Alternative Investment Market in November 2011.

The Group has increased its portfolio in recent years, acquiring the Everyday Loans Group and the V12 Finance Group in June 2012 and January 2013 respectively and the trade and certain assets of Debt Managers Holdings Ltd in January 2013 which are held in its subsidiary Debt Managers (Services) Limited.

Future developments

The Group has made significant progress with the development of its plans for the small and medium-sized enterprises (SME) lending market. The Group will invest to develop this business stream initially in two areas, asset based lending, specifically the invoice finance market, and commercial property lending.

Clear opportunities to compete effectively in the invoice finance market have been identified. The larger banks, seeking to improve their capital efficiency, will encourage borrowers who are currently using overdrafts to use alternative funding products, increasing demand for asset based lending products.

The Group believes that the commercial property market continues to be underserved as some of the larger banks deal with their legacy real estate portfolios.

Group highlights

Secure Trust Bank has shown sustained controlled growth in 2013, both organically and through acquisition. This growth has been achieved alongside prudent capital and liquidity management.

	2013	2012
Net interest margin	16.9%	15.0%
Operating income	£79.0m	£47.0m
Profit before tax	£17.1m	£17.2m
Basic earnings per share	78.3p	108.9p
Total assets	£525.9m	£474.6m
Core Tier 1 capital ratio	19.7%	23.3%
Total capital ratio	19.1%	23.3%
Loan to deposit ratio	90%	75%
Customer numbers	350,861	231,713

Personal lending

Fixed rate, fixed term products with payments received monthly. Loan terms are between 12 months and 60 months with advances varying from £500 to £15,000.

Personal lending showed controlled organic growth in 2013, with new business personal lending volumes growing by 35% to £105.1 million. The acquisition of Everyday Loans in June 2012 has significantly broadened the group's reach to a wider market as well as introducing a high street presence.

Motor lending

Includes a multi-channel offering through motor dealerships and brokers. Fixed rate, fixed term hire purchase agreements which are secured mainly against used cars with finance term periods ranging from 24 to 60 months with a maximum loan size of £15,000. New business lending volumes grew by 18% to £60.3 million. The Company services the majority of the Top 100 UK car dealer groups.

Retail lending

Includes lending solutions for store and online retailers. These are unsecured loans up to £25,000 with fixed rates and terms ranging from 6 months to 48 months. The Company acquired the V12 Finance Group during the year; an acquisition which was complementary to the group's existing retail finance activities and which has enabled the Company to integrate its retail lending activities with those of the V12 Finance Group to leverage their point of sale system. New business lending volumes grew by 89% to £139.2 million.

Current accounts

Combine a current account with a prepaid card. The account charges a monthly fee but customers have the ability to earn rewards at participating retailers. The fee-based current account has undergone progressive enhancements since its introduction.

Savings

A combination of instant access accounts, notice deposits and deposit bonds with competitive interest rates. Customer deposit balances grew by 8.6% during 2013 to £436.6 million.

Chairman's statement

I am pleased to report another year of significant progress across the Secure Trust Bank Group. We have continued to execute our strategy of outstanding customer service, meeting their needs with simple straightforward banking solutions while taking further steps to develop our business model. This approach has proved popular. Customer satisfaction levels have been consistently high and overall customer numbers increased from 231,713 to 350,861 during 2013, an increase of 51%.

Underlying profit before tax for 2013 is £25.2m, representing an increase of 52% on the prior year and an increase of over 220% from £7.9m in 2011, at the time of IPO. Over the same period customer lending balances have increased over 180% and customer numbers have grown from 145,174 to 350,861 over these two years, representing an increase of 140%. These measures serve to highlight the demand for our products and the positive progress the Group has made since its IPO.

Consistent with our management philosophy, we have continued to proactively grow and control our lending portfolio which has resulted in impairment losses being less than expected when we originated the loans. With the economic recovery looking more assured we are expanding into SME lending activities, building on the expertise many of our executives have in these markets. This strategy will add secured loans to our balance sheet and further our ambition to have a more diversified portfolio of customers and assets.

Once again in 2013 we have heard much from commentators about the need for greater competition in the UK banking industry. Unfortunately, despite the rhetoric, there has not been the tangible change necessary to create a level playing field allowing existing smaller banks to compete on a like for like basis with the dominant incumbents. This has led to suggestions for caps on market share and the potential break up of larger banks. I believe these proposals are driven by a failure to understand the root cause of the issue. The larger banks dominate for three principal reasons:

- 1) Deemed by markets to be too big to fail, the big banks benefit from an implicit subsidy from the UK Government in the form of an implicit guarantee that they will not be allowed to fail. The Bank of England published a report in May 2012 which included one estimate of this subsidy being worth as much as £100bn to the big banks. This allows them to fund their lending activities considerably more cheaply than smaller banks which do not benefit from any implicit government guarantee.
- 2) Added to their huge funding cost disadvantages, the smaller banks continue to be required to hold considerably more capital relative to the larger players. In context the Independent Commission on Banking's report highlighted that a small bank can be required to hold up to seven times more capital for prime mortgage lending.
- 3) The big banks completely control the payments infrastructure and in so doing dominate the current account market. This means they get £100bn's of free funding via the balances held on customers' accounts. In order to protect this vital source of cheap funding and their dominance of the 'free if in credit' current account market, the clearing banks levy punitive fees against smaller banks seeking to access the payments infrastructure.

I firmly believe that by addressing these three factors, the so called Challenger Banks, which are already the fastest growing UK banks in percentage terms would be able to grow even more quickly and in so doing contribute more to the economic recovery and help address the too big to fail problem. I therefore call on the Government to take immediate, tangible and decisive steps by:

- 1) Setting up a specific 'Challenger Bank Growth Fund'. This should be available to all banks with balance sheet assets of less than £5bn and allow these banks to borrow term funding from HM Treasury at the same price as the big banks fund themselves as a result of the implicit government guarantee.
- 2) Allow all established banks, regardless of size, to risk weight their lending assets at the average of the top ten banks and building societies. Those large banks with a truly lower risk profile would still gain an advantage but the overall disadvantage suffered by the smaller banks would be substantially addressed.
- 3) HM Government should compel the Payments Council and the clearing banks which control the Council to allow immediately small banks to access the payments infrastructure at cost.

Secure Trust Bank has started 2014 with robust capital and funding positions and significant organic and external business development opportunities. I am confident that the Group will continue to demonstrate profitable and sustainable growth over the coming period. The Board proposes to pay a final dividend of 47p per share. This when added to the interim dividend of 15p would mean a full year dividend of 62p per share. If approved, the final dividend will be paid on 9 May 2014 to shareholders on the register as at 11 April 2014.

Chairman's statement

Finally my Board and I would like to thank all of our employees for their commitment and hard work and I would like to express my appreciation to my fellow Directors for their support during the year and to welcome Lord Forsyth to the Board.

Henry Angest
Chairman

19 March 2014

Chief Executive's statement

Throughout 2013 we have continued to execute our stated and proven strategy to very good effect. The core businesses have performed as expected, Everyday Loans made a good contribution in its first full year within the Group and the acquisitions and subsequent integrations of V12 Retail Finance and Debt Managers proceeded smoothly. As a result, we have delivered a strong set of financial results and continued to build on our successful track record of underlying earnings growth. This gives us a robust capital position and the confidence to continue to grow the dividend.

Significant growth in customer base and high satisfaction levels

Secure Trust Bank is committed to providing customers with simple straightforward banking solutions coupled with great service delivered by friendly and professional staff. This is nothing new. We have been doing this for nearly 62 years. All of our products are specifically designed to be as easy for customers to understand as possible whilst also representing good value for money. As an example, unlike many banks, we do not believe in offering products with features that we regard as gimmicks such as deposit accounts that come with an initial introductory bonus which, once expired, leaves customers with poor savings rates.

The benefit of such a customer focused philosophy came into sharp focus in 2013 when the Financial Conduct Authority announced its intention to undertake a 'thematic review' of the use of 'teaser rates' by banks. Whilst I am watching developments with interest, I am reassured to note that, as we do not offer such products, we will not need to divert resources to assist with this review nor will we be directly impacted if the regulator imposes penalties or orders financial redress to customers negatively impacted by teaser rates.

To underscore further our commitment to giving our customers the best service we subscribed to use the FEEFO service during 2013. FEEFO stands for Feedback Forum which is an online tool that enables customers to rate our service and record any comments. Unlike the more traditional 'internal surveys' the control sits with the customers who are free to say whatever they want. At one level this could be viewed as a bit unnerving but I prefer to view it as a great way of collecting real time customer feedback which reflects how our customers actually experience us. This is valuable information which we discuss at our weekly management meeting every Monday.

The combination of our product design and obsession with great service has been reflected in FEEFO scores of 92% (current and deposit accounts) and 95% (lending products) for 2013. Interested parties can access our FEEFO data at www.securetrustbank.com.

This approach to customer service is helping us to do business with an increasing number of intermediaries who are attracted to us because of our reputation.

In addition, we have continued to be awarded external accolades and remain the only bank in the UK to hold the Customer Service Excellence award (CSE). 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 are making to our products and services.

During the fourth quarter of 2013 we also received confirmation that the Fairbanking Foundation had renewed our 4 star mark making us the only bank in the UK to hold such a mark in respect of our current account product.

We cannot rest on our laurels and we continue to invest in people, systems and processes to improve our service and products still further.

As ever the acid test is whether high quality service is driving growth and I am pleased to be able to note that all of the activities above have helped us to grow our overall customer base by 51% during 2013.

Controlling growth

The Board's on-going top strategic priority is to protect the reputation and sustainability of the bank via prudent balance sheet management, investment for growth and robust risk and operational controls. We have continued to invest in our risk control and governance capabilities during 2013 to reflect the growth in the business and the evolving regulatory environment. In addition to continuing to operate an 'outsourced' internal audit strategy with audit specialists from EY we have also boosted the capabilities of our own discreet Audit, Operational Risk, Compliance and Credit Risk functions. Recognising the increased pace of technological change and the potential opportunities that it may give rise to we have also recruited a new Chief Technology Officer who started earlier this month. He joins following a successful career with a number of larger financial institutions including Citigroup.

Chief Executive's statement

Solid Funding Profile

Our funding strategy was largely unchanged during 2013 save for modest utilisation of the Funding for Lending Scheme. As at 31 December 2013 we had no direct exposure to wholesale funding or interbank markets. All of our lending activities continued to be funded by customer deposits with our year end loan to deposit ratio being 90%. The Funding for Lending Scheme remains available to us but it is our intention only to use this to provide surplus liquidity over and above a core loan to deposit ratio of less than 100%. To achieve a broadly matched assets to liabilities position we increased the average tenor of our deposits over the year with fixed term deposits rising to 44% of total deposits. This compares with 39% as at 31 December 2012. This treasury management has largely mitigated the bank's current exposure to interest rate basis risk whilst improving our resilience in the event of unexpected major market shocks. The bank continues to enjoy strong demand for its deposit products and since the year end we have gathered in further 3, 5 and 7 year term deposits as we believe the interest rates are attractive and will help to position the balance sheet favourably should interest rates rise faster than is expected.

Robust Capital ratios and modest leverage

Our year end Tier 1 Capital ratio of 19.7% remains very healthy (2012: 23.3%). Comparing the relative balance sheet strength of individual banks is extremely difficult due to the differing methodologies used under Basel II which can lead to a picture of seemingly similar capital ratios despite the underlying gross leverage positions being wildly different. As at 31 December 2013 the Secure Trust Bank leverage ratio (calculated as total customer lending divided by equity capital) was only 14.9% (6.7x), representing a modest increase on the 17.2% (5.8x) leverage reported for 2012 and partially reflects the deployment of capital raised in the December 2012 Placing.

The advent of CRD IV has sought to standardise leverage ratio disclosures. Using this methodology our leverage ratio is 11.1% which is a much stronger ratio when compared to those disclosed by major UK banks over recent weeks. This serves to highlight the scope we have to increase our lending activities whilst remaining modestly leveraged on a comparable basis.

Powerful underlying profit growth

The underlying profit for 2013 of £25.2m represents a 52% increase on the £16.6m underlying profit before tax in 2012. The statutory pre-tax profits for 2013 of £17.1m are broadly unchanged compared to the £17.2m reported for 2012. As the Chairman notes in his statement, the statutory profits have been heavily influenced by the acquisition accounting treatment arising from the purchase of Everyday Loans in June 2012. The 2012 statutory profit included a one off profit of £9.8m, much of which is required to be amortised in subsequent periods.

Costs continue to be rigorously controlled but increased regulatory requirements and in particular the demand for experienced risk and compliance staff by the larger banks is exerting upward pressure in these areas. As I note above, we have continued to invest in our overall management capability to ensure that our growth is well controlled and sustainable. This investment in our organisational capabilities inevitably means the short term cost to income ratio is higher than if the business had a slower growth profile.

Lending portfolio performing as expected

We monitor all aspects of risk extremely closely with particular attention to the performance of our lending book. In absolute quantum terms our impairment levels have risen given our growing and maturing lending portfolio, but importantly these remained below the level which we had assumed within our pricing models when writing the business in the motor, personal unsecured and retail finance portfolios. We continue to adopt a robust and dynamic formulaic approach to impairment provisioning. We do not seek to manage our impairments via forbearance activities, instead 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. Once again the impairment numbers reported for 2013 are lower than expectations at origination which we believe reflects our ongoing prudent underwriting standards and the improving economy.

Lending operations

In my statement last year I said 'With the economic outlook remaining very difficult to predict it is appropriate for us to exercise prudence and caution. We have therefore positioned the bank to continue to grow at a good pace and in a sustainable manner

Chief Executive's statement

whilst maintaining low balance sheet leverage and robust capital and funding positions'. This is reflected in the changes to the lending portfolio below.

2013 saw continued controlled growth. Overall new business lending volumes including full year contributions from Everyday Loans and V12 grew 50% to £304.7m (2012: £202.5m) which translated to an increase of 31% in overall balance sheet lending assets to £391.0m (2012: £297.6m).

Motor finance increased lending, net of provisions, to £114.7m at 31 December 2013 (2012: £89.6m). This business, which focuses on the near prime market segment, continues to service the majority of the Top 100 UK car dealer groups.

Personal unsecured lending balances, net of provisions, increased to £77.8m at 31 December 2013 (2012: £68.2m). A significant delay in the commencement of a new bank to bank loan referral arrangement negatively impacted on anticipated growth volumes in this portfolio. This is now live with Sainsbury's Bank and should deliver benefits in 2014.

Retail Point of sale business, net of provisions, grew strongly driven by retailer demand and the V12 acquisition with balances at 31 December 2013 increasing to £114.4m (2012: £64.2m). This activity represents the highest credit quality lending that we currently write and it is an area we will be looking to grow further in 2014.

Everyday Loans balances, net of provisions, grew to £81.4m at 31 December 2013 (2012: £73.8m). We continue to manage this business to focus on profit maximisation rather than dramatic loan growth.

The Everyday Loans portfolio credit quality remained stable throughout 2013 in keeping with the rest of the Secure Trust Bank Group portfolio. The portfolio derived from the branch-based lending model comprises a wide spread of unsecured personal loan customers with a relatively low average balance (£2,700) geographically spread across the UK, thereby minimising any concentration of risk.

Focus on sustainability

A core objective in 2013 was to improve our self-sufficiency and organisational resilience by reducing our reliance on third party brokers and introducers, especially in Personal Lending and Retail Finance. I am pleased to report considerable positive progress here.

Our new personal lending volumes in January 2014 were 18% higher than in January 2013 when our largest single introducer accounted for 82% of all the business written. In January 2014 this introducer accounted for approximately half of the personal loans written under the Moneyway brand. The remainder of the new business volumes is being originated via a range of other sources, the largest of which is our direct to market proposition which accounts for roughly 20% of our volume. This is our most cost effective personal loan distribution channel. During 2014 we will continue to broaden our sources of new personal lending business and aim to replicate the referral scheme in place with Sainsbury's Bank with other banks. This sort of unsecured consumer lending is the most exposed to sudden rises in mortgage rates and these factors will influence the volume of new lending we write here during 2014 relative to other forms of lending such as Retail Finance and Motor Finance.

The acquisition of V12 Retail Finance in January 2013 was a vital development as it gave us a complete end to end retail finance platform. Since the acquisition we have invested heavily in the V12 business as part of our strategy to grow the Retail Finance business faster than our other lending portfolios. We have merged the Secure Trust Bank and V12 Retail Finance operations and are operating this business on a single platform. This is giving rise to operational efficiencies and an improved customer proposition. We have successfully renewed our exclusive contract with the Association of Cycle Traders for a further five years whilst also extending our contract with Evans Cycles for another two years. V12 has achieved some notable new business wins and has now gone live with Halfords. Halfords have not provided any form of retail finance in any of their 450 stores or online in recent years. The move into Retail Finance was an important development for them and we were delighted to win this business in December despite stiff competition. Our entry into the sports season ticket finance market is also going well and we are now live with several large Premiership clubs. Finally, plans to diversify into the provision of season ticket finance for commuters are progressing with East Midlands Trains selecting V12 as its finance provider. We expect this business line to begin in the second half of 2014.

Fee based accounts

As at 31 December 2013 current account customers numbered 22,860, representing a 9% increase on the prior year of 20,962. Customer satisfaction levels are high but achieving significant growth in customer numbers is constrained in part because the

Chief Executive's statement

operational costs arising from accessing the payments infrastructure make the product appear to be uncompetitive compared to 'free if in credit' current accounts from other banks. We have therefore decided to reduce our focus on this product going forward to free up time to invest in more profitable areas.

As expected, the OneBill customer numbers continue to decline over time. £8.0 million of income was generated in 2013 compared to £8.9 million in 2012. We continue to explore the potential to offer a next generation OneBill product with a number of parties including Government agencies. This is proving to be very slow and is not an area of significant focus at present.

Debt Managers has performed broadly in line with expectations since the acquisition with a modest pre-tax loss recorded for 2013. The management team has spent much of 2013 restructuring the business and positioning it for growth. The benefits of this work should be seen in 2014.

Our people

As the saying goes, 'businesses don't achieve success, people do'. A key factor in our ongoing success is the way in which our staff interact with our customers and the business partners and intermediaries we deal with. We place great emphasis on the training and development of our people and on recognising their excellence. In 2013 this emphasis included extensive internal training programmes through to the sponsorship of our staff to take external academic qualifications ranging from foundation courses in Retail Banking with the IFS University College to Masters Degrees in Human Resources Management. I remain delighted that so many staff are willing to commit to their own development which is helping them to improve their day to day performance and give them the skills needed to take on the larger roles that will inevitably arise as the business continues to expand. During 2013 our approach to the development of our employees was recognised by the awarding of Bronze status by Investors in People (IIP). This places the Group in the top 13% of all businesses that are accredited by IIP. We plan to build on this during 2014.

Secure Trust Bank employees have remained heavily involved in charitable activities during the year. Numerous events took place ranging from participation in the annual 'movember' campaign in aid of prostate cancer charities through to making our call centres available for free to support the various 'Relief' events. Indeed, we will be supporting the 2014 Sports Relief event. I am very proud of all the work done to help those less fortunate than ourselves and I applaud my colleagues for both their charitable work and the sheer commitment to delivering great service in a very friendly manner to our customers throughout the year.

Current developments

There has been no material change to the underlying performance of the business in the early months of 2014. 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.

We are particularly focused on balancing good organic growth in our lending portfolios, especially in Motor and Retail Finance, with the creation and growth of SME lending activities. Secure Trust Bank Real Estate Finance is now operational with some loans drawn down by customers already and an encouraging pipeline of potential new business being developed.

Another key objective is to begin the process of entering SME lending markets to create new engines of profit growth and to further diversify the lending portfolio via the addition of secured lending assets over time. I am delighted to report that we have recruited a proven high quality team to join us and create a new Invoice Finance business that will be called Secure Trust Bank Commercial Finance. This will be headed by John Bevan who joins us from Barclays where he was Managing Director of Trade and Working Capital UK and Ireland. John has over thirty years banking experience and is a former chairman of the trade body, the Asset Based Finance Association. The intention is that this 'de novo' business grows in a controlled manner over the next five years. The business will be loss making until 2015 due to the initial costs of setting up the business and running sub-scale. We would consider small acquisitions if identified and if they represent good value and allow us to accelerate our plans in this space.

It has become clear to us that considerable potential exists to write good quality Real Estate Finance transactions at attractive yields without needing to offer aggressive structures. We have written some highly selective business in 2013 and plan to expand in this area in 2014 and beyond. We have therefore recruited a small team of proven property lenders who have previously worked for me to exploit this opportunity. The focus of the team will be on quality and profit rather than simply volume.

With the economic recovery appearing to gain traction we believe the time is right to diversify our lending activities into sectors that are well understood by me and a number of my senior colleagues. We expect to see demand for credit to rise as the economy

Chief Executive's statement

improves and businesses and consumers gain confidence. We believe we are well positioned to benefit from this and are confident of making further positive progress with our strategic plan during 2014.

Finally I should acknowledge the ongoing media speculation regarding a number of banks potentially looking to IPO in the coming periods. We are the only bank to float since the credit crunch and have consistently delivered on the commitments made to the market. As the Chairman notes in his statement, in the two full years since our flotation underlying profits have risen over 220%. We have achieved this whilst being consistent with our prudent risk management philosophies and without making any material use of cheap funding mechanisms such as Funding for Lending to enhance short term profits. Over the same period our share price has quadrupled and we have fostered relationships with existing and potential new shareholders who understand the significance of the challenger bank landscape and the advantage that the first mover will hold as new entrants appear. We remain focused on our growth strategy and consider ourselves well positioned should other opportunities arise that we believe are in the best interests of our shareholders.

Paul Lynam
Chief Executive Officer

19 March 2014

Culture

Investors in People award

During the year the Company celebrated news that it had achieved Investors in People (IiP) bronze level status which is over and above the standard Investors in People award and places Secure Trust Bank in the top 13 per cent of accredited companies. IiP is an exacting national standard that helps organisations to improve performance through their people and also strive for continuous improvement. It ties the organisation's strategy and objectives to the roles and activities of employees.

IiP carried out an in-depth assessment of the Company and found that it satisfied all the evidence requirements from their core standard and additional requirements from their extended framework, leading to the bronze award. The IiP bronze assessment took place over four days and involved the assessors travelling to the Company's offices in Solihull to interview over forty members of staff. The results showed that the Company's values were embedded into every aspect of the business and that employees were continually inspired and motivated by their managers to improve their own performance.

Group strategy and values

The Group's strategy is to Grow, Sustain and Love. The individual components of this strategy comprise:

Grow	Grow a sustainable business by doing more of our current activity, introducing new product lines and making new acquisitions.
Sustain	Safeguarding the integrity and sustainability of the Bank.
Love	Making this a great Bank to work for.

To achieve this strategy, the Bank has adopted a number of values. It is our objective to be the best bank in Britain and to help us achieve that we have chosen five values which underpin the way we do business and the behaviour we expect from all of our staff. They are:

- Customer Focused
- Innovative
- Team Orientated
- Performance Driven
- Risk Aware

They are used in evaluating an individual's personal performance and their contribution to the overall vision of the Bank.

Employee support

The success enjoyed by the Group is also creating numerous opportunities for our staff as evidenced by Group full-time equivalent employee numbers increasing from 418 to 550 during 2013. Excluding the impact of acquisitions, 38 employees were additionally employed by the Group during the year. 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 over a quarter of Secure Trust Bank's employees to take academic qualifications ranging from apprenticeships to master's degrees. The majority of promotions continue to go to internal staff which evidences the range of career paths within the Group. As the size of the Group grows, these opportunities will further expand.

Secure Trust Bank celebrates exceptional performance by awarding regular Customer Service Awards. Individuals are also recognised through the annual 'Outstanding Achievers' award. Furthermore, on a quarterly basis the Chief Executive Officer reviews all the employee suggestions for improving performance, efficiency and effectiveness and awards a cash prize for the best suggestion.

Earn & Learn Degree Programme

Local sixth-form students are benefiting from a new Company initiative which will allow them the opportunity to earn a BSc (Hons) degree, while working full-time for Secure Trust Bank. The 'Earn & Learn' Degree Programme is another manifestation of the Company's on-going commitment to improving the skills-base of financial services professionals at a time when the sector is coming under closer scrutiny about its conduct and professionalism.

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The students are selected following an in-depth process and are given conditional offers of employment to start with Secure Trust Bank upon successful attainment of 280 UCAS points.

The students will work full-time in a variety of hands-on roles and departments in the Bank for a period of three to four years whilst completing the degree programmes during the evenings and weekends. The students will also be enrolled in the **ifs** University College's study programme of lectures, seminars and workshops which will provide both a practical and theoretical understanding of the banking and financial services industry. The students will work towards gaining a fully-funded degree in Banking Practice and Management from the **ifs** University College, while earning a salary and gaining valuable experience at Secure Trust Bank.

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 Company operates an Employee Council, which has employee representatives from each department in the Company and operates within structured terms of reference. 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.

Treating customers fairly

Customer focus is at the heart of what the Group does and how our employees behave. Our products are consistently straight forward 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 50% to over 350,000 by the end of 2013.

On the back of the great service we have provided to our customer base as a whole we have won and then retained a number of prestigious awards including the Customer Service Excellence standard from the Cabinet Office and the 4 star mark for the current account from the Fairbanking Foundation. Our customer service has been shown to meet Government standards of excellence and was benchmarked against other high-performing organisations. The Customer Service Excellence standard tests areas which 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. The Fairbanking Foundation has further indicated that the product has the potential to gain the category's first 5 star Mark. It is not by accident that Secure Trust Bank has avoided being drawn into the various scandals surrounding many of the other banks. It goes to show just why treating customers fairly and providing simple, straightforward, value for money banking is so important.

The Company utilises FEEFO, which is an independent online review system, in order to obtain customer feedback on its current account, loans and savings products. The ratings and comments made by the customers who reply to the request are monitored by senior management of the Company. 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 Company. The ratings and comments are available on the Company's website.

Active partners for business

The Group continues to foster strong, mutually beneficial relationships, with key 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 will allow us to provide more support to businesses in the UK.

Environmental consideration

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.

Strategic report - Business review

Personal Lending

What we do

As a Company, Secure Trust Bank is well established in personal unsecured lending, having been lending for over 35 years, with Moneyway being the Company's personal lending brand. During 2012 the Company acquired Everyday Loans which represented a significant strategic development 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.

Everyday Loans has continued to operate alongside Moneyway through their equally well-known brand name and this will enable it to expand whilst creating significant synergistic benefits for the Group.

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, whilst Everyday Loans specifically is a provider of unsecured loans to a customer base predominantly in lower income groups. They offer any purpose unsecured loans for tenants as well as homeowners.

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

The business utilises highly automated underwriting systems which, in addition to providing significant cost advantages, ensure that consistent credit decisions are made which improves on-going 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.

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. The Group continues to invest to ensure the growth in its business model is reflected in its overall risk and control framework.

Where we do it

Everyday Loans operates through a network of offices where loans are originated, serviced and collected. Applications are made by phone or online.

Secure Trust Bank through its brand Moneyway offers loans via the internet and a phone service utilising an experienced team of UK based advisers.

Revenue and lending performance vs prior years

Personal lending revenue	2011	£6.0 million	2012	£24.2 million	2013	£41.8 million
Personal lending portfolios	2011	£43.6 million	2012	£142.0 million	2013	£159.2 million

2013 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 £105.1 million from £77.8 million in the previous year. This generated an increase in personal lending assets during the year which, at the year-end, including Everyday Loans, totalled £159.2 million (December 2012 : £142.0 million).

The growth in personal lending new business volumes has again not been at the expense of price or quality. Income from personal lending increased by 73% to £41.8 million whilst impairment losses were £10.3 million compared to £5.3 million in 2012.

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Motor Finance

What we do

Secure Trust Bank's motor finance business started lending in 2009. 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 including an engine size of less than three litres, an age ranging from new to a maximum of ten years old by the end of the hire-purchase agreement and with a maximum mileage of 100,000 miles are financed. The majority of vehicles are used cars. Finance term periods range from 24 months to 60 months with a maximum loan of £15,000.

How we do it

The Company distributes its motor finance products via UK motor dealers and motor dealer brokers. 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.

Where we do it

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

Revenue and lending performance vs prior years

Motor finance revenue	2011	£9.9 million	2012	£16.9 million	2013	£23.0 million
Motor finance portfolios	2011	£63.4 million	2012	£89.6 million	2013	£114.7 million

2013 performance

New business lending volumes for motor lending increased to £60.3 million, an increase of 18% on the previous year. This generated a significant increase in lending assets during the year, which at the year-end totalled £114.7 million (December 2012: £89.6 million).

Income from motor lending increased by 36% to £23.0 million whilst impairment losses were 33% higher at £3.6 million, compared to £2.7 million in 2012.

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Retail Finance

What we do

Secure Trust Bank's retail finance business commenced lending in 2009 and provides point of sale finance for in-store and online retailers.

Retail finance products are unsecured, fixed rate and fixed term loans with payments received monthly in arrears. Loans range in term from 6 months to 48 months and the size of the loans vary from £250 to £25,000 depending on the type of product being financed. The loans are either interest bearing or have promotional credit subsidised by retailers or suppliers. Secure Trust Bank does not pay retailers commissions and lending is restricted to UK residents who are either employed or self-employed.

The three largest sub-markets for retail finance at 31 December 2013 are the provision of finance for the purchase of musical instruments, cycles and the leasing of computer equipment. The latter of these is transacted through the Company's subsidiary undertaking STB Leasing Limited. For the second successive summer, cycle finance has seen positive new business levels, undoubtedly as a consequence of the success of British cyclists in the Tour de France, the Olympics and Paralympics over the last two years.

Other markets in which the Group provides finance include gym equipment, motor parts, outdoor pursuits, furniture, leisure, jewellery and funerals. The Group provides finance through a range of retailers including household names such as Evans Cycles, PC World and DFS. The Company has arrangements in place with a number of affinity partners including the Arts Council, ACTSmart and RentSmart.

How we do it

In addition to in-store finance, the bank has an online eFinance service to retailers which is operated by V12 Retail Finance, providing finance to customers through an online paperless processing system. This serves retailers across a number of sectors including furniture, jewellery, dental and sports season tickets.

Where we do it

Retail lending is administered in both the Group head office in Solihull and the V12 Finance Group's offices in Cardiff. The dedicated retail lending team aims to provide a quality service to both retailers and customers.

The acquisition of the V12 Finance Group during the year was complementary to the Group's existing retail finance proposition and the V12 management team continued in the business. 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.

Revenue and lending performance vs prior years

Retail finance revenue	2011	£3.6 million	2012	£5.8 million	2013	£14.5 million
Retail finance portfolios	2011	£42.6 million	2012	£64.2 million	2013	£114.4 million

2013 performance

New business lending volumes for retail lending increased to £139.2 million, an increase of 89% on the previous year. This generated a significant increase in lending assets during the year, which at the year-end totalled £114.4 million (December 2012: £64.2 million).

Income from Retail lending increased by 150% to £14.5 million. Impairment losses were a modest £1.8 million in 2013, compared to £0.7 million in 2012.

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Current Accounts

What we do

Secure Trust Bank's current account is open to everyone regardless of credit history and comes with a prepaid card which can be used for effective personal budgeting. 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.

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. This can help the customers manage their money more effectively because the money loaded onto the prepaid card is separated from the money in their current account, so they can shop safe in the knowledge that the bills will be paid from the money in their current account. Customers generally make sure that they have enough money in their current account to cover direct debits, standing orders and any other 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.

How we do it

Current accounts are distributed via the Company's website, price comparison websites, including Moneysupermarket and Compareprepaid, debt management companies and through a direct outbound sales team.

Once the account is opened 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 and customers have the ability to earn cash rewards of up to 4% paid into their account on purchases made with their card, both online and in store, at over 30 participating major high street retailers. Any cash rebated as a consequence of customer spending at the retailers on the scheme can help to reduce or offset the monthly account charge. The account holder can have additional cards linked to their account for family members at home or abroad, at no extra monthly fee, with all cards eligible to earn rewards. Participating retailers include well known stores such as Asda, Argos, Boots, Debenhams, B&Q and Marks & Spencer.

Where we do it

The business has developed an on-line capability to service and sign up accounts. It is now possible for a customer to open an account on-line, be provided with the new account details and transfer automatically all their direct debits and standing orders in minutes.

Revenue and customer numbers vs prior years

Revenue	2011	£2.9 million	2012	£3.9 million	2013	£4.8 million
Customer numbers	2011	17,178	2012	20,962	2013	22,860

2013 performance

At 31 December 2013, the current account product had been taken up by almost 23,000 customers with the account experiencing new account openings averaging just under 800 per month for the 12 months to 31 December 2013. The current account generated income of over £4.8 million in the year, which represented growth of 23% over the previous year. The growth in the current account volumes has continued to outstrip the reduction in the OneBill accounts. OneBill, a household budgeting product, generated income of £8.0 million in the year, but the Company has closed this product to new customers.

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Savings

What we do

The Bank's savings accounts consist of deposit accounts, notice accounts and fixed term bonds. At Secure Trust Bank, savings accounts offer a simple way to save money. 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 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 secure funding profile which again gives additional financial security to the business.

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

Where we do it

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.

Savings performance vs prior years

Current/demand accounts	2011	£31 million	2012	£32 million	2013	£36 million
Term deposits	2011	£241 million	2012	£367 million	2013	£400 million

2013 performance

The Company continues to manage its liquidity on a conservative basis with none of its 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.

Secure Trust Bank's deposit activities comprise deposit accounts and fee-based accounts, being fee-based current accounts and the OneBill accounts. At 31 December 2013 customer deposits totalled £436.6 million. This represents an increase of £38 million since the last year end.

The Bank's notice deposits totalled £207 million at the year-end (December 2012: £212 million). A new 180 day notice account was introduced in July and was highly successful, raising additional new deposits of £14 million during the second half of the year.

During the year, the Bank launched further fixed rate deposit bonds, predominantly with two and five year maturities broadly to match its lending profile. These again were very successful as the Group raised new deposits of over £63 million, achieving its desired funding maturity profile. At the year-end term deposit bond balances totalled £193 million.

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Summarised income statement	2013	2012	Variance
	£million	£million	£million
Interest, fee and commission income	96.5	60.7	35.8
Interest, fee and commission expense	(17.5)	(13.7)	(3.8)
Operating income	79.0	47.0	32.0
Impairment losses	(15.6)	(8.9)	(6.7)
Other income	-	0.1	(0.1)
Operating expenses	(45.8)	(29.4)	(16.4)
Acquisition related items	(0.5)	8.4	(8.9)
Profit before tax	17.1	17.2	(0.1)
Costs of acquisition	0.9	3.1	
Acquisition fair value adjustments	4.9	(6.9)	
Share based incentive scheme	2.2	1.6	
Net ABG management recharges	0.1	0.1	
Excess funding costs of acquisition	-	1.9	
Income from acquired portfolios	-	(0.4)	
Underlying profit before tax	25.2	16.6	8.6
Underlying tax	(6.7)	(3.9)	(2.8)
Underlying profit after tax	18.5	12.7	5.8
Underlying basic earnings per share	118.2	89.2	29.0

Income analysis

Operating income increased by 68% to £79.0 million. Growth was achieved primarily through increased levels of activity in the personal lending and retail finance product areas. Income from personal lending grew by 73% partly due to the full year effect of the Everyday Loans business acquisition which was completed mid-way through the prior year. Income from retail finance increased by 150%, which was helped through the acquisition and integration of the V12 Finance Group and its lending portfolio. Secure Trust Bank intends to create diversified and balanced growth in the lending books which will serve the business well when the market becomes more competitive.

Income from the current account with a prepaid card increased by 23%, and this partially offset the expected decline in the OneBill account following its closure to new accounts in 2009. The current account closed the year with 22,860 customer accounts (2012: 20,962) and OneBill ended the year with 24,297 customer accounts (2012: 26,154).

Impairment losses were £15.6 million (2012: £8.9 million). This is a modest increase as a percentage of income despite the inclusion of a full year's worth of Everyday Loans losses in 2013 (2012: 6 months and 3 weeks) and a significant increase in the collective provision. We believe this is a function of prudent underwriting and an improving economy.

Operating expenses have increased, in line with expectations, as a result of the full year effect of the Everyday Loans acquisition and the acquisition of V12 and Debt Managers in 2013 as well as the organic growth of the business.

Underlying profit before tax was £25.2 million, which is an increase of 52% on the 2012 underlying profit before tax.

Acquisition related items

During the year, expenses were incurred of £0.9 million relating to costs arising on the acquisition of the V12 Finance Group and Debt Managers, partially offset by the £0.4 million gain from a bargain purchase arising on the acquisition of the Debt Managers business. During the previous year, expenses were incurred of £1.4 million relating to costs arising primarily on the acquisition of Everyday Loans. The acquisition of Everyday Loans in June 2012 generated a fair value gain of £9.8 million.

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Taxation

The effective tax rate on profit before tax is 28% (2012: 9%), due primarily to acquisition adjustments relating to deferred tax. The prior year's tax rate reflected the effects of non-taxable income during the year, primarily the gain from a bargain purchase.

Distributions to shareholders

The directors recommend the payment of a final dividend of 47 pence per share which, together with the interim dividend of 15 pence per share paid on 20 September 2013, represents a total dividend for the year of 62 pence per share (2012: 57 pence per share).

Earnings per share

Detailed disclosures of earnings per ordinary share are shown in note 11 of the financial statements. Basic earnings per share reduced by 28% to 78.3p per share (2012: 108.9p), due principally to the recognition of the exceptional gain from a bargain purchase of £9.8 million in 2012. However, the underlying basic earnings per share increased by 33% to 118.2p per share (2012: 89.2p per share).

Summarised balance sheet

	2013	2012
	£million	£million
Assets		
Loans and advances to banks	110.0	155.3
Loans and advances to customers	391.0	297.6
Other assets	24.9	21.7
	525.9	474.6
Liabilities and equity		
Deposits from customers	436.6	398.9
Other liabilities	27.7	19.8
Total equity	61.6	55.9
	525.9	474.6

The total assets of the Group increased by 10% primarily due to the continued growth in the personal lending, motor finance and retail finance portfolios. Total assets now exceed half a billion pounds. During the year the retail finance business increased its portfolio size by 78% or £50.2 million to close at £114.4 million, as a result of organic growth and the acquisition of the V12 Finance Group. Personal lending grew by £17.2 million as the business was able to source new business from online brokers and affinity partners. Motor finance increased its portfolio size by £25.1 million through a growing number of dealer relationships.

Customer deposits grew by 9.5% to close at £436.6 million to fund the increased lending balances. The Group continues with its conservative funding policy, its lending remaining entirely funded by customer deposits, ending the year with a loan to deposit ratio of 90% (2012: 75%).

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 derive 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 Prudential Regulation Authority Handbook (BIPRU 2.2), the Arbutnot Banking Group's Internal Capital Adequacy Assessment Process (ICAAP), of which the Group is a major component, 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

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planning process. The ICAAP is a process which brings together the risk management framework 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 by the Prudential Regulation Authority.

The Group’s regulatory capital is divided into:

Tier 1 which comprises shareholders’ funds and non-controlling interests, after deducting intangible assets.

Tier 2 which comprises the collective provision and revaluation reserves.

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

Tier 1 capital	£60.1 million	19.7% of Basel II Risk Weighted Assets
Tier 2 capital	£1.9 million	
Total capital after deductions	£58.2 million	19.1% of Basel II Risk Weighted Assets

Changes relating to the commencement of the implementation of Capital Requirements Directive IV (CRD IV) in 2014 will not have a material impact on the capital resources of the Group.

Principal risks and uncertainties

The Group regards the monitoring and controlling of risks as a fundamental part of the management process. Consequently, senior management are involved in the development of risk management policies and in monitoring their application. The principal risks inherent in the Group’s business are credit, market, liquidity, operational and regulatory risks. A detailed description of the risk management policies in these areas is set out in Note 5 to the financial statements; however a short description of the risks faced is detailed below.

Credit risk is the risk that a counterparty will be unable to pay amounts in full, when due. This risk is managed through the Group’s internal controls and its credit risk policies as well as through the Credit Committee, with significant exposures also being approved by the Group’s Risk Committee.

Market risk as it applies to the Secure Trust Bank Group is primarily limited to interest rate risk. This is managed using Group resources with support from the treasury function of the Arbutnot Banking Group which does not take significant unmatched positions in any market for its own account. The Group and Company have no exposures to currency fluctuations.

Liquidity risk is the risk that the Group cannot meet its liabilities as they fall due. The Group takes a conservative approach to managing its liquidity profile and is primarily funded by retail customer deposits, placing no reliance on the wholesale lending markets. The loan to deposit ratio is typically maintained at a prudent level below 100%. The Assets and Liabilities Committee (‘ALCO’), comprising executive directors and senior executives of the Company and Group, is the formal body that has responsibility for liquidity risk management. The ALCO meets formally on a monthly basis to review liquidity risk against set thresholds and risk indicators including early warning indicators, liquidity risk tolerance levels and Individual Liquidity Adequacy Assessment (ILAA) metrics.

Operational risk is the risk that the Group may be exposed to financial losses from failures of its systems and processes. The Group maintains clear compliance guidelines and provides ongoing training to all staff. The Group’s overall approach to managing internal control and financial reporting is described in the Corporate Governance Statement in the Annual Report.

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Regulatory risk can be split between capital risk and conduct 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 Arbuthnot Banking Group's ICAAP, of which the Group is a major component. Stringent stress tests are performed to ensure that capital resources are adequate over a future three year horizon. Conduct risk is the risk that the Group does not comply with regulatory requirements including, for example, the way it conducts its business or treats its customers. The Group reviews performance against key customer and conduct risks on a monthly basis and seeks feedback from its customers in all its product types.

Funding for Lending Scheme

During the year the Company 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 non-financial companies. 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 institutions' performance in lending to the UK non-financial sector.

The FLS allows participants to borrow UK Treasury Bills from the Bank of England for a period of up to four years in exchange for eligible collateral during a defined drawdown period. The value of the UK Treasury Bills lent by the Bank of England is at a discount to the market value of the eligible securities which are lent to the Bank of England in return. The amount of discount or "haircut" is determined according to the FLS rules, with the level of "haircut" being greater for those eligible securities which are perceived as having greater risk.

The price of each institution's borrowing in the FLS will depend on its volume of lending to the real economy during the reference period. For banks or building societies maintaining or expanding their lending over that period, the fee will be 0.25% pa on the amount borrowed. As banks increase lending, their overall funding costs will fall. For banks or building societies whose lending declines, the fee will increase linearly, up to a maximum of 1.5% pa where lending decreases by 5% or more.

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 therefore not recognised on the balance sheet of the institution as they will not meet the criteria for de-recognition by the Bank of England.

At 31 December 2013 the Company has pre-positioned £43.9 million of loans and advances to customers and £9.9 million of loans and advances to banks with the FLS, which are available for use as collateral for the Company's participation in the scheme.

Liquidity

One of the Basel committee's key reforms to develop a more resilient banking sector is the Liquidity Coverage Ratio (LCR). The objective of the LCR is to promote the short term resilience of the liquidity risk profile of banks. It does this by ensuring that banks 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. At 31 December 2013, the Group had significant headroom over the minimum 100% recommendations due to its significant stock of high quality liquid assets, in the form of Bank of England Treasury Bills.

The Net Stable Funding Ratio (NSFR) supplements the LCR and has a time horizon of one year. It has been developed to provide a sustainable maturity structure of assets and liabilities. At 31 December 2013, the Group had an NSFR of 114%, with significant headroom over the minimum requirement of 100%.

Neeraj Kapur
Chief Financial Officer

19 March 2014

Board of Directors

Henry Angest LLL, Hon.F.UHI - Non-executive Chairman

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.

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.

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

Neeraj Kapur has over 24 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 Vice Chair of the ICAEW Financial Services Faculty. Neeraj spent 11 years working in professional practice before joining RBS in 2001 and has undertaken a number of roles which included Chief Financial Officer of Lombard North Central PLC.

Andrew Salmon ACA - Non-executive director

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

The Rt Hon Lord Forsyth of Drumlean PC Kt - Independent non-executive director

Michael Forsyth is a director of J&J Denholm, 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 on 1 March 2014, after the financial year end.

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. Prior to retiring from RBS in July 2009, Paul was involved in a change programme in the RBS UK banking business. Paul is currently the Chairman of JCB Finance Limited, a joint venture between J C Bamford Excavators Limited and RBS Group.

Carol Sergeant BA, MBA, CBE - Independent non-executive director

Carol Sergeant has extensive banking experience gained over a 38 year career with the Bank of England, the Financial Services Authority (which she helped to set up) and latterly as the Chief Risk Officer and a member of the Group Executive Committee of Lloyds Banking Group PLC. Carol holds a BA from Cambridge University and an MBA from the CASS Business School. Carol is a non-executive director of Danske Bank and Martin Currie Holdings Limited and is the Chairman of the UK whistle blowing charity Public Concern at Work.

Jeremy Kaye FCIS - Company Secretary

Directors' report

Report and financial statements

The directors submit their report and the audited financial statements of Secure Trust Bank PLC ("the Company") for the year ended 31 December 2013. "The Group" includes the Company and its subsidiaries.

Principal activities and review

The principal activity of the Group is retail banking. A strategic review in accordance with section 414C of the Companies Act 2006 forming part of this report is set out in the Strategic Report.

Results and dividend

The results for the year are shown on page 32. The Group profit for the year after taxation attributed to equity holders of the parent company amounted to £12.3 million (2012: £15.5 million). An analysis of the movement in profit after taxation between the current and preceding year is contained in the Financial Review on page 17.

The directors recommend the payment of a final dividend of 47 pence per share which, together with the interim dividend of 15 pence per share paid on 20 September 2013, represents a total dividend for the year of 62 pence per share (2012: 57 pence per share). The final dividend, if approved by members at the Annual General Meeting, will be paid on 9 May 2014 to shareholders on the register at the close of business on 11 April 2014.

Acquisitions during the year

On 2 January 2013 the Company acquired the issued share capital of V12 Finance Group Limited, which along with its wholly owned subsidiaries V12 Retail Finance Limited and V12 Personal Finance Limited provide retail point of sale loans, for a cash consideration of £3.5 million and funding to enable £7.0 million of subordinated debt to be redeemed and £28.1 million of bank finance to be repaid.

On 15 January 2013 the Company's subsidiary, Debt Managers (Services) Limited ("DMS"), acquired the trade and certain assets from Debt Managers Holdings Limited, Debt Managers (AB) Limited and Debt Managers Limited. DMS collects debt on behalf of a range of clients including banks and utility companies. The Company acquired the trade and assets for an initial cash payment of £0.4 million paid on completion of the transaction. In addition, deferred consideration of £0.1 million was paid by DMS one year after completion on the business achieving certain performance criteria.

Future developments

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

Share capital

At the Annual General Meeting shareholders will be asked to approve two Ordinary and one Special Resolution. The first Ordinary Resolution seeks to give directors general authority to allot shares up to 5% of the Company's existing ordinary share capital during the period expiring on 31 May 2015, or if earlier on the conclusion of the next Annual General Meeting of the Company. The directors have no present intention of issuing any shares and will not issue shares which would effectively change the control of the Company without the prior approval of shareholders in general meeting.

The Special Resolution renews the authority of the directors to make market purchases of shares not exceeding 10% of the existing share capital. The directors will keep the position under review in order to maximise the Company's resources in the best interests of shareholders.

Remuneration

The second Ordinary Resolution gives the Company authority to make bonus payments to executive directors or senior managers not exceeding two times the annual basic salary of the director or senior manager if required by forthcoming regulation. It is the practice of the Company to pay fair and reasonable salaries and to reward exceptional performance under a bonus scheme.

Directors' report

Substantial shareholders

As at 19 March 2014 the Company was aware of the following substantial holdings in its issued ordinary share capital:

	Ordinary shares	Percentage of issued ordinary share capital
Arbuthnot Banking Group PLC	10,486,205	67.0%
Ruffer LLP	680,967	4.4%
Unicorn Asset Management Limited	607,275	3.9%
Cazenove Capital Management Limited	590,905	3.8%
Miton Group plc	540,000	3.5%

Directors and their share interests

The directors of the Company are Henry Angest, Lord Forsyth of Drumlean, Neeraj Kapur, Paul Lynam, Paul Marrow, Andrew Salmon and Carol Sergeant. With the exception of Lord Forsyth of Drumlean, who was appointed on 1 March 2014, all the directors 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 21.

Lord Forsyth and Carol Sergeant, who retires under Article 82 of the Articles of Association, offer themselves for election or re-election as appropriate. Neither director has a service agreement with the Company.

Mr Angest, Mr Lynam and Mr Salmon are directors of the ultimate parent company Arbuthnot 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.

According to the information kept under Section 3 of the Disclosure and Transparency Rules 2006, the interests of the directors and their families in the ordinary 40p shares of the Company at the dates shown were as follows:

	At 1 January 2013	Acquired during the year	At 31 December 2013 and 19 March 2014
N Kapur	1,000	-	1,000
P A Lynam	8,800	310	9,110
P Marrow	5,440	-	5,440
A A Salmon	7,500	-	7,500
C F Sergeant	6,600	-	6,600

On 2 November 2011, Mr Lynam and Mr Salmon were both granted an option to subscribe between 2 November 2014 and 1 November 2021 for 141,666 ordinary 40p shares in the Company at 720 pence a share, as well as an option to subscribe between 2 November 2016 and 1 November 2021 for 141,667 ordinary 40p shares in the Company at 720 pence a share.

On 2 November 2011, Mr Kapur was granted an option to subscribe between 2 November 2014 and 1 November 2021 for 35,416 ordinary 40p shares in the Company at 720 pence a share, as well as an option to subscribe between 2 November 2016 and 1 November 2021 for 35,417 ordinary 40p shares in the Company at 720 pence a share.

During 2013 the Share Option Scheme was modified to become equity-settled rather than cash-settled (see note 25).

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

Board Committees

The report of the Remuneration Committee on pages 28 to 29 will be the subject of an Ordinary Resolution at the Annual General Meeting.

Information on the Audit, Nomination and Risk Committees is included in the Corporate Governance statement on pages 26 to 27.

Directors' report

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 them 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.

Political donations

The Group made no political donations during the year (2012: nil).

Post balance sheet events

There are no post balance sheet events.

Auditor

Following a review of their corporate structure, our auditor, KPMG Audit Plc, has instigated an orderly wind down of business, with future audit work being undertaken by KPMG LLP. The Board has decided to put KPMG LLP forward to be appointed as auditor and a resolution for its appointment will be proposed to the forthcoming Annual General Meeting of the Company. There is no difference in liability terms between KPMG Audit Plc and KPMG LLP.

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, 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 regulatory compliance 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 7 May 2014.

By order of the Board

J R Kaye
Secretary

19 March 2014

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 have decided to prepare voluntarily a Directors' Remuneration Report 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. The directors have also decided to prepare voluntarily a Corporate Governance statement as if the Company were required to comply with the Listing Rules and the Disclosure Rules and Transparency Rules of the Financial Conduct Authority and the Prudential Regulation Authority in relation to those matters.

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.

On behalf of the Board

Paul Lynam
Chief Executive Officer

19 March 2014

Corporate Governance statement

AIM companies are not required to comply with The UK Corporate Governance Code. Nevertheless, the Board endorses the principles of openness, integrity and accountability which underlie good corporate governance and intends to take into account the provisions of The UK Corporate Governance Code in so far as they are appropriate to the Group's size and circumstances.

The Board

The Group was led and controlled by an effective Board of Directors which comprises Henry Angest (Non-Executive Chairman), Paul Lynam (Chief Executive Officer), Neeraj Kapur (Chief Financial Officer), and three other non-executive directors. Under the Company's Articles and pursuant to the relationship agreement in place between the Company and Arbuthnot Banking Group PLC ("ABG"), one third of the directors will be appointed by ABG, one third of the directors will be full-time executive directors, and one third of the directors will be independent directors.

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 will ensure that it is satisfied 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. 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 there is an agreed procedure for directors to 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 committees, which are summarised below. Each of these committees has written terms of reference.

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 Carol Sergeant.

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 will meet with the Company's external auditors and internal audit function without any executive directors being present.

The Committee also reviews the appointment, terms of engagement and objectivity of the external auditors, including the level of non-audit services provided, and ensures that there is an appropriate audit relationship. The Audit Committee provides a forum for discussing with the Group's external auditors their report on the annual accounts.

Risk Committee

The Risk Committee is chaired by Andrew Salmon. Other members are Paul Lynam and Paul Marrow.

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 Group risk principles, policies and standards, and at all times act in adherence with and with regard to the risk principles, policies and standards adopted by ABG and keep ABG regularly informed of any risk issues or breaches faced by the Group which may affect the ABG Group.

Remuneration Committee

Details of the Remuneration Committee and directors' remuneration are set out in the separate Remuneration report.

Corporate Governance statement

Nomination Committee

The Nomination Committee is chaired by Henry Angest and its other members are Paul Marrow and Carol Sergeant.

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, and have regard to provisions of the Relationship Agreement when performing its duties. Before a Board appointment is made the skills, knowledge and experience required for a particular appointment are evaluated. The Nomination Committee also follows the ICSA Guidance on Terms of Reference for Nomination Committees.

Shareholder Communications

The Company maintains a regular dialogue with its shareholders and makes full use of the Annual General Meeting and any other General Meetings 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. Key announcements and other information can be found at www.securetrustbank.com.

Internal control and financial reporting

The Board of Directors 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 directors and senior management of the Group have formally adopted a Group Risk and Controls Policy which sets out the Board's attitude to risk and internal control. Key risks identified by the directors are formally reviewed and assessed at least once a year by the Board. Key business risks are also identified, evaluated and managed by operating management on an ongoing basis. 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.

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 which is outsourced to EY. The Audit Committee also receives reports from the external auditors, KPMG Audit Plc, 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.

From January 2014, the Group has established its own Internal Audit function reflecting the continuing business investment in risk mitigation and compliance processes. EY will continue to be engaged in both an audit and advisory capacity and will provide support in areas requiring specific subject matter expertise.

Remuneration report

Remuneration Committee

Membership of the Remuneration Committee is limited to non-executive directors. The present members of the Committee are Henry Angest, Chairman, Paul Marrow and Carol Sergeant.

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 in the corporate Group of which the Company forms a part. The Committee applies the Company's remuneration policy and monitors its implementation, reviews the Directors' Remuneration Report, considers and if thought fit awards any incentives to be offered under the Share Option Scheme and pension arrangements, subject to the achievement of specific criteria. The Remuneration Committee also follows the ICASA Guidance on Terms of Reference for Remuneration Committees. Members of the Committee do not vote on their own remunerations.

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. 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. During 2013 the Group implemented all the provisions required under the Prudential Regulation Authority's Remuneration Code. The Group and its subsidiaries are all considered to be Tier III institutions, due to the size of their relevant total assets.

Directors' Service Contracts

Mr Lynam and Mr Kapur each have service contracts terminable at any time on 12 months' notice in writing by either party. Mr Marrow and Mrs Sergeant have service contracts terminable at any time on 3 months' notice in writing by either party. Mr Angest and Mr Salmon have service contracts with Arbuthnot Banking Group 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 which is administered by the Remuneration Committee. Details of the options granted to directors of the Company can be found in the Directors' Report on pages 22 to 24.

The market price for each ordinary share at the year end was 2,925p. The highest and lowest market price for each ordinary share during the year was 1,570p and 2,925p.

A detailed description of the Share Option Scheme, including Scheme Conditions, is contained in Note 25 of the financial statements.

Remuneration report

Directors' emoluments

This part of the remuneration report is audited information

	2013	2012
	£000	£000
Salary and fee payments (including bonuses and benefits in kind)	1,427	1,252
Pension contributions	60	60
	1,487	1,312

	Salary/fees	Bonus	Benefits	Pension	Total	Total
	£000	£000	£000	£000	2013	2012
					£000	£000
N Kapur	184	100	19	25	328	319
P Lynam	475	500	21	35	1,031	870
P Marrow	83	-	-	-	83	78
C Sergeant	45	-	-	-	45	45
	787	600	40	60	1,487	1,312

The emoluments of Mr Angest and Mr 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 Mr Angest and Mr 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 (2012: £60,000 and £45,000 respectively).

The emoluments of the highest paid director were £1,031,000 for the year ended 31 December 2013 (2012: £870,000), including contributions made to a money purchase scheme of £35,000 (2012: £35,000).

Retirement benefit contributions are being paid for two directors who served during 2013 (2012: 2).

Henry Angest

Chairman of the Remuneration Committee

19 March 2014

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 2013 set out on pages 32 to 78. 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 25, 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.

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 2013 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.

Independent Auditor's report

to the members of Secure Trust Bank PLC

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.

**Richard Gabbertas (Senior Statutory Auditor)
for and on behalf of KPMG Audit Plc, Statutory Auditor**

Chartered Accountants
One Snowhill
Snow Hill Queensway
Birmingham
B4 6GH

19 March 2014

Consolidated statement of comprehensive income

	Note	Year ended 31 December 2013 £million	Year ended 31 December 2012 £million
Interest receivable and similar income		73.8	44.9
Interest expense and similar charges		(12.9)	(10.5)
Net interest income	7	60.9	34.4
Fee and commission income		22.7	15.8
Fee and commission expense		(4.6)	(3.2)
Net fee and commission income		18.1	12.6
Operating income		79.0	47.0
Impairment losses on loans and advances		(15.6)	(8.9)
Gain from a bargain purchase	30	0.4	9.8
Other income		-	0.1
Costs arising from acquisitions		(0.9)	(1.4)
Operating expenses	8	(45.8)	(29.4)
Profit before income tax		17.1	17.2
Income tax expense	10	(4.8)	(1.7)
Profit for the year		12.3	15.5
Other comprehensive income, net of income tax			
Cash flow hedging reserve			
- Effective portion of changes in fair value		-	(0.1)
Other comprehensive income for the year, net of income tax		-	(0.1)
Total comprehensive income for the year		12.3	15.4
Profit attributable to:			
Equity holders of the Group		12.3	15.5
Total comprehensive income attributable to:			
Equity holders of the Group		12.3	15.4
Earnings per share for profit attributable to the equity holders of the Group during the year (expressed in pence per share)			
Basic earnings per share	11	78.3	108.9
Diluted earnings per share	11	76.7	108.9

The notes on pages 39 to 78 are an integral part of these consolidated financial statements

Consolidated statement of financial position

	Note	At 31 December	
		2013 £million	2012 £million
ASSETS			
Loans and advances to banks	12	110.0	155.3
Loans and advances to customers	13	391.0	297.6
Property, plant and equipment	17	5.0	5.4
Intangible assets	15	9.9	5.2
Deferred tax assets	22	1.9	5.1
Other assets	19	8.1	6.0
Total assets		525.9	474.6
LIABILITIES AND EQUITY			
Liabilities			
Deposits from banks		0.1	-
Deposits from customers	20	436.6	398.9
Current tax liabilities		1.4	0.3
Deferred tax liabilities	22	0.4	1.2
Other liabilities	21	25.8	18.3
Total liabilities		464.3	418.7
Equity attributable to owners of the parent			
Share capital	24	6.3	6.3
Share premium		28.2	28.2
Retained earnings		27.3	21.7
Cash flow hedging reserve		(0.4)	(0.4)
Revaluation reserve		0.2	0.1
Total equity		61.6	55.9
Total liabilities and equity		525.9	474.6

The financial statements on pages 32 to 78 were approved by the Board of Directors on 19 March 2014 and were signed on its behalf by:

P Lynam - Chief Executive Officer

N Kapur - Chief Financial Officer

The notes on pages 39 to 78 are an integral part of these consolidated financial statements

Company statement of financial position

	Note	At 31 December	
		2013 £million	2012 £million
ASSETS			
Loans and advances to banks	12	108.5	153.6
Loans and advances to customers	13	283.9	197.5
Property, plant and equipment	17	0.5	1.0
Intangible assets	15	0.9	0.8
Investments	16	3.7	-
Deferred tax assets	22	0.8	0.6
Other assets	19	101.0	98.1
Total assets		499.3	451.6
LIABILITIES AND EQUITY			
Liabilities			
Deposits from banks		0.1	-
Deposits from customers	20	436.6	398.9
Current tax liabilities		0.2	0.3
Other liabilities	21	15.5	8.7
Total liabilities		452.4	407.9
Equity attributable to owners of the parent			
Share capital	24	6.3	6.3
Share premium		28.2	28.2
Retained earnings		12.8	9.6
Cash flow hedging reserve		(0.4)	(0.4)
Total equity		46.9	43.7
Total liabilities and equity		499.3	451.6

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 32 to 78 were approved by the Board of Directors on 19 March 2014 and were signed on its behalf by:

P Lynam - Chief Executive Officer

N Kapur - Chief Financial Officer

Registered number: 00541132

The notes on pages 39 to 78 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
Balance at 1 January 2012	5.7	9.5	0.1	(0.3)	8.8	23.8
Total comprehensive income for the period						
Profit for 2012	-	-	-	-	15.5	15.5
Other comprehensive income, net of income tax						
Cash flow hedging reserve						
- Effective portion of changes in fair value	-	-	-	(0.1)	-	(0.1)
Total other comprehensive income	-	-	-	(0.1)	-	(0.1)
Total comprehensive income for the period	-	-	-	(0.1)	15.5	15.4
Transactions with owners, recorded directly in equity						
Contributions by and distributions to owners						
Dividends	-	-	-	-	(2.5)	(2.5)
Credit for share based payments	-	-	-	-	(0.1)	(0.1)
Issue of ordinary shares	0.6	19.4	-	-	-	20.0
Transaction costs on issue of shares	-	(0.7)	-	-	-	(0.7)
Total contributions by and distributions to owners	0.6	18.7	-	-	(2.6)	16.7
Balance at 31 December 2012	6.3	28.2	0.1	(0.4)	21.7	55.9
Total comprehensive income for the period						
Profit for 2013	-	-	-	-	12.3	12.3
Other comprehensive income, net of income tax						
Revaluation reserve						
- Amount transferred to profit and loss	-	-	0.1	-	(0.1)	-
Total other comprehensive income	-	-	0.1	-	(0.1)	-
Total comprehensive income for the period	-	-	0.1	-	12.2	12.3
Transactions with owners, recorded directly in equity						
Contributions by and distributions to owners						
Dividends	-	-	-	-	(9.1)	(9.1)
Charge for share based payments	-	-	-	-	2.5	2.5
Total contributions by and distributions to owners	-	-	-	-	(6.6)	(6.6)
Balance at 31 December 2013	6.3	28.2	0.2	(0.4)	27.3	61.6

The notes on pages 39 to 78 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
Balance at 1 January 2012	5.7	9.5	(0.3)	6.7	21.6
Total comprehensive income for the period					
Profit for 2012	-	-	-	5.5	5.5
Other comprehensive income, net of income tax					
Cash flow hedging reserve					
- Effective portion of changes in fair value	-	-	(0.1)	-	(0.1)
Total other comprehensive income	-	-	(0.1)	-	(0.1)
Total comprehensive income for the period	-	-	(0.1)	5.5	5.4
Transactions with owners, recorded directly in equity					
Contributions by and distributions to owners					
Dividends	-	-	-	(2.5)	(2.5)
Credit for share based payments	-	-	-	(0.1)	(0.1)
Issue of ordinary shares	0.6	19.4	-	-	20.0
Transaction costs on issue of shares	-	(0.7)	-	-	(0.7)
Total contributions by and distributions to owners	0.6	18.7	-	(2.6)	16.7
Balance at 1 January 2013	6.3	28.2	(0.4)	9.6	43.7
Total comprehensive income for the period					
Profit for 2013	-	-	-	9.8	9.8
Total comprehensive income for the period	-	-	-	9.8	9.8
Transactions with owners, recorded directly in equity					
Contributions by and distributions to owners					
Dividends	-	-	-	(9.1)	(9.1)
Charge for share based payments	-	-	-	2.5	2.5
Total contributions by and distributions to owners	-	-	-	(6.6)	(6.6)
Balance at 31 December 2013	6.3	28.2	(0.4)	12.8	46.9

The notes on pages 39 to 78 are an integral part of these consolidated financial statements

Consolidated statement of cash flows

		Year ended 31 December 2013	Year ended 31 December 2012
	Note	£million	£million
Cash flows from operating activities			
Profit for the year		12.3	15.5
Adjustments for:			
Income tax expense		4.8	1.7
Depreciation of property, plant and equipment	17	0.6	0.6
Amortisation of intangible assets	15	2.4	0.9
Gain from a bargain purchase	30	(0.4)	(9.8)
Impairment losses on loans and advances		15.6	8.9
Share based compensation		2.5	(0.1)
Cash flows from operating profits before changes in operating assets and liabilities		37.8	17.7
Changes in operating assets and liabilities:			
- net decrease in derivative financial instruments		-	0.1
- net decrease/(increase) in loans and advances to banks		41.3	(41.3)
- net increase in loans and advances to customers		(76.1)	(80.8)
- net (increase)/decrease in other assets		(0.6)	4.5
- net increase in deposits from banks		0.1	-
- net increase in amounts due to customers		37.7	126.8
- net increase in other liabilities		5.5	6.7
Income tax paid		(2.5)	(1.4)
Net cash inflow from operating activities		43.2	32.3
Cash flows from investing activities			
Borrowings repaid on acquisition of subsidiary undertakings	29, 30	(36.9)	(71.6)
Cash acquired on purchase of subsidiary undertakings	29, 30	1.6	1.0
Purchase of subsidiary undertakings	29, 30	(3.9)	-
Purchase of property, plant and equipment	17	(0.4)	(0.6)
Purchase of computer software	15	(0.7)	(0.3)
Proceeds from sale of property, plant and equipment		0.3	-
Proceeds from sale of computer software		1.9	-
Net cash from investing activities		(38.1)	(71.5)
Cash flows from financing activities			
Net decrease in subordinated loans		-	(3.0)
Net inflow on issue of share capital		-	19.3
Dividends paid		(9.1)	(2.6)
Net cash used in financing activities		(9.1)	13.7
Net decrease in cash and cash equivalents		(4.0)	(25.5)
Cash and cash equivalents at 1 January		94.0	119.5
Cash and cash equivalents at 31 December	26	90.0	94.0

The notes on pages 39 to 78 are an integral part of these consolidated financial statements

Company statement of cash flows

		Year ended 31 December 2013	Year ended 31 December 2012
	Note	£million	£million
Cash flows from operating activities			
Profit for the year		9.8	5.5
Adjustments for:			
Income tax expense		3.0	1.4
Depreciation of property, plant and equipment	17	0.3	0.4
Amortisation of intangible assets	15	0.3	0.1
Provisions against amounts due from customers		9.6	6.2
Share based compensation		2.5	(0.1)
Cash flows from operating profits before changes in operating assets and liabilities		25.5	13.5
Changes in operating assets and liabilities:			
- net decrease in derivative financial instruments		-	0.1
- net decrease/(increase) in loans and advances to banks		41.3	(41.3)
- net increase in loans and advances to customers		(96.0)	(66.1)
- net decrease/(increase) in other assets		34.0	(3.0)
- net increase in deposits from banks		0.1	-
- net increase in amounts due to customers		37.7	126.8
- net increase in other liabilities		6.0	2.7
Income tax paid		(2.5)	(1.1)
Net cash inflow from operating activities		46.1	31.6
Cash flows from investing activities			
Borrowings repaid on acquisition of subsidiary undertaking	29, 30	(36.9)	(71.6)
Purchase of subsidiary undertakings	16	(3.7)	-
Purchase of property, plant and equipment	17	(0.2)	(0.6)
Purchase of computer software	15	(0.4)	(0.3)
Proceeds from sale of property, plant and equipment		0.4	-
Net cash from investing activities		(40.8)	(72.5)
Cash flows from financing activities			
Decrease in subordinated loans		-	(3.0)
Net inflow on issue of share capital		-	19.3
Dividends paid		(9.1)	(2.6)
Net cash used in financing activities		(9.1)	13.7
Net decrease in cash and cash equivalents		(3.8)	(27.2)
Cash and cash equivalents at 1 January		92.3	119.5
Cash and cash equivalents at 31 December	26	88.5	92.3

The notes on pages 39 to 78 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 2013 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 19 March 2014.

a) Standards, interpretations and amendments effective in 2013 or which have been early adopted and are relevant to the Group

- IFRS 7 (Revised), ‘Disclosures - Offsetting Financial Assets and Financial Liabilities’ (effective 1 January 2013). The revised standard amends the required disclosures to include information that will enable users of an entity’s financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off associated with the entity’s recognised financial assets and recognised financial liabilities, on the entity’s financial position.
- IFRS 13, ‘Fair Value Measurement’ (effective 1 January 2013). This standard replaces the existing guidance on fair value measurement in different IFRSs with a single definition of fair value, a framework for measuring fair values and disclosures about fair value measurements. This standard applies to assets, liabilities and an entity’s own equity instruments that, under other IFRSs, are required or permitted to be measured at fair value or when disclosure of fair value is provided. Fair value is defined as 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.
- Improvements to IFRSs. Sets out minor improvements to IFRS standards as part of the annual improvement process.

The above changes did not have any material impact on the financial statements.

b) Standards, amendments and interpretations to existing standards applicable to the Group that are not yet effective and have not been early adopted by the Group

The following standards and amendments to existing standards have been published and are mandatory for the Group’s accounting periods beginning on or after 1 January 2014 or later periods, but the Group has not early adopted them:

- IFRS 10, ‘Consolidated Financial Statements’ and IAS 27 (Revised), ‘Separate Financial Statements’ (effective 1 January 2014). IFRS 10 supersedes IAS 27 and SIC-12, and provides a single model to be applied in the control analysis for all investees. There are some minor clarifications in IAS 27, and the requirements of IAS 28 and IAS 31 have been incorporated into IAS 27.

Notes to the consolidated financial statements

- IFRS 11, 'Joint Arrangements' (effective 1 January 2014). This standard replaces the existing accounting for subsidiaries and joint ventures (now joint arrangements) and removes the choice of equity or proportionate accounting for jointly controlled entities, as was the case under IAS 31.
- IFRS 12, 'Disclosure of Interests in Other Entities' (effective 1 January 2014). This standard replaces the existing accounting for subsidiaries and joint ventures (now joint arrangements) and contains the disclosure requirements for entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities.
- IAS 32 (Revised), 'Offsetting Financial Assets and Financial Liabilities' (effective 1 January 2014). This standard was amended to clarify the offsetting criteria, specifically when an entity currently has a legal right of set off; and when gross settlement is equivalent to net settlement.
- IAS 36 (Revised), 'Impairment of Assets' (effective 1 January 2014). This relates to the recoverable amounts disclosure for non-financial assets. The amendment reverses the unintended requirement in IFRS 13 'Fair Value Measurement' to disclose the recoverable amount of every cash-generating unit to which significant goodwill or intangible assets with indefinite lives have been allocated. Under the amendments, recoverable amount is required to be disclosed only when an impairment loss has been recognised or reversed.¹
- IFRIC 21, 'Levies' (effective 1 January 2014). The interpretation defines a levy as an outflow from an entity imposed by a government in accordance with legislation. That levy is recognised as a liability when, and only when, the triggering event specified in the legislation occurs. See note 21.¹

The above standards are unlikely to have a material impact on the Group.

- IFRS 9 'Financial instruments' (effective from 1 January 2017). Phase one of this standard deals with the classification and measurement of financial assets and will replace IAS 39. The requirements of this standard represent a significant change from the existing requirements in IAS 39. The standard contains two primary measurement categories for financial assets: amortised cost and fair value. The standard eliminates the existing IAS 39 categories of 'held to maturity', 'available for sale' and 'loans and receivables'. The potential effect of phase one of this standard is currently being evaluated but it is not expected to have a pervasive impact on the Group's financial statements, due to the nature of the Group's operations. Further development phases for IFRS 9 are scheduled to cover key areas such as impairment and hedge accounting. The impact of these future developments is likely to be material to the Group once it becomes effective.¹

¹ These standards and interpretations have not yet been endorsed by the EU.

1.3 Consolidation

Subsidiaries

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase 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.

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.

Notes to the consolidated financial statements

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 One Bill 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. Fees and commissions expense consists primarily of referral fees and broker commission.

1.6 Financial assets and financial liabilities

The Group classifies its financial assets at fair value through profit or loss or as loans and receivables 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. At inception transaction costs that are directly attributable to its acquisition or issue, for an item not at fair value through profit or loss, is added to the fair value of the financial asset and deducted from the fair value of the financial liability.

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

This category comprises interest rate caps. All caps at 31 December 2013 are in qualifying hedge relationships. These 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 item is realised, when it is amortised; the ineffective portion of the hedging instrument is recognised in the Statement of Comprehensive Income immediately. Fair values are based on quoted market prices in active markets and where these are not available, using valuation techniques such as discounted cashflow models (See also 1.7).

(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) 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.

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

Notes to the consolidated financial statements

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 amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction on 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 is not active the Group establishes a fair value by using appropriate valuation techniques. 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 Hedge accounting – cash flow hedges

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.

1.8 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.

1.9 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;
- 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 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.

Notes to the consolidated financial statements

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, 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.

1.10 Intangible assets

(a) Goodwill arising on business combinations

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.

(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.

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.

1.11 Property, plant and equipment

Property is held at historic cost as modified by revaluation 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.

Notes to the consolidated financial statements

1.12 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.

1.13 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 building societies and short-term highly liquid debt securities.

1.14 Employee benefits

(a) Post-retirement obligations

The Group contributes to defined contribution schemes and to individual 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 the 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.

1.15 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.

1.16 Income 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.

Notes to the consolidated financial statements

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

1.17 Dividends

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

1.18 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.

1.19 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 therefore not recognised on the balance sheet of the institution as they will not meet the criteria for derecognition by the Bank of England.

Notes to the consolidated financial statements

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

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 1.9. 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 actual loss experience.

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.

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 £2.6 million.

2.2 Acquisition accounting

The Group recognises identifiable assets and liabilities at their acquisition date fair values. The exercise of attributing a fair value to the balance sheet of the acquired entity requires the use of a number of assumptions and estimates, which are documented at the time of the acquisition. These fair value adjustments are determined from the estimated future cash flows generated by the assets.

Loans and advances to customers

The methodology of attributing a fair value to loans and advances to customers involves discounting the estimated future cashflows using a risk adjusted discount factor. A fair value adjustment is then applied to the carrying value in the Group's balance sheet.

Intangible assets

Identifying the separately identifiable intangible assets of an acquired company is subjective and based upon discussions with management and a review of relevant documentation. During the current and prior years the acquisition of Everyday Loans and the V12 Finance Group indicated that there were four separately identifiable intangible assets which met the criteria for separation from goodwill, these being Trademarks/Tradenames, Customer Relationships, Broker Relationships and Technology.

Trademarks and Tradenames are valued by estimating the fair value of the estimated costs savings resulting from the ownership of trade names as opposed to licensing them. Customer Relationships are valued through the application of a discounted cashflow methodology to net anticipated renewal revenues. The valuation of Broker Relationships is derived from a costs avoided methodology, by reviewing costs incurred on non-broker platforms versus costs which are incurred in broker commission. Technology is valued by the market derived royalty rate applied to the related cash flows to arrive at estimated savings resulting from the use of the acquired credit decisioning technology.

2.3 Share Option Scheme valuation

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 remain 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.

Notes to the consolidated financial statements

Much of the Bank's lending is in the near and sub-prime categories, with performance of the book heavily influenced by employment trends. With the UK economy remaining fragile, the impact of a further downturn would be increasing unemployment, potentially causing impairments to rise and new business levels to fall, thereby affecting the bank's ability to sustain the levels of dividend growth required under the terms of the scheme. Depending on the product type, market and customer demographics, the bank's current product range includes expected lifetime losses of between 1% and 20%.

Uncertainties in the regulatory environment continue, with pressure on the government to further constrain the activities of banks following the well reported catalogue of recent issues in the industry. 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 95% for the first tranche of share options (SOS1) which vest on 2 November 2014 and 80% for the second tranche of share options (SOS2) which vest on 2 November 2016.

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 further uncertainty surrounding whether the remaining participants will all still be in situ and eligible at the vesting date. The directors have assumed an attrition rate of 8% for the 2014 options and an attrition rate of 15% for the 2016 options over the scheme period.

2.4 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 the effective interest rate 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.

Notes to the consolidated financial statements

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 2013:

At 31 December 2013	Due within one year	Due after more than one year	Total
	£million	£million	£million
ASSETS			
Loans and advances to banks	110.0	-	110.0
Loans and advances to customers	162.0	229.0	391.0
Property, plant and equipment	-	5.0	5.0
Intangible assets	-	9.9	9.9
Deferred tax assets	1.9	-	1.9
Other assets	8.1	-	8.1
Total assets	282.0	243.9	525.9
LIABILITIES			
Deposits from banks	0.1	-	0.1
Deposits from customers	269.4	167.2	436.6
Current tax liabilities	1.4	-	1.4
Deferred tax liabilities	-	0.4	0.4
Other liabilities	21.5	4.3	25.8
Total liabilities	292.4	171.9	464.3

The table below shows the contractual maturity analysis of the Group's assets and liabilities as at 31 December 2012:

At 31 December 2012	Due within one year	Due after more than one year	Total
	£million	£million	£million
ASSETS			
Loans and advances to banks	155.3	-	155.3
Loans and advances to customers	105.6	192.0	297.6
Property, plant and equipment	-	5.4	5.4
Intangible assets	-	5.2	5.2
Deferred tax assets	-	5.1	5.1
Other assets	6.0	-	6.0
Total assets	266.9	207.7	474.6
LIABILITIES			
Deposits from customers	268.2	130.7	398.9
Current tax liabilities	0.3	-	0.3
Deferred tax liabilities	-	1.2	1.2
Other liabilities	13.8	4.5	18.3
Total liabilities	282.3	136.4	418.7

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

Notes to the consolidated financial statements

The table below shows the contractual maturity analysis of the Company's assets and liabilities as at 31 December 2013:

At 31 December 2013	Due within one year	Due after more than one year	Total
	£million	£million	£million
ASSETS			
Loans and advances to banks	108.5	-	108.5
Loans and advances to customers	115.9	168.0	283.9
Property, plant and equipment	-	0.5	0.5
Intangible assets	-	0.9	0.9
Investments	-	3.7	3.7
Deferred tax assets	-	0.8	0.8
Other assets	101.0	-	101.0
Total assets	325.4	173.9	499.3
LIABILITIES			
Deposits from banks	0.1	-	0.1
Deposits from customers	269.4	167.2	436.6
Current tax liabilities	0.2	-	0.2
Other liabilities	15.5	-	15.5
Total liabilities	285.2	167.2	452.4

The table below shows the contractual maturity analysis of the Company's assets and liabilities as at 31 December 2012:

At 31 December 2012	Due within one year	Due after more than one year	Total
	£million	£million	£million
ASSETS			
Loans and advances to banks	153.6	-	153.6
Loans and advances to customers	65.2	132.3	197.5
Property, plant and equipment	-	1.0	1.0
Intangible assets	-	0.8	0.8
Deferred tax asset	-	0.6	0.6
Other assets	98.1	-	98.1
Total assets	316.9	134.7	451.6
LIABILITIES			
Deposits from customers	268.2	130.7	398.9
Current tax liabilities	0.3	-	0.3
Other liabilities	8.7	-	8.7
Total liabilities	277.2	130.7	407.9

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

Notes to the consolidated financial statements

4. Classification of financial assets and liabilities

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

	Loans and receivables	Other liabilities at amortised cost	Total carrying amount	Fair value
	£million	£million	£million	£million
At 31 December 2013				
Loans and advances to banks	110.0	-	110.0	110.0
Loans and advances to customers	391.0	-	391.0	391.0
	501.0	-	501.0	501.0
Deposits from banks	-	0.1	0.1	0.1
Deposits from customers	-	436.6	436.6	436.6
	-	436.7	436.7	436.7

	Loans and receivables	Other liabilities at amortised cost	Total carrying amount	Fair value
	£million	£million	£million	£million
At 31 December 2012				
Loans and advances to banks	155.3	-	155.3	155.3
Loans and advances to customers	297.6	-	297.6	297.6
	452.9	-	452.9	452.9
Deposits from customers	-	398.9	398.9	398.9
	-	398.9	398.9	398.9

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

	Loans and receivables	Other liabilities at amortised cost	Total carrying amount	Fair value
	£million	£million	£million	£million
At 31 December 2013				
Loans and advances to banks	108.5	-	108.5	108.5
Loans and advances to customers	283.9	-	283.9	283.9
	392.4	-	392.4	392.4
Deposits from banks	-	0.1	0.1	0.1
Deposits from customers	-	436.6	436.6	436.6
	-	436.7	436.7	436.7

	Loans and receivables	Other liabilities at amortised cost	Total carrying amount	Fair value
	£million	£million	£million	£million
At 31 December 2012				
Loans and advances to banks	153.6	-	153.6	153.6
Loans and advances to customers	197.5	-	197.5	197.5
	351.1	-	351.1	351.1
Deposits from customers	-	398.9	398.9	398.9
	-	398.9	398.9	398.9

Notes to the consolidated financial statements

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 Risk and Controls Policy 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 on pages 26 to 27.

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.

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. Details of the collateral held in respect of these loans are detailed in note 13.

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

	Group		Company	
	2013 £million	2012 £million	2013 £million	2012 £million
Credit risk exposures relating to on-balance sheet assets are as follows:				
Loans and advances to banks	110.0	155.3	108.5	153.6
Loan and advances to customers	391.0	297.6	283.9	197.5
Amounts due from related companies	4.1	2.0	99.9	97.0
Credit risk exposures relating to off-balance sheet assets are as follows:				
Loan commitments	6.6	1.2	6.6	0.9
At 31 December	511.7	456.1	498.9	449.0

Notes to the consolidated financial statements

The above table represents the maximum credit risk exposure (net of impairment) to the Company and Group at 31 December 2013 and 2012 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.

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.

In June 2012, the Group acquired Everyday Loans whose 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 2013 the gross balance of rescheduled loans included in the Consolidated Statement of Financial Position was £13.9 million, with an allowance for impairment on these loans of £1.1 million. The gross balance of deferred loans was £2.8 million with an allowance for impairment on these of £0.4 million. (31 December 2012: the gross balance of rescheduled loans was £12.3 million, with an allowance for impairment of £1.2 million. The gross balance of deferred loans was £2.9 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.

Currency risk

The Group and Company have no significant exposures to foreign currencies.

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 100 basis points movements. The Group consider the 50 and 100 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 £0.2m or less (2012: £0.1m or less) for the Company and Group, with the same impact to equity pre-tax. In 2011 the Group put an interest rate cap in place primarily to hedge the exposure to cash flow variability from interest rate movements on variable rate customer deposits.

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 reduce 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

Group	Within 3 months	More than 3 months but less than 6 months	More than 6 months but less than 1 year	More than 1 year but less than 5 years	More than 5 years	Non interest bearing	Total
As at 31 December 2013	£million	£million	£million	£million	£million	£million	£million
ASSETS							
Loans and advances to banks	110.0	-	-	-	-	-	110.0
Loans and advances to customers	82.4	56.1	84.4	191.8	0.2	(23.9)	391.0
Other assets	-	-	-	-	-	24.9	24.9
Total assets	192.4	56.1	84.4	191.8	0.2	1.0	525.9
LIABILITIES							
Deposits from banks	-	-	-	-	-	0.1	0.1
Deposits from customers	105.9	116.0	13.9	163.3	3.9	33.6	436.6
Other liabilities	-	-	-	-	-	27.6	27.6
Equity	-	-	-	-	-	61.6	61.6
Total liabilities	105.9	116.0	13.9	163.3	3.9	122.9	525.9
Impact of derivative instruments	(20.0)	-	-	20.0	-	-	-
Interest rate sensitivity gap	66.5	(59.9)	70.5	48.5	(3.7)	(121.9)	
Cumulative gap	66.5	6.6	77.1	125.6	121.9	-	
Group							
As at 31 December 2012	£million	£million	£million	£million	£million	£million	£million
ASSETS							
Loans and advances to banks	126.8	28.5	-	-	-	-	155.3
Loans and advances to customers	65.0	29.7	60.1	153.9	0.1	(11.2)	297.6
Other assets	-	-	-	-	-	21.7	21.7
Total assets	191.8	58.2	60.1	153.9	0.1	10.5	474.6
LIABILITIES							
Deposits from customers	107.4	128.6	-	128.9	1.8	32.2	398.9
Other liabilities	-	-	-	-	-	19.8	19.8
Equity	-	-	-	-	-	55.9	55.9
Total liabilities	107.4	128.6	-	128.9	1.8	107.9	474.6
Impact of derivative instruments	(20.0)	-	-	20.0	-	-	-
Interest rate sensitivity gap	64.4	(70.4)	60.1	45.0	(1.7)	(97.4)	
Cumulative gap	64.4	(6.0)	54.1	99.1	97.4	-	

Notes to the consolidated financial statements

Company	Within 3 months	More than 3 months but less than 6 months	More than 6 months but less than 1 year	More than 1 year but less than 5 years	More than 5 years	Non interest bearing	Total
As at 31 December 2013	£million	£million	£million	£million	£million	£million	£million
ASSETS							
Loans and advances to banks	108.5	-	-	-	-	-	108.5
Loans and advances to customers	42.4	32.5	50.1	181.6	0.2	(22.9)	283.9
Other assets	72.6	-	-	-	-	31.1	103.7
Total assets	223.5	32.5	50.1	181.6	0.2	8.2	496.1
LIABILITIES							
Deposits from banks	-	-	-	-	-	0.1	0.1
Deposits from customers	105.9	116.0	13.9	163.3	3.9	33.6	436.6
Other liabilities	-	-	-	-	-	12.5	12.5
Equity	-	-	-	-	-	46.9	46.9
Total liabilities	105.9	116.0	13.9	163.3	3.9	93.1	496.1
Impact of derivative instruments	(20.0)	-	-	20.0	-	-	-
Interest rate sensitivity gap	97.6	(83.5)	36.2	38.3	(3.7)	(84.9)	
Cumulative gap	97.6	14.1	50.3	88.6	84.9	-	
Company	Within 3 months	More than 3 months but less than 6 months	More than 6 months but less than 1 year	More than 1 year but less than 5 years	More than 5 years	Non interest bearing	Total
As at 31 December 2012	£million	£million	£million	£million	£million	£million	£million
ASSETS							
Loans and advances to banks	125.2	28.4	-	-	-	-	153.6
Loans and advances to customers	21.4	19.7	33.1	136.8	0.1	(13.6)	197.5
Other assets	72.1	-	-	-	-	28.4	100.5
Total assets	218.7	48.1	33.1	136.8	0.1	14.8	451.6
LIABILITIES							
Deposits from customers	107.4	128.6	-	128.9	1.8	32.2	398.9
Other liabilities	-	-	-	-	-	9.0	9.0
Equity	-	-	-	-	-	43.7	43.7
Total liabilities	107.4	128.6	-	128.9	1.8	84.9	451.6
Impact of derivative instruments	(20.0)	-	-	20.0	-	-	-
Interest rate sensitivity gap	91.3	(80.5)	33.1	27.9	(1.7)	(70.1)	
Cumulative gap	91.3	10.8	43.9	71.8	70.1	-	

Notes to the consolidated financial statements

(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 short-term repayments of its deposits with Arbuthnot Latham & Co., Limited's treasury department 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 finance team 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 ILAA metrics.

The Group relies on deposits from customers. During the current year the Company issued over £45 million of fixed rate deposit bonds to customers over terms ranging from 2 to 7 years. These were issued to broadly match the term lending by the Company.

The new Liquidity regime came into force on the 1 October 2010. 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 Individual Liquidity Adequacy Assessment (ILAA). The liquidity buffer required by the ILAA has been put in place and maintained since that time. Liquidity resources outside of the buffer are made up of deposits placed via Arbuthnot Latham & Co., Limited at the Bank of England. The ILAA is updated annually.

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. At the year end this ratio was 25.2% (2012: 38.9%).

Notes to the consolidated financial statements

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

	Carrying amount	Gross nominal inflow/ (outflow)	Not more than 3 months	More than 3 months but less than 1 year	More than 1 year but less than 5 years	More than 5 years
	£million	£million	£million	£million	£million	£million
At 31 December 2013						
Non-derivative liabilities						
Deposits from banks	0.1	(0.1)	(0.1)	-	-	-
Deposits from customers	436.6	(457.0)	(64.3)	(208.7)	(181.1)	(2.9)
	436.7	(457.1)	(64.4)	(208.7)	(181.1)	(2.9)

	Carrying amount	Gross nominal inflow/ (outflow)	Not more than 3 months	More than 3 months but less than 1 year	More than 1 year but less than 5 years	More than 5 years
	£million	£million	£million	£million	£million	£million
At 31 December 2012						
Non-derivative liabilities						
Deposits from customers	398.9	(419.4)	(66.1)	(205.4)	(145.5)	(2.4)
	398.9	(419.4)	(66.1)	(205.4)	(145.5)	(2.4)

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 Company and Group and its exposure to changes in interest rates and exchange rates.

(d) Operational risk

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 on pages 26 and 27 describes the Group's system of internal controls which are used to mitigate against operational 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 (CRD) and the required parameters set out in the Prudential Regulation Authority (PRA) Handbook (BIPRU 2.2), the Arbutnot Banking Group's Internal Capital Adequacy Assessment Process (ICAAP), of which the Group is a major component, 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.

Notes to the consolidated financial statements

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 2013 are published as a separate document on the Arbuthnot Banking Group website.

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

	2013	2012
	£million	£million
Tier 1		
Share capital	6.3	6.3
Share premium	28.2	28.2
Retained earnings	29.0	21.7
Goodwill	(0.3)	(0.3)
Intangible assets net of attributable deferred tax	(3.1)	(3.9)
Total Tier 1 capital	60.1	52.0
Tier 2		
Collective allowance for impairment of loans and advances	1.6	0.4
Revaluation reserve	0.2	0.1
Total Tier 2 capital	1.8	0.5
Investments in non-solo consolidated entities	(3.7)	-
Total Tier 1 & Tier 2 capital	58.2	52.5
Reconciliation to total equity:		
Goodwill and other intangible assets net of attributable deferred tax	3.4	4.2
Collective allowance for impairment of loans and advances	(1.6)	(0.4)
Investments in non-solo consolidated entities	3.7	-
Losses of non-solo consolidated entities	(1.2)	-
Dividends received from non-solo consolidated entities	(0.5)	-
Cashflow hedging reserve	(0.4)	(0.4)
Total equity	61.6	55.9

Notes to the consolidated financial statements

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 percent of risk weighted assets and thus representing the capital required under Pillar 1 of the Basel II framework. The ICAAP is a key input into the PRA's ICG setting process, which addresses the requirements of Pillar 2 of the Basel II framework. The PRA's approach is to monitor the available capital resources in relation to the 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

Total interest income and expense calculated using the effective interest method and which relates to financial assets or liabilities not carried at fair value through profit or loss are £73.6 million (2012: £44.6 million) and £12.9 million (2012 : £10.5 million) respectively. Included in interest income is income on loans and advances to banks of £0.2 million (2012: £0.3 million).

8. Operating expenses

	2013	2012
	£million	£million
Operating expenses comprise:		
Staff costs, including those of directors:		
Wages and salaries	20.1	14.0
Social security costs	1.9	1.4
Pension costs	0.7	0.4
Share based payment transactions	2.2	1.6
Depreciation of property, plant and equipment (Note 17)	0.7	0.6
Amortisation of intangible assets (Note 15)	2.5	0.9
Operating lease rentals	1.4	0.7
Other administrative expenses	16.3	9.8
Total operating expenses	45.8	29.4

	2013	2012
	£'000	£'000
Remuneration of the auditor and its associates, excluding VAT, was as follows:		
Fees payable to the Company's auditor for the audit of the Company's annual accounts	132	108
Fees payable to the Company's auditor for other services:		
The audit of the Company's subsidiaries, pursuant to legislation	128	82
Audit related assurance services	30	105
Tax advisory services	53	105
Corporate finance services	-	250
All other non-audit services	64	5
	407	655

Remuneration for corporate finance services in 2013 was £nil (2012: £250,000 in relation to the acquisition of Everyday Loans Holdings Limited). All other non-audit services incurred during 2013 include £44,000 in relation to the due diligence performed as part of the Company's admission to the Funding for Lending Scheme.

The cost of the advice on the share issue in 2012 was charged against the share premium account, all other costs have been expensed.

Notes to the consolidated financial statements

9. Average number of employees

	2013	2012
Directors	6	6
Management	50	33
Administration	474	360
Total	530	399

10. Income tax expense

	2013	2012
	£million	£million
Current taxation		
Corporation tax charge - current year	3.1	2.2
Corporation tax charge - adjustments in respect of prior years	0.5	-
	3.6	2.2
Deferred taxation		
Deferred tax charge/(credit) - current year	0.7	(0.5)
Deferred tax charge - adjustments in respect of prior years	0.5	-
	1.2	(0.5)
Income tax expense	4.8	1.7
Tax reconciliation		
Profit before tax	17.1	17.2
Tax at 23.25% (2012: 24.5%)	4.0	4.2
Permanent differences	(0.3)	(2.7)
Tax rate change	0.1	0.2
Prior period adjustments	1.0	-
Corporation tax charge for the year	4.8	1.7

In 2012, of the £2.7 million permanent differences, £2.4 million related to the non-taxable gain from a bargain purchase.

During the year 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 to 20% with effect from 1 April 2015. This will reduce the Company's future current tax charge accordingly.

11. Earnings per ordinary share

Basic

Basic earnings per ordinary share is calculated by dividing the profit attributable to equity shareholders of the Group of £12.3 million (2012: £15.5 million) by the weighted average number of ordinary shares 15,648,149 (2012: 14,267,861) in issue during the year.

Diluted

Diluted earnings per ordinary share is calculated by dividing the profit attributable to equity shareholders of the Group of £12.3 million (2012: £15.5 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 from 1 July when the share options scheme was modified to become equity settled.

The number of dilutive shares in issue at the year-end was 329,453, being based on the number of options granted of 920,831, the exercise price of 720 pence per option and the average share price during the period from 1 July to 31 December 2013 of 2,531.25 pence.

Notes to the consolidated financial statements

12. Loans and advances to banks

	2013	2012
Group	£million	£million
Placements with banks included in cash and cash equivalents (Note 26)	90.0	94.0
Other loans and advances to banks	20.0	61.3
	110.0	155.3

Included within loans and advances to banks are amounts placed with Arbuthnot Latham & Co., Limited, a related company, of £31.6 million (31 December 2012: £24.9 million).

Moody's long term ratings:	2013	2012
Group	£million	£million
Aaa	-	68.8
Aa1	57.1	-
A2	21.3	23.1
No rating	31.6	63.4
	110.0	155.3

	2013	2012
Company	£million	£million
Placements with banks included in cash and cash equivalents (Note 26)	88.5	92.3
Other loans and advances to banks	20.0	61.3
	108.5	153.6

Moody's long term ratings:	2013	2012
Company	£million	£million
Aaa	-	68.8
Aa1	57.1	-
A2	19.8	21.4
No rating	31.6	63.4
	108.5	153.6

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

At 31 December 2013 loans and advances to banks of £9.9 million were pre-positioned with the Bank of England's Funding for Lending Scheme and were available for use as collateral within the scheme (2012:£nil).

Notes to the consolidated financial statements

13. Loans and advances to customers

	2013	2012
Group	£million	£million
Gross loans and advances	418.1	313.8
Less: allowances for impairment on loans and advances (Note 14)	(27.1)	(16.2)
	391.0	297.6

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:

	2013	2012
Group	£million	£million
Gross investment in finance lease receivables:		
- No later than 1 year	16.4	22.2
- Later than 1 year and no later than 5 years	16.0	13.0
	32.4	35.2
Unearned future finance income on finance leases	(6.9)	(8.9)
Net investment in finance leases	25.5	26.3
The net investment in finance leases may be analysed as follows:		
- No later than 1 year	12.9	10.5
- Later than 1 year and no later than 5 years	12.6	15.8
	25.5	26.3

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

	2013	2012
Group	£000	£000
Neither past due nor impaired	371.3	282.4
Past due but not impaired	0.4	0.6
Past due up to 90 days and impaired	23.4	19.8
Past due after 90 days and impaired	23.0	11.0
Gross	418.1	313.8
Less: allowance for impairment	(27.1)	(16.2)
Net	391.0	297.6

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

	2013	2012
Group	£000	£000
Past due up to 30 days	17.0	11.2
Past due 30 - 60 days	4.1	7.1
Past due 60 - 90 days	2.7	2.1
Total	23.8	20.4

Interest income on loans classified as impaired totalled £2.6 million (2012: £1.5 million).

Notes to the consolidated financial statements

Company	2013 £million	2012 £million
Gross loans and advances	306.8	211.1
Less: allowances for impairment on loans and advances (Note 14)	(22.9)	(13.6)
	283.9	197.5

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 can be further summarised as follows:

Company	2013 £million	2012 £million
Neither past due nor impaired	266.7	186.1
Past due up to 90 days and impaired	19.4	16.0
Past due after 90 days and impaired	20.7	9.0
Gross	306.8	211.1
Less: allowance for impairment	(22.9)	(13.6)
Net	283.9	197.5

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

Company	2013 £million	2012 £million
Past due up to 30 days	15.0	9.0
Past due 30 - 60 days	2.8	5.9
Past due 60 - 90 days	1.6	1.1
Total	19.4	16.0

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 2013 loans and advances to customers of £43.9 million were pre-positioned with the Bank of England's Funding for Lending Scheme and were available for use as collateral within the scheme (2012: £nil).

£0.2 million (2012: £0.2 million) of the loans are secured upon residential property and these are neither past due nor impaired. The residential property over which the mortgage is secured has a fair value of £0.2 million based on other recent property sales, giving a loan to value ratio of 73% (2012:77%).

£1.8 million (2012: £nil) of the loans are secured upon commercial property and these are neither past due nor impaired.

£114.7 million (2012: £89.6 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 £99 million.

Notes to the consolidated financial statements

14. Allowances for impairment of loans and advances

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

Group	2013	2012
	£million	£million
Specific allowances for impairment		
At 1 January	15.8	8.9
Provision for impairment losses	15.5	9.2
Amounts recovered previously written off	-	(0.6)
Loans written off during the year as uncollectible	(5.8)	(1.7)
At 31 December	25.5	15.8
Collective allowances for impairment		
At 1 January	0.4	-
Provision for impairment losses	1.2	0.4
At 31 December	1.6	0.4
Total allowances for impairment	27.1	16.2
Company	2013	2012
	£million	£million
Specific allowances for impairment		
At 1 January	13.2	8.9
Provision for impairment losses	9.4	6.1
Amounts recovered previously written off	-	(0.3)
Loans written off during the year as uncollectible	(0.7)	(1.5)
At 31 December	21.9	13.2
Collective allowances for impairment		
At 1 January	0.4	-
Provision for impairment losses	0.6	0.4
At 31 December	1.0	0.4
Total allowances for impairment	22.9	13.6

Notes to the consolidated financial statements

15. Intangible assets

Group	Goodwill £million	Computer software £million	Other intangible assets £million	Total £million
Cost or valuation				
At 1 January 2012	0.3	2.0	-	2.3
On acquisition of subsidiary undertaking	-	0.1	5.1	5.2
Additions	-	0.2	-	0.2
At 31 December 2012	0.3	2.3	5.1	7.7
On acquisition of subsidiary undertakings	0.7	5.4	2.2	8.3
Additions	-	0.7	-	0.7
Disposals	-	(1.9)	-	(1.9)
At 31 December 2013	1.0	6.5	7.3	14.8
Accumulated amortisation				
At 1 January 2012	-	(1.6)	-	(1.6)
Amortisation charge	-	(0.2)	(0.7)	(0.9)
At 31 December 2012	-	(1.8)	(0.7)	(2.5)
Amortisation charge	-	(0.9)	(1.5)	(2.4)
At 31 December 2013	-	(2.7)	(2.2)	(4.9)
Net book amount				
At 31 December 2012	0.3	0.5	4.4	5.2
At 31 December 2013	1.0	3.8	5.1	9.9
Company				
		Goodwill £million	Computer software £million	Total £million
Cost or valuation				
At 1 January 2012		0.3	2.0	2.3
Additions		-	0.2	0.2
At 31 December 2012		0.3	2.2	2.5
Additions		-	0.4	0.4
At 31 December 2013		0.3	2.6	2.9
Accumulated amortisation				
At 1 January 2012		-	(1.6)	(1.6)
Amortisation charge		-	(0.1)	(0.1)
At 31 December 2012		-	(1.7)	(1.7)
Amortisation charge		-	(0.3)	(0.3)
At 31 December 2013		-	(2.0)	(2.0)
Net book amount				
At 31 December 2012		0.3	0.5	0.8
At 31 December 2013		0.3	0.6	0.9

Goodwill is monitored throughout the period. This enables management to complete goodwill impairment testing if indicators arise.

Notes to the consolidated financial statements

16. Shares in subsidiary undertakings

Company	Shares at cost £million	Impairment provisions £million	Net £million
At 1 January 2012	1.5	(1.4)	0.1
Acquisition of Everyday Loans Holdings Limited	-	-	-
On liquidation of subsidiaries	(0.1)	-	(0.1)
At 31 December 2012	1.4	(1.4)	-
Acquisition of V12 Finance Group Limited (Note 29)	3.7	-	3.7
On liquidation of subsidiaries	(1.4)	1.4	-
At 31 December 2013	3.7	-	3.7

The principal subsidiary undertakings of Secure Trust Bank PLC at 31 December 2013 were:

	Country of incorporation	Interest %	Principal activity
Debt Managers (Services) Limited	UK	100	Debt collection company
Everyday Loans Holdings Limited	UK	100	Holding company
Everyday Loans Limited *	UK	100	Sourcing and servicing of unsecured and secured loans
Everyday Leasing Limited *	UK	100	Provider of unsecured and secured loans
Secure Homes Services Limited	UK	100	Property rental
STB Leasing Limited	UK	100	Leasing
V12 Finance Group Limited	UK	100	Holding company
V12 Personal Finance Limited *	UK	100	Dormant
V12 Retail Finance Limited *	UK	100	Sourcing and servicing of unsecured loans

Shares in subsidiary undertakings are stated at cost less any provision for impairment. All subsidiary undertakings are unlisted. None of the subsidiary undertakings are banking institutions.

All the above subsidiary undertakings are included in the consolidated financial statements and have an accounting reference date of 31 December.

All the above interests relate wholly to ordinary shares.

** These companies are owned indirectly by Secure Trust Bank PLC.*

Notes to the consolidated financial statements

17. Property, plant and equipment

Group	Freehold land and buildings £million	Leasehold improvements £million	Computer and other equipment £million	Total £million
Cost or valuation				
At 1 January 2012	4.4	-	8.2	12.6
On acquisition of subsidiary undertaking	-	0.3	0.2	0.5
Additions	-	-	0.6	0.6
At 31 December 2012	4.4	0.3	9.0	13.7
Additions	-	0.1	0.3	0.4
On acquisition of subsidiary undertaking	-	-	0.1	0.1
Disposals	-	-	(0.5)	(0.5)
At 31 December 2013	4.4	0.4	8.9	13.7
Accumulated depreciation				
At 1 January 2012	(0.2)	-	(7.5)	(7.7)
Depreciation charge	(0.1)	(0.1)	(0.4)	(0.6)
At 31 December 2012	(0.3)	(0.1)	(7.9)	(8.3)
Depreciation charge	(0.1)	(0.1)	(0.4)	(0.6)
Disposals	-	-	0.2	0.2
At 31 December 2013	(0.4)	(0.2)	(8.1)	(8.7)
Net book amount				
At 31 December 2012	4.1	0.2	1.1	5.4
At 31 December 2013	4.0	0.2	0.8	5.0
Company				
				Computer and other equipment £million
Cost				
At 1 January 2012				8.2
Additions				0.6
At 31 December 2012				8.8
Additions				0.2
Disposals				(0.5)
At 31 December 2013				8.5
Accumulated depreciation				
At 1 January 2012				(7.4)
Depreciation charge				(0.4)
At 31 December 2012				(7.8)
Depreciation charge				(0.3)
Disposals				0.1
At 31 December 2013				(8.0)
Net book amount				
At 31 December 2012				1.0
At 31 December 2013				0.5

Notes to the consolidated financial statements

The Group's freehold property is the Registered Office of the Company and is fully utilised 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 £0.5 million (2012: £0.5 million).

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

	2013	2012
	£million	£million
Cost	4.8	4.8
Accumulated depreciation	(1.1)	(1.0)
Net book amount	3.7	3.8

18. 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. This hedge meets the condition for qualifying for hedge accounting during the year and also was an effective hedge and as such the loss on the hedging instrument was recognised in other comprehensive income.

	2013			2012		
	Contract/ notional amount	Fair value assets	Fair value liabilities	Contract/ notional amount	Fair value assets	Fair value liabilities
Group and Company	£million	£million	£million	£million	£million	£million
Interest rate cap held in qualifying hedge relationships	20.0	-	-	20.0	-	-
	20.0	-	-	20.0	-	-

Moody's long term ratings:

	2013	2012
	£million	£million
Contract amount:		
A2	20.0	20.0
	20.0	20.0

Notes to the consolidated financial statements

19. Other assets

	2013	2012
Group	£million	£million
Trade receivables	0.6	0.2
Amounts due from related companies	4.1	2.0
Prepayments and accrued income	3.4	3.8
	8.1	6.0

	2013	2012
Company	£million	£million
Trade receivables	0.1	0.1
Amounts due from related companies	99.9	97.0
Prepayments and accrued income	1.0	1.0
	101.0	98.1

20. Deposits from customers

	2013	2012
Group and Company	£million	£million
Current/demand accounts	36.4	32.2
Term deposits	400.2	366.7
	436.6	398.9

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

Notes to the consolidated financial statements

21. Other liabilities

	2013	2012
Group	£million	£million
Trade payables	9.8	5.9
Amounts due to related companies	2.2	0.6
Accruals and deferred income	13.8	11.8
	25.8	18.3

	2013	2012
Company	£million	£million
Trade payables	3.3	1.0
Amounts due to related companies	2.2	0.7
Accruals and deferred income	10.0	7.0
	15.5	8.7

Within Group trade payables at 31 December 2013 there is £4.3 million (2012: £4.5 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 £5.1 million relating to accrued interest payable (2012: £2.7 million).

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.

During 2008 and 2009 claims were triggered against the FSCS in relation to Bradford & Bingley plc, Kaupthing Singer and Friedlander Limited, Heritable Bank Plc, Landsbanki Islands hf, London Scottish Bank plc and Dunfermline Building Society. The FSCS meets these current claims by way of loans it received from HM Treasury. The terms of these loans were interest only for the first three scheme years, up until March 2013, and the FSCS recovered the interest cost by way of levies on members over this period.

The Company's FSCS provision reflects market participation up to the reporting date and the provision of £0.1 million relates to the estimated interest levy for the scheme year 2013/14 which is payable in September 2014. 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 2013/14 was paid by the Company in September 2013.

In previous years the Company has applied a trigger date for recognition of FSCS liabilities of 31 December. During 2013 this was changed to 1 April as this is the only supportable trigger date accepted by the forthcoming interpretation IFRIC 21. This has been accounted for as a change in accounting policy as the decision on trigger date is an accounting policy choice. No prior year adjustment has been prepared on the basis of materiality.

Notes to the consolidated financial statements

22. Deferred taxation

Group	2013 £million	2012 £million
Deferred tax liabilities:		
Unrealised surplus on revaluation of freehold property	0.2	(0.1)
Other short term timing differences	(0.6)	(1.1)
Deferred tax liabilities	(0.4)	(1.2)
Deferred tax assets:		
Carried forward losses	1.9	5.1
Deferred tax assets	1.9	5.1
Deferred tax liabilities:		
At 1 January	(1.2)	(0.1)
Arising on acquisition of subsidiary undertaking	(1.0)	(3.1)
Profit and loss account	1.8	2.0
At 31 December	(0.4)	(1.2)
Deferred tax assets:		
At 1 January	5.1	0.2
Arising on acquisition of subsidiary undertaking	-	6.4
Profit and loss account	(3.0)	(1.5)
Losses utilised through group relief during the year	(0.2)	-
At 31 December	1.9	5.1
	2013	2012
Company	£million	£million
Accelerated capital allowances and other short-term timing differences	0.7	0.5
Cash flow hedges	0.1	0.1
Deferred tax assets	0.8	0.6
At 1 January	0.6	0.2
Arising on acquisition of subsidiary undertaking	0.2	-
Profit and loss account - accelerated capital allowances and other short-term timing differences	-	0.4
Deferred tax assets at 31 December	0.8	0.6

During the year 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 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 newly enacted rates to the extent that the related temporary or timing differences are expected to reverse in the future periods.

23. Contingent liabilities and commitments

Capital commitments

At 31 December 2013, the Group and Company had no capital commitments (2012: £nil).

Credit commitments

At 31 December 2013, the Group had commitments of £6.6 million and the Company had commitments of £6.6 million (2012: £1.2 million and £0.9 million respectively) to extend credit to customers.

Notes to the consolidated financial statements

Operating lease commitments

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

Group	2013		2012	
	Land and Buildings	Other	Land and Buildings	Other
	£million	£million	£million	£million
Within 1 year	0.8	0.4	0.5	0.3
Between 1 year and 5 years	1.6	0.2	1.7	0.1
Over 5 years	0.1	-	-	-
	2.5	0.6	2.2	0.4

Company	2013		2012	
	Land and Buildings	Other	Land and Buildings	Other
	£million	£million	£million	£million
Within 1 year	-	0.4	-	0.3
Between 1 year and 5 years	-	0.2	-	0.1
Over 5 years	0.4	-	0.4	-
	0.4	0.6	0.4	0.4

There are 36 leases classified as land and buildings in the group (2012: 31). Other leases include motor vehicles and computer hardware.

Other commitments

At 31 December 2013 a commitment exists to make further payments with regard to the Financial Services Compensation Scheme Levy for 2014 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.

24. Share capital

	Number of shares	Ordinary shares £million
At 1 January 2012	14,166,667	5.7
Shares issued during year	1,481,482	0.6
At 31 December 2012	15,648,149	6.3
At 31 December 2013	15,648,149	6.3

On 20 November 2012 an ordinary resolution of the Company proposing the placing of 1,481,482 new ordinary shares at 1,350 pence each was passed.

On 7 December 2012, an additional 1,481,482 ordinary shares were placed and admitted to trading on the Alternative Investment Market (AIM), raising £20 million. Following the admission of the new shares, the Company had 15,648,149 ordinary shares of 40 pence each in issue.

Notes to the consolidated financial statements

25. Share based payments

On 17 October 2011, the Group established the Share Option Scheme (SOS) entitling key management personnel and 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:

- a) the increase in the Retail Prices Index during that period; or
- b) 5% per annum during that period.

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 6 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 6 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 6 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. Half of the share options are exercisable on 2 November 2014 with the remainder exercisable on 2 November 2016, being SOS1 and SOS2 respectively.

During 2013, the Share Option Scheme was changed to become an equity settled scheme. The original grant date valuation was previously 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 8% for the first tranche of share options and 15% for the second tranche. Also, 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 95% and 80% respectively for the two share option tranches.

	No.	SOS1	SOS2	Total
Key management personnel	3	318,750	318,749	637,499
Senior management	5	141,666	141,666	283,332
Share Options in issue	8	460,416	460,415	920,831
Exercise price (£)		7.20	7.20	
Value per option (£)		1.69	1.69	
Fair value of share options (£million)		0.8	0.8	1.6
Behavioural assumption (attrition)		7.6%	15.2%	
Probability of payout		95%	80%	
Total (£million)		0.7	0.5	1.2

Notes to the consolidated financial statements

26. 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	2013	2012
	£million	£million
Loans and advances to banks (Note 12)	90.0	94.0
	90.0	94.0

Company	2013	2012
	£million	£million
Loans and advances to banks (Note 12)	88.5	92.3
	88.5	92.3

27. 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 2013 and 2012. Except for the directors' disclosures, there were no other Key Management Personnel disclosures, therefore the tables below relate to directors only.

	Directors	
	2013	2012
	£million	£million
Deposits		
Deposits outstanding at 1 January	0.3	0.2
Additional deposits made during the year	-	0.1
Deposits outstanding at 31 December	0.3	0.3

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

Notes to the consolidated financial statements

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

	2013 £million	2012 £million
Arbuthnot Latham & Co., Ltd - recharge income of shared services	(0.2)	(0.2)
Arbuthnot Latham & Co., Ltd - interest income on call account	(0.1)	(0.1)
Arbuthnot Banking Group PLC - group recharges	0.3	0.3
Everyday Lending Limited - interest income on loan receivable	(2.5)	(1.6)
Secure Homes Services Limited - building rental	0.4	0.4
V12 Finance Group Limited - dividends received	(0.5)	-
V12 Retail Finance Limited - commissions and service fees for loans	0.3	-
V12 Retail Finance Limited - software service charges	0.6	-
V12 Retail Finance Limited - loan book management and servicing fees	0.9	-
	(0.8)	(1.2)

For convenience the loans and advances with, and amounts receivable and payable to, related companies are noted below:

Group	2013 £million	2012 £million
Loans and advances to related companies	31.6	24.9
Amounts receivable from ultimate parent undertaking	4.1	2.0
Amounts payable to related companies	(2.2)	(0.6)
	33.5	26.3

Company	2013 £million	2012 £million
Loans and advances to related companies	31.6	24.9
Amounts receivable from ultimate parent undertaking	4.1	2.0
Amounts receivable from subsidiary undertakings	95.8	95.0
Amounts payable to related companies	(2.2)	(0.6)
	129.3	121.3

Directors' remuneration

The directors' emoluments (including pension contributions and benefits in kind) for the year are disclosed in the Remuneration Report on pages 28 to 29.

At the year end the ordinary shares held by the directors are disclosed in the Directors' Report on pages 22 to 24. Details of the directors' holdings of share options are also disclosed in the Directors' Report.

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

Notes to the consolidated financial statements

28. Operating segments

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

- 1) Personal lending – Unsecured consumer loans sold to customers via brokers and affinity partners.
- 2) Motor finance – Hire purchase agreements secured against the vehicle being financed.
- 3) Retail finance – Point of sale unsecured finance for in-store and online retailers.
- 4) Current account and OneBill – The current account comes with a prepaid card to enable effective control of personal finances, whilst OneBill is an account designed to aid customers with their household budgeting and payments process.

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.

	Personal Lending £million	Motor Finance £million	Retail Finance £million	Current Account and OneBill £million	Other £million	Group Total £million
Year ended 31 December 2013						
Interest revenue	36.1	23.0	14.5	-	0.2	73.8
Fee and commission income	5.7	-	-	12.8	4.2	22.7
Revenue from external customers	41.8	23.0	14.5	12.8	4.4	96.5
Impairment losses	10.3	3.6	1.7	-	-	15.6
Lending balances	159.2	114.7	114.4	0.5	2.2	391.0
Year ended 31 December 2012						
Interest revenue	21.5	16.9	5.8	-	0.7	44.9
Fee and commission income	2.7	-	-	12.9	0.2	15.8
Revenue from external customers	24.2	16.9	5.8	12.9	0.9	60.7
Impairment losses	5.3	2.7	0.7	(0.1)	0.3	8.9
Lending balances	142.0	89.6	64.2	0.4	1.4	297.6

The "Other" segment above includes other segments 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.

Notes to the consolidated financial statements

29. Acquisition of V12 Finance Group Limited

On 2 January 2013 the Company acquired 100% of the ordinary share capital of V12 Finance Group Limited, which along with its wholly owned subsidiaries V12 Retail Finance Limited and V12 Personal Finance Limited provide retail loans, typically for 12 months on an unsecured basis to consumers who are predominantly classified as prime borrowers. The cash consideration for the companies of £3.5 million was paid on completion. The acquisition is complementary to the Group's existing retail finance proposition and the V12 management team continued in the business. Legal and professional costs of £0.2 million were incurred during the year in relation to the acquisition.

As part of the acquisition the Company provided funding such that the V12 Finance Group could redeem £7.0 million of subordinated debt and repay existing bank finance amounting to £28.1 million.

The acquisition of V12 Finance Group Limited 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 also necessary to identify and recognise certain assets and liabilities which are not included on the acquiree's balance sheet, for example intangible assets. The exercise to fair value the balance sheet is inherently subjective and required management to make a number of assumptions and estimates.

The Consolidated Statement of Comprehensive Income includes revenue of £5.1 million and a loss before tax of £0.4 million attributable to V12.

The following unaudited assets were acquired as part of the acquisition of the V12 Finance Group Limited and its wholly owned subsidiary entities:

	Acquired assets / liabilities £million	Fair value adjustments £million	Recognised values on acquisition £million
Cash at bank	0.2	-	0.2
Loans and advances to customers	32.7	-	32.7
Intangible assets	0.1	5.5	5.6
Deferred tax assets	0.3	-	0.3
Prepayments and accrued income	0.5	-	0.5
Other assets	0.1	-	0.1
Total assets	33.9	5.5	39.4
Loans and debt securities	35.1	-	35.1
Deferred tax liabilities	-	1.3	1.3
Accruals and deferred income	0.1	-	0.1
Other liabilities	0.1	-	0.1
Total liabilities	35.3	1.3	36.6
Net identifiable (liabilities)/assets acquired	(1.4)	4.2	2.8
Consideration			3.5
Goodwill arising on acquisition			0.7

Notes to the consolidated financial statements

30. Acquisition of Debt Managers

On 15 January 2013 Debt Managers (Services) Limited (“DMS”), a wholly owned subsidiary of Secure Trust Bank PLC, acquired the trade and certain assets from Debt Managers Holdings Ltd, Debt Managers (AB) Limited and Debt Managers Limited (together “Debt Managers”). DMS collects debt on behalf of a range of clients including banks and utility companies.

Key benefits of this acquisition to the Company include:

- Broadening the income base of the Company without the requirement for large amounts of capital;
- The acquisition of a scalable collections platform through which the Company intends to channel its delinquent debt; and
- The acquisition of the latest call centre and collections technology, including market leading dialler capability, IVR technology and payment websites.

DMS acquired the Debt Managers business for an initial cash payment of £0.4 million paid on completion of the transaction. Deferred consideration of up to £0.3 million was payable by DMS one year after completion subject to the business achieving certain performance criteria. Of this, £0.1 million was paid by DMS in final settlement.

At the year end, a fair value adjustment of £0.2 million was applied to the purchased loan portfolios, reflecting the acquisition date fair value of the portfolios.

The acquired assets included a software platform jointly developed with a third party. Upon completion the rights to this software were sold to that third party for consideration of £2 million. DMS then proceeded to lease back the internal rights to use this software. On completion the Company provided DMS with £2.2 million of funding to clear an outstanding overdraft of £1.8 million and to fund the working capital requirements of DMS.

The Consolidated Statement of Comprehensive Income includes revenue of £3.8 million and a loss before tax of £0.9 million attributable to DMS. Had the acquisition occurred at the start of the financial year, the Consolidated Statement of Comprehensive Income would have included revenue of £4.0 million and a loss before tax of £0.9 million attributable to DMS.

	Acquired assets / liabilities £million	Fair value adjustments £million	Recognised values on acquisition £million
Client bank account	1.4	-	1.4
Property, plant and equipment	0.1	-	0.1
Intangible assets	2.0	-	2.0
Trade debtors	0.7	-	0.7
Purchased loan portfolios	0.1	0.2	0.3
Prepayments and accrued income	0.2	-	0.2
Total assets	4.5	0.2	4.7
Bank overdraft	1.8	-	1.8
Client control account	1.3	-	1.3
Trade creditors	0.5	-	0.5
Accruals and deferred income	0.2	-	0.2
Total liabilities	3.8	-	3.8
Net identifiable assets acquired	0.7	0.2	0.9
Consideration			0.5
Gain from a bargain purchase			0.4

Notes to the consolidated financial statements

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. 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, One Arleston Way, Solihull, West Midlands, B90 4LH.

32. Events after the balance sheet date

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

Five year summary (unaudited)

	2013	2012	2011	2010	2009
	£million	£million	£million	£million	£million
Profit for the year					
Interest and similar income	73.8	44.9	22.9	15.9	9.9
Interest expense and similar charges	(12.9)	(10.5)	(5.6)	(3.4)	(1.3)
Net interest income	60.9	34.4	17.3	12.5	8.6
Net fee and commission income	18.1	12.6	11.2	11.7	13.1
Operating income	79.0	47.0	28.5	24.2	21.7
Impairment losses on loans and advances	(15.6)	(8.9)	(4.6)	(2.2)	(1.2)
Gain from a bargain purchase	0.4	9.8	-	-	-
Other income	-	0.1	-	1.0	0.1
Exceptional costs	(0.9)	(1.4)	(0.5)	-	(0.7)
Arbuthnot Banking Group recharges	(0.1)	(0.1)	(1.8)	(0.9)	(0.3)
Operating expenses	(45.7)	(29.3)	(14.3)	(13.4)	(11.5)
Profit before income tax	17.1	17.2	7.3	8.7	8.1

Earnings per share for profit attributable to the equity holders of the Group during the year

(expressed in pence per share)

- basic	78.3	108.9	39.6	50.0	46.4
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Financial position

Loans and advances to banks	110.0	155.3	139.5	42.6	39.3
Loans and advances to customers	391.0	297.6	154.6	89.5	51.5
Debt securities	-	-	-	25.6	11.0
Other assets	24.9	21.7	13.7	23.0	14.0
Total assets	525.9	474.6	307.8	180.7	115.8
Deposits from customers	436.6	398.9	272.1	153.8	93.3
Other liabilities	27.7	19.8	11.9	11.1	10.4
Total shareholders' equity	61.6	55.9	23.8	15.8	12.1
Total liabilities and shareholders' equity	525.9	474.6	307.8	180.7	115.8

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