

SecureTrust
Bank

ANNUAL REPORT & ACCOUNTS 2014



Straightforward transparent banking

CONTENTS

1	Introduction
2	Group strategy, values and business model
4	Financial and operational highlights
6	Chairman's statement
8	Chief Executive's statement
16	Strategic report: Business review Consumer Finance – Personal Lending
17	Strategic report: Business review Consumer Finance – Motor Finance
18	Strategic report: Business review Consumer Finance – Retail Finance
19	Strategic report: Business review Consumer Finance – Current Account and OneBill
20	Strategic report: Business review Business Finance – Asset Finance
20	Strategic report: Business review Business Finance – Real Estate Finance
21	Strategic report: Business review Business Finance – Commercial Finance
22	Strategic report: Business review Savings
23	Strategic report: Business review Additional services
24	Strategic report: Financial review
28	Strategic report: Capital, leverage and liquidity
30	Culture
32	Board of Directors
34	Directors' report
37	Directors' responsibility statement
38	Corporate Governance statement
40	Remuneration report
42	Independent Auditor's report
44	Consolidated statement of comprehensive income
45	Consolidated statement of financial position
46	Company statement of financial position
47	Consolidated statement of changes in equity
48	Company statement of changes in equity
49	Consolidated statement of cash flows
50	Company statement of cash flows
51	Notes to the consolidated financial statements
94	Five year summary
95	Notice of Meeting
97	Corporate contacts & advisers

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Achieving our ambitions

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

The Bank successfully listed on the Alternative Investment Market (AIM) in 2011. The Bank has increased its portfolio in recent years, acquiring the Everyday Loans Group and the V12 Finance Group in 2012 and 2013 respectively as well as the trade and certain assets of the Debt Managers Group in 2013. The Bank and its subsidiaries are referred to as the Group.

Trusted products

The core business of the Bank is the provision of banking services including a range of lending solutions and savings products. The Bank also provides current accounts to UK customers who may not be adequately served by other banks. The Group is committed to providing customers with straightforward transparent banking solutions, coupled with great service and delivered by friendly and professional staff.

Investors in people

The Bank operates from its head office in Solihull, West Midlands and had 625 full time equivalent employees at 31 December 2014. The Bank has achieved the Investors in People Silver Accreditation during 2014, less than a year after achieving the Bronze standard. The Bank also operates a number of regular awards for its staff, which foster customer service excellence, outstanding achievement and more efficient processes.

Innovative products for consumers

A number of top-tier football and rugby clubs have agreed to use the Group to provide their season ticket funding and we have built integrated links with the leading ticketing companies. Retail finance have also launched into the jewellery sector and taken on a significant number of new partners. The Group has also developed its guarantor loans product during the year, which is called Trusttwo.

Partner for businesses

The Bank has further developed lending solutions for the small and medium sized enterprises (SME) market during 2014. Secure Trust Bank Real Estate Finance has a significant number of customer loans drawn and a pipeline of potential new business being developed. New Commercial Finance and Asset Finance businesses have been developed during the year with proven high quality teams recruited and both businesses are now in operation.

Stable funding profile

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



ARBUTHNOT BANKING GROUP PLC



INVESTORS
IN PEOPLE

Group strategy and values

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

Group strategy

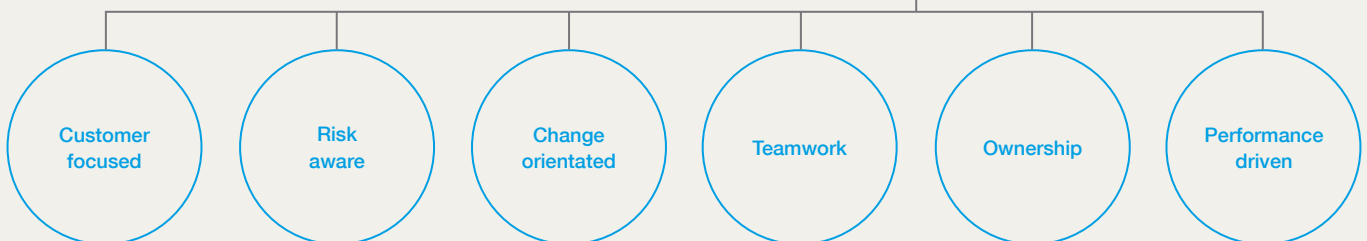
The strategy is to grow the loan portfolios within the consumer and business market sectors through niche product offerings. The growth is to be delivered through a strategy of organic growth with selective acquisitions.

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

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

Values

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



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

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Business model

During 2014 the Group further improved its balance sheet strength giving it the ability to provide a wider range of products and services to consumer and business customers.



Consumer Finance

Personal Lending

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

Retail Finance

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

Motor Finance

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

Current Account

Our current account product combines a current account with a prepaid card, for customers who may not be adequately served by other banks.



Business Finance

Asset Finance

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

Real Estate Finance

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

Commercial Finance

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



Savings

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

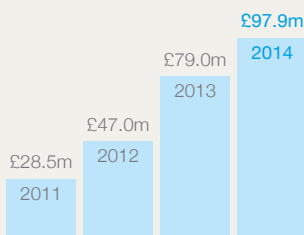
Additional Services

Debt Collection

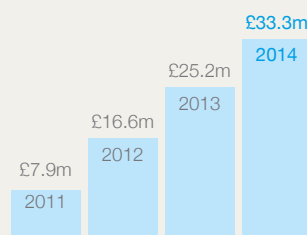
Debt Managers (Services) Limited is the debt collection arm of the Bank, collecting debts on behalf of a range of clients, including banks and utility companies as well as selective investment in purchased debt portfolios.

Financial highlights

Secure Trust Bank has shown sustained controlled growth in 2014. This growth has been achieved alongside prudent capital and liquidity management.



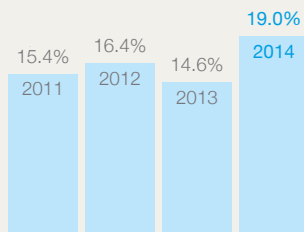
Operating income



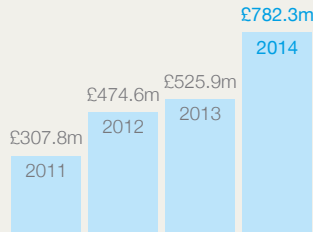
Underlying profit before tax*



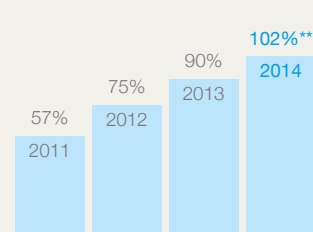
Profit before tax



Total capital ratio
(based on Total Risk Exposure)



Total assets



Loan to deposit ratio

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

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

102%

Loan to deposit ratio

2013: 90%

122.3p

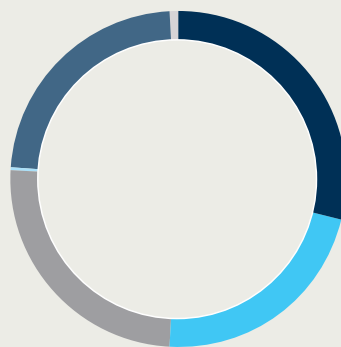
Earnings per share

2013: 78.3p

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Operational highlights

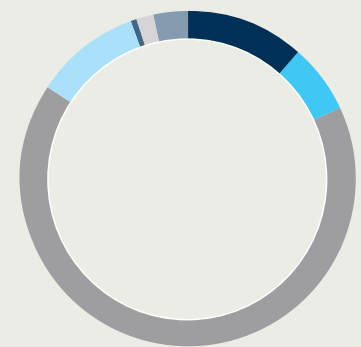
- **Total customer lending** balances across the STB Group increased by 59% to £622.5 million.
- The **Customer Service Excellence Award**, introduced by the Cabinet Office and the Fairbanking Foundation 4 star mark in respect of the current account product, were both renewed.
- The Bank continues to enjoy the favourable conditions in the **retail deposits market** and it raised over £160 million from deposit bonds in 2 to 7 year maturities.
- In 2014 the Bank successfully launched the **Real Estate Finance, Asset Finance** and **Commercial Finance** businesses. Each of these businesses provides funding to small and medium sized businesses. The Real Estate Finance business in particular has built up a significant pipeline of good quality new business opportunities, a number of which have been drawn down during the year.
- **£50.0 million** of new equity capital was raised by way of an institutional share placing during 2014, increasing capital resources by 90%.



Lending to customers

● Personal Lending:	£181.4m
● Motor Finance:	£137.9m
● Retail Finance:	£156.3m
● Current Account and OneBill:	£0.4m
● Business Finance:	£143.3m
● Debt Collection and other:	£3.2m
Total:	£622.5m

59%
increase
over 2013



Customer numbers

● Personal Lending:	50,133
● Motor Finance:	27,635
● Retail Finance:	285,459
● Current Account and OneBill:	43,523
● Business Finance:	60
● Debt Collection and other:	6,890
● Deposits/instant access:	15,807
Total:	429,507

22%
increase
over 2013

Chairman's statement

I am delighted to report that 2014 was a year of further progress across the Secure Trust Bank Group. We have remained highly focused on offering outstanding customer service and providing good outcomes for customers via our straightforward transparent banking solutions while taking further steps to develop our business model.

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

Customer satisfaction levels have been consistently high and the appeal of our proposition saw overall customer numbers expand from 350,861 to 429,507 during 2014, an increase of 22%.

Underlying profit before tax for 2014 was £33.3m, representing an increase of 32% on the prior year. In the three years since the IPO in late 2011, underlying profits before tax have increased by 322% and customer lending balances have also increased by over 300%. Having developed a meaningful consumer finance business, our strategy in 2014 was to augment these activities with the creation of an SME division centred on the Asset Finance, Invoice Finance and Real Estate Finance markets. This division became fully operational in the second half of 2014 and the contribution has helped to increase the momentum within the Group.

Our management philosophy of exercising prudence in respect of capital, funding and lending remains unchanged. To support the development of the SME division the Group undertook a share placing in July 2014 which significantly increased the capital base. We were pleased with the level of interest this offer generated and welcomed several new significant shareholders to the register during the year.

STB has started the new year 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 52p per share. This, when added to the interim dividend of 16p, would mean a full year dividend of 68p per share. If approved the final dividend will be paid on 15 May 2015 to shareholders on the register as at 17 April 2015.

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.

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Henry Angest
Chairman

18 March 2015

Chief Executive's statement

Secure Trust Bank began 2014 with what I referred to at the time as "a clear strategy to maximise the potential of its existing Retail Finance, Motor and Personal Unsecured Lending activities while diversifying into secured lending areas to broaden the Group's overall business".

I am pleased to report that the successful execution of this strategy has enabled us to deliver another strong set of financial results and record levels of profits and underlying earnings. We have a robust capital position and in light of the positive outlook, the confidence to continue to grow the dividend.

Increased customer base coupled with high satisfaction levels

We are now serving a record number of customers across our savings, basic bank account, motor finance, retail point of sale finance, unsecured personal lending, asset finance, invoice finance and real estate finance markets. Just as has been the case for over 60 years, Secure Trust Bank's friendly and professional staff are fully committed to achieving good outcomes for our existing and potential new customers via the provision of straightforward transparent banking solutions.

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

All of our products are specifically designed to be as easy as possible for customers to understand and appropriate for their needs. I have previously mentioned an example where, 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. During 2014 and early 2015 the Financial Conduct Authority (FCA) announced that as a result of its 'thematic review' of the cash savings market it was proposing that banks undertake a number of changes to provide better outcomes for customers. I am pleased to note that these changes represent an opportunity rather than a threat to Secure Trust Bank and serve to underscore the benefits of being straightforward and transparent in our dealings with customers.

During 2014 we extended the use of FEEFO (Feedback Forum) which we introduced in 2013 to measure how satisfied our customers are with us. FEEFO is an independent online tool which allows customers to publicly rate our service standards and record any comments they want, no matter how candid (www.feefo.com). Thus the customer is in control of the scoring of the survey, not the surveyor. I believe we are the only bank that uses FEEFO to gather customer satisfaction data across its savings, current account and lending products. This rich FEEFO data reflects how our customers actually experience us and, given its importance, is the first thing discussed at our weekly management meeting every Monday morning. Real time focus on customer feedback informs management decisions and our drive for continuous improvement. I am pleased to note that we have consistently achieved customer satisfaction ratings in excess of 90% across all of our products during the year.

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 continue to make to our products and services.

For the third year running we 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.

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We are well aware of the fact that complacency can damage businesses, so we remain highly focused on improving our service and products still further via the targeted investment in people, systems and processes.

I am pleased to note that our ongoing customer focus continues to be successful, with our overall customer base growing by 22% during 2014.

Growth and diversification

STB entered the current economic cycle lending exclusively unsecured consumer finance products. Growth in these portfolios remains healthy with customer balances at the year end up 23% on the prior year. These loans have continued to perform well. We see considerable ongoing opportunities in consumer finance, which we will seek to optimise.

However we also want to grow a range of secured lending portfolios by leveraging the considerable knowledge and experience of the directors and senior management in SME lending markets. We felt that 2014 represented a suitable point in this economic cycle to commence our long planned Asset Finance, Invoice Finance and Real Estate Finance activities.

There has been plenty of commentary, from a range of opinion formers, about the need for greater productivity across UK PLC. In my opinion, a lot of businesses have deferred capital investment, perhaps at the cost of improved productivity, partly because they wanted to be sure that the UK economic recovery was entrenched before taking on financial commitments and partly because of the difficulty in securing financing from the larger banks which, in aggregate, have shrunk their lending to SMEs.

As the UK economic recovery progresses the demand from businesses for credit to invest in fixed assets and working capital will inevitably increase. I believe STB is well positioned to support viable businesses and in so doing grow a sustainable SME business which will provide another source of profit growth for the Company.

Similarly the demand from house builders for credit is likely to remain high whilst they seek to build properties to help address the UK housing shortage, especially in London and the South East. Again, I see the potential for a sustainable business undertaking residential development and investment finance, at prudent loan to value ratios (LTVs), via our specialist Real Estate Finance team.

Our overall objective is to continue to grow all of our lending portfolios with a bias towards secured lending lines so that over time these become the largest single component of the lending portfolio. With this in mind investors will note that overall lending balances have increased 59% year on year.

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

Controlling growth

As ever the Board's ongoing top strategic priority is to protect the reputation and sustainability of STB via prudent balance sheet management, investment for growth and robust risk and operational controls. During 2014 we committed further investment into our risk control and governance capabilities to adapt to the growth in the business and the evolving regulatory environment. This is reflected in the strengthening of the 'three lines of defence' operating model across the Group. The Credit Risk function and Operational Risk team have been enhanced, the latter via the establishment of a new Head of Operational Risk role. The Finance function was boosted by additional headcount. We have also appointed an experienced Treasurer who joined us from Julian Hodge Bank. Contemporaneous with this appointment we have invested in a new Asset and Liability Management system to allow us to better manage the growing treasury portfolio. A new Chief Technology Officer joined us in March 2014. Throughout the year the Compliance function has also grown considerably which in part reflects the transition of some of our businesses from being licensed by the Office of Fair Trading (OFT) to being regulated by the FCA. Finally, a new Chief Internal Auditor was appointed in Q4 2014.

Regulatory environment

Secure Trust Bank and the British Bankers Association have continued to campaign for a level competitive playing field throughout 2014. I believe key stakeholders and decision makers appreciate that the barriers to growth faced by small and challenger banks are disproportionate relative to their too big to fail competitors.

It is also pertinent to note that the regulatory environment continues to undergo rapid and significant change. HM Government via the Bank of England, Prudential Regulation Authority (PRA), FCA and Competition and Markets Authority (CMA) launched a series of changes, market studies, consultations and investigations over the last twelve months. These cover a very wide range of issues including, the Financial Services Compensation regime, Mortgage Lending criteria, Minimum Capital Leverage Ratios, Increased Accountability in banks, Aligning Remuneration and Risk, Resolution and Recovery Directives, Ring Fencing implementation guidelines, Increased Liquidity requirements, the Senior Managers Regime, and a review into the Cash Savings Market. In November 2014 the

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CMA announced 'its decision to launch an in-depth market investigation into the personal current account and SME retail banking sectors'. Amongst the concerns expressed the CMA noted 'continuing barriers to entry and expansion into the sector, limiting the ability of smaller and newer providers to develop their businesses'. Finally a new Payment Services Regulator was established. This is a subsidiary of the FCA and assumes responsibility for the Payments industry in April 2015. When it was launched in April 2014 the CEO of the FCA noted that 'it also needs to be easier for challenger banks to access these systems and compete with the bigger players'.

The much greater focus on being able to demonstrate ever higher standards of conduct and issues such as more onerous burdens of personal responsibility will inevitably result in increased costs and exposure for banks. Secure Trust Bank seeks to keep pace with these changes hence the significant investment in our risk and control capabilities detailed above. We will continue to closely monitor the operating and regulatory environment and adapt our business model to mitigate risk and maximise opportunities going forward.

Prudent funding profile

Given the paragraph above it is no surprise that our funding strategy remains to limit exposure to short term wholesale funding and interbank markets and to broadly match fixed term, fixed rate customer lending with customer deposits of the same tenor and interest rate basis. This helps us to minimise maturity transformation and interest rate basis risks. During 2014 our lending activities continued to be funded by customer deposits with our year end loan to deposit ratio being 102% (expected to remain at a similar level in 2015). Following the successful capital issuance in July the Bank also has significant cash resources other than those raised from customer deposits. As a result we have been able to manage the loans to deposits ratio closer to the 100% level whilst remaining comfortably funded at all times. To achieve a broadly matched asset to liability position we increased the average tenor of our deposits over the year with fixed term deposits rising to 54% of total deposits. This compares to 44% as at 31 December 2013.

At the time of writing the outlook for interest rates suggests they will stay low for an extended period. The changes the bigger banks are being obliged to make following the FCA's Thematic Review into the cash savings market during 2014 should represent an opportunity for STB. As a result I envisage funding conditions remaining favourable for the foreseeable future.

Robust capital ratios and modest leverage

On a like for like basis our year end Core Tier 1 capital ratio of 22.6% remains very healthy and compares to the 2013 year end position of 19.7%.

Consistent with the Basel III directive, in 2015 the PRA is introducing a minimum leverage ratio disclosure requirement. This has been set at 4%. As at 31 December 2014 STB's leverage ratio was 14.7%. This is very comfortably in excess of the new minimum and serves to highlight the scope we have to increase our lending activities whilst remaining modestly leveraged.

“Robust cost control remains a major ongoing focus.”

Profit growth funding investment for the future

The underlying profit for 2014 of £33.3m represents a 32% increase on the £25.2m underlying profit before tax in 2013. The statutory pre-tax profits for 2014 of £26.1m are 53% higher than the prior year of £17.1m. As previously disclosed the variance between the underlying and statutory profits has been heavily influenced by the acquisition accounting treatment arising from acquisitions, particularly 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. 2014 saw the last material amortisation adjustment in respect of Everyday Loans. As such there should be closer alignment between reported and underlying profits in the future.

Robust cost control remains a major ongoing focus. I have noted already the ongoing investment in our overall organisational capability to ensure that our growth is well controlled, sustainable and managed in a manner that meets the Board's expectations. In addition 2014 saw the commencement of three significant new business lines being Asset Finance, Invoice Finance and Real Estate Finance. Inevitably start up situations require upfront investment whereby the initial establishment and day to day running costs result in operating losses whilst the business reaches the critical mass necessary to break even, before turning profitable. 2015 will see a full year of costs in relation to these new business lines which will result in a planned reduction in short-term profit growth for the Group albeit for longer-term benefit.

Lending portfolio performing as expected

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

Consumer lending operations make strong progress

Healthy double digit growth was achieved across the Group's loan portfolio in 2014. Total new business lending volumes grew 79% to £545.9m (2013: £304.7m) which translated to an increase of 59% in overall balance sheet lending assets to £622.5m (2013: £391.0m). It should be noted that 75% of this annual balance sheet growth was achieved in the second half of the year with a strong contribution from Real Estate Finance.

Motor finance lending balances, net of provisions, of £137.9m at 31 December 2014 (2013: £114.7m) exhibited very encouraging growth rates. This business, which focuses on the near prime market segment, continues to service the majority of the Top 100 UK car dealer groups and enjoys extremely strong relationships with a number of specialist motor intermediaries. In 2015 we intend to write greater volumes of prime lending as a result of the many positive dealer and broker relationships we have.

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Retail point of sale business, net of provisions, grew strongly as intended, with balances at 31 December 2014 increasing 37% to £156.3m (2013: £114.4m). I am very pleased with the progress here and the contribution from the V12 business since it was acquired in 2013. The launch of the Season Ticket product was a great success and is something that will be enhanced in 2015. Our increased balance sheet strength has enabled the Retail Finance team to pitch for larger retailer relationships with confidence and success. A number of new strategic relationships commenced in 2014 including for example AO.com.

Personal unsecured lending balances, net of provisions, increased to £87.6m at 31 December 2014 (2013: £77.8m). Everyday Loans balances, net of provisions, grew to £93.9m at 31 December 2014 (2013: £81.4m). We continue to manage these portfolios to focus on profit maximisation rather than dramatic loan growth. Following the success of an initial Guarantor Loan pilot a full product was launched in the second half of 2014. This will help to support ongoing growth in this unsecured lending segment.

Business finance division created as planned

In last year's Chief Executive statement I noted "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".

Our strategy here was built on picking the best possible staff and limiting our activities to secured lending to mitigate credit risks. I am pleased to report that we have progressed further than initially envisaged in light of the scale of the potential available to us and our ability to secure very high quality, experienced bankers. Each of the senior staff recruited into our Real Estate Finance, Invoice Finance and latterly Asset Finance teams, have a minimum of 25 years' relevant lending experience. The majority of the key staff also hold relevant banking and corporate treasury qualifications.

Real Estate Finance was the first SME market we entered. New business is being sourced via the strong personal relationships the team has built up over many years with property principals and specialist intermediaries. The vast majority of lending is to fund residential development with a lower volume of residential investment (Buy to Let) also being originated. We have a very limited appetite for Commercial Property lending and recognise the difficulties lending in this sector has caused to some banks in the past. The demand seen has been greater than expected. Rather than simply maximising new lending volumes we are exercising prudence especially pending the results of the forthcoming general election and clarification around any so called 'mansion taxes' or other levies may have on the housing market. We believe we are currently generating good quality Real Estate Finance transactions at attractive yields without needing to offer aggressive structures. The ongoing focus of the team will be on quality and profit rather than simply volume.

“We have a clear growth strategy and a pipeline of organic and external new business opportunities.”

Secure Trust Bank Commercial Services, the invoice finance division of the bank, was launched as planned on 1 September after a year in development. Interest in our entry to the market exceeded expectations, resulting in a stronger than anticipated flow of new business opportunities. As a result we have brought forward recruitment plans for additional risk and business development staff to ensure that the new business is properly managed and controlled. Our customer proposition is built around relationships and we are being very selective with the business being accepted in the early stages of this business.

Finally we commenced writing Asset Finance in December via a strategic partnership with Haydock Finance. Haydock are a long established and very well regarded asset finance company operating across the UK. We have been developing our partnership since 2012 and see considerable potential here. Haydock are providing a full business process outsourcing service to STB. This is governed by a detailed operating agreement which includes auditing and oversight arrangements. All of the lending written fully conforms to STB's credit policies and risk appetite and is assessed by STB staff based in Haydock's premises. The SME division started 2015 with 38 staff. This is a considerable investment which is for the long-term benefit of STB but will result in a lowering of its growth in profits in 2015.

Fee based accounts

Current account customer numbers reduced during 2014, reflecting the reduced focus on this product whilst we concentrated our investment in more profitable areas. Consistent with trends seen in 2013, customer satisfaction levels remained high but achieving significant growth in customer numbers is likely to remain difficult in part because the 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 are also watching developments in respect of basic bank account products at High Street banks with interest.

As expected, the OneBill customer numbers continue to decline over time with £7.1 million of income generated in 2014 compared to £8.0 million in 2013. We continue to explore the potential to offer a next generation OneBill product in conjunction with a number of parties including government agencies. However this is not an area of significant focus at present.

Debt Managers

Debt Managers has performed broadly in line with expectations. The business is now trading profitably albeit it recorded a modest pre-tax loss during 2014. There have been considerable structural changes in this market which have been heavily influenced by the transition of regulatory oversight from the OFT to the FCA. This has driven consolidation amongst the larger debt purchasers with a good example being the acquisition by Arrow Global of Capquest in Q4 2014. Additionally a number of debt collection businesses have ceased trading rather than seeking authorisation from the FCA. I expect these market changes to benefit Debt Managers during 2015.

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Our people

During 2014 our approach to the development of our employees was recognised by the upgrading to silver status from bronze by Investors in People (IIP). This places the Group in the top 6% of all businesses that are accredited by IIP. We intend to build on this during 2015 and will continue to place emphasis on the training and development of our people and on recognising their excellence. It gives me considerable pleasure to see the numerous positive comments made by customers on FEEFO about the service provided by helpful and friendly STB staff.

We remained heavily involved in charitable activities during the year. Numerous events took place including making our call centre available for free to support the Sport Relief TV event. I am very proud of all the work done to help good causes and was particularly pleased that we were able to present a cheque for £25,000 to the Birmingham Children's Hospital just before Christmas. 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.

During the year the growth in the scale and scope of the Bank has created many career progression opportunities for our staff. This is reflected in the overall headcount increasing to 625 FTE (2013: 550).

Current developments

There has been no material change to the underlying performance of the business in the early months of 2015. The strong momentum generated in the second half of last year has given us a good start to the year. 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.

As I have already noted a number of significant proposals and market investigations are being progressed by the regulatory bodies. The Competition and Markets Authority's investigation into the Current Account market in particular, could prove to be very disruptive for the dominant banks. We are naturally studying developments very closely and providing our input to relevant debates and consultations as appropriate. We will seek to maximise any opportunities that may arise. The continuing economic recovery coupled with lower inflation and more optimistic households create favourable conditions for ongoing growth in our Consumer Finance portfolios, especially Motor and Retail Finance, which should benefit from any increase in consumer spending. We expect to see greater demand for credit from businesses and believe that fundamental supply and demand factors will continue to drive the need for an increase in the UK's housing stock. We believe we are well positioned to benefit from these dynamics and are confident of making further positive progress with our strategic plan during 2015.

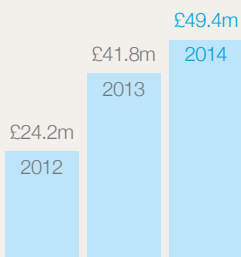
Paul Lynam
Chief Executive Officer

18 March 2015

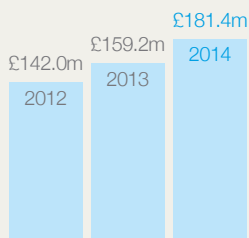
Strategic report: Business review

Consumer Finance

Revenue and lending performance vs prior years



Personal Lending revenue



Personal Lending balance at 31 December

Personal Lending

What we do

The Bank is well established in personal unsecured lending, having been lending for over 35 years, with Moneyway being the Bank's personal lending brand. During 2012 the Company acquired Everyday Loans which 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, everydayloans.

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

The Group has broadened its online distribution capabilities in the personal lending segment and operates significant introducer relationships, including with Shop Direct. The business utilises automated underwriting systems which, in addition to providing significant cost advantages, ensure that consistent credit



decisions are made which improves ongoing performance monitoring and future policy decision making. Differential pricing that reflects the credit risk of the underlying customer is standard for the Group. These systems have enabled the business to control risk whilst retaining the speed of service needed to support introducers.

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.

Everyday Loans operates through a network of offices where loans are originated, serviced and collected. Applications are made by phone or online, whilst Secure Trust Bank through its brand Moneyway offers loans via the internet and a phone service utilising an experienced team of UK based advisers.

2014 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 £127.7 million from £105.1 million in the previous year, an increase of 21%. This generated an increase in personal lending assets during the year which, at the year end, including Everyday Loans, totalled £181.4 million (December 2013: £159.2 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 18% to £49.4 million whilst impairment losses were £9.9 million compared to £10.3 million in 2013.

Straightforward transparent banking

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

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

Motor Finance

What we do

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

Only passenger vehicles with certain features including an engine size of less than three litres, an age ranging from new to a maximum of 10 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 financed are used cars. Finance term periods are up to 60 months with a maximum loan size of £20,000. Customers are either private individuals or self-employed small business users. The Bank will also be introducing a prime lending product during 2015.

How we do it

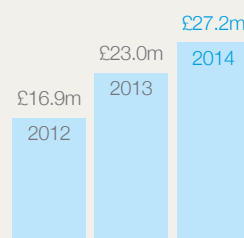
The Bank distributes its motor finance products via UK motor dealers, brokers and internet introducers. New dealer relationships are established by our UK-wide motor finance sales team with all introducers subject to a strict vetting policy, which is reviewed on a regular basis. The motor business has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

The technology platform used allows the Bank to manage all aspects of the motor business, from introducer set up and application capture to decisioning and pay-out. Motor lending is administered in the Group head office, however the UK motor dealers and brokers are UK-wide.

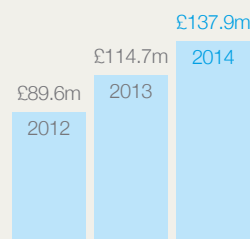
2014 performance

New business lending volumes for motor lending increased to £71.4 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 £137.9 million (December 2013: £114.7 million). Income from motor lending increased by 18% to £27.2 million whilst impairment losses were 8% higher at £3.9 million, compared to £3.6 million in 2013.

Revenue and lending performance vs prior years



Motor Finance revenue



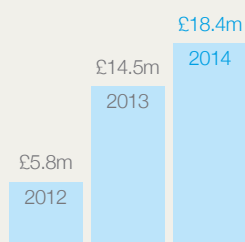
Motor Finance lending balance at 31 December



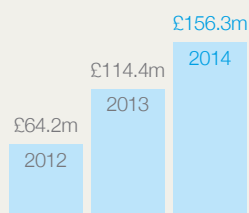


Consumer Finance

Revenue and lending performance vs prior years



Retail Finance revenue



Retail Finance lending balance at 31 December

Retail Finance

What we do

The Bank's retail finance business commenced lending in 2009 and provides unsecured, prime lending products to the UK customers of its retail partners to facilitate the purchase of a wide range of consumer products across in-store, mail order and online channels. The acquisition of the V12 Finance Group in January 2013 was complementary to the Group's existing retail finance proposition and the V12 management team continued in the business. V12 Retail Finance has provided finance in co-operation with their retail partners for more than 20 years. The acquisition enabled the Group to integrate its existing retail lending business with that of the V12 Finance Group to generate synergistic benefits from the use of a Group-wide point of sale system. During 2014 the majority of the Bank's retail partners have been migrated to the V12 platform.

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

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

The three largest sub-markets for retail finance at 31 December 2014 are the provision of finance for the purchase of sports and leisure equipment (including cycles), musical instruments and consumer electronics. Over the last three years cycle finance has seen positive new business levels influenced by the success of British cyclists in the Tour de France, the Olympics

and Paralympics. In addition, IT equipment is leased through the Company's subsidiary undertaking STB Leasing Limited.

How we do it

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

The Group serves retailers across a broad range of industries including cycle, music, furniture, outdoor/leisure, electronics, dental and jewellery. V12 Retail Finance successfully launched its sports season tickets finance offering during 2013.

The Group provides finance through a range of retailers including household names such as Evans Cycles, PC World, AO.com, Jessops, Halfords and DFS. Arrangements are in place with a number of affinity partners including Creative United, ACTSmart and RentSmart.

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

2014 performance

New business lending volumes for retail lending grew strongly as anticipated to £201.3 million, an increase of 45% on the previous year. This generated a significant increase in lending assets during the year, which at the year end totalled £156.3 million (December 2013: £114.4 million).

Income from retail lending increased by 27% to £18.4 million. Impairment losses were a modest £1.5 million in 2014, compared to £1.7 million in 2013.

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Current Account and OneBill

What we do

The 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 Bank'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.

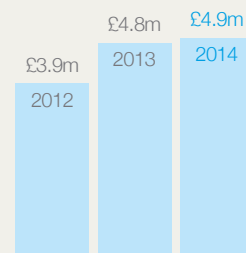
The fees are simple and transparent with no hidden or unexpected charges. For example, there are no charges should a direct debit or standing order payment fail. Customers welcome the transparent monthly account management fee, in return for which credit interest is paid at base rate and customers have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

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

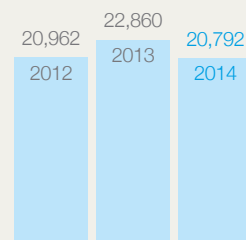
2014 performance

At 31 December 2014, the current account product had been taken up by almost 21,000 customers with the account experiencing new account openings averaging just under 350 per month for the 12 months to 31 December 2014. The current account generated income of over £4.9 million in the year, which represented a small increase over the previous year. OneBill, a household budgeting product, generated income of £7.1 million in the year despite this product being closed to new customers for a number of years. OneBill account numbers declined from 24,297 to 22,731 during the 12 months to 31 December 2014.

Revenue and customer numbers vs prior years



Current Account revenue



Current Account customer numbers

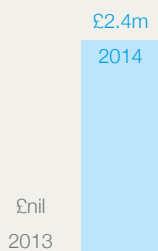


Business Finance

Revenue and lending performance vs prior years



Asset Finance lending balance at 31 December



Real Estate Finance revenue



Real Estate Finance lending balance at 31 December

Asset Finance

What we do

The Asset Finance business launched in the fourth quarter of the year and provides funding to support SME businesses in acquiring commercial assets and who may not be adequately served by the traditional banks. The business will also provide SME commercial owner occupiers with finance to buy the property they trade from.

A number of loans have been drawn down during the period of operation, financing assets in a number of commercial sectors, including commercial vehicles, manufacturing equipment and laundry equipment.

How we do it

The Asset Finance business is operated via a partnership with Haydock Finance. Haydock are a well-established asset finance company operating across the UK. Haydock are providing a full business process outsourcing service to the Bank. The current route to market is via introducers who are supported by an internal marketing resource and a targeted web and social media presence. Facilities offered are hire purchase and finance lease arrangements with terms of up to five years.

2014 performance

The Asset Finance business model has been developed during the year, but is in its infancy, with lending of £4.5 million at the end of the year.



Real Estate Finance

What we do

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

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

How we do it

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

2014 performance

The Real Estate Finance business commenced operation in the second half of 2013 and has concluded 47 deals during 2014, advancing £133.7 million of funds to customers. There is also a significant pipeline of both committed lending and deals yet to be approved.

Straightforward transparent banking



Commercial Finance

What we do

During September 2014 the Bank launched its Commercial Finance business to enter the UK Asset Based Lending (ABL) market. This market has seen rapid growth during the last 20 years and there are over 43,000 users of the service with advances in excess of £18 billion. The aim is to provide a full suite of ABL products to help SMEs, with the two most significant products being invoice discounting and invoice factoring.

The Invoice Finance product is by far the largest segment of the ABL market and it focuses on companies who sell goods and services to other business on credit terms. A key benefit of invoice finance is the ability to provide funding against a client's unpaid sales ledger. It is seen as a product to improve cashflow and competes with other short-term working capital products such as overdrafts.

Commercial Finance dovetails into the overall SME lending proposition which has been developed by the Bank with the intention to broaden its product set.

How we do it

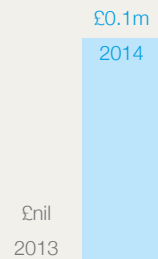
The Bank has recruited an experienced and proven management team which will grow the business from a standing start in 2014 and operates from premises in Manchester but will have teams operating out of all key regions across the country. This will give the business the flexibility to respond to customers' needs.

The Commercial Finance business uses a tried and tested operating system in order to give top quality service to its customers and to enable quick decision making, whilst managing risk.

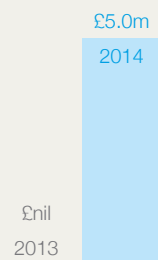
2014 performance

The Commercial Finance business has been developed during the year with lending of £5.0 million at the end of the year, generating income of £0.1 million.

Revenue and lending performance



Commercial Finance revenue



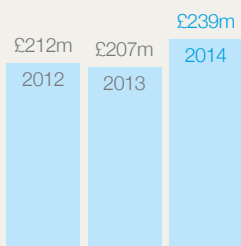
Commercial Finance lending balance at 31 December



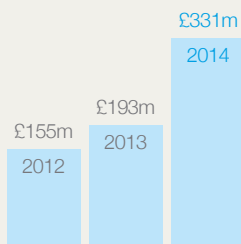


Savings

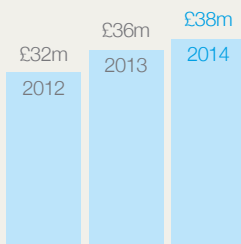
Savings performance vs prior years



Notice deposits



Deposits bonds



Current/sight accounts

What we do

The Bank's savings accounts consist of notice accounts, fixed term bonds and deposit accounts. 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 funding profile which again gives additional financial security to the business.

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

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.

2014 performance

The Bank's customer deposits primarily comprise notice deposits, term deposits and fee-based accounts, being fee-based current accounts and OneBill accounts. At 31 December 2014 customer deposits totalled £608.4 million. This represents an increase of £171.8 million since the last year end.

The Bank's notice deposits totalled £239 million at the year end (December 2013: £207 million). New 120 day notice accounts were introduced during the year and were successful, raising additional new deposits of £95 million predominantly during the second half of the year.

During the year, the Bank launched further fixed rate deposit bonds, with two to seven year maturities which enable it to match broadly the new lending activities. These again were very successful as the Group raised new deposits of over £160 million, achieving its desired funding maturity profile. At the year end term deposit bond balances totalled £331 million.

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Additional services

Debt Collection

What we do

In January 2013 the Bank'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 debts on a contingent collections basis on behalf of a range of clients including banks, retail and utility companies and the public sector, as well as collecting delinquent debt for the Bank. The business also selectively invests in purchased debt portfolios.

During the year DMS received interim permission from the Financial Conduct Authority (FCA) to conduct consumer credit activities, this being a requirement on the transfer of licencing from the Office of Fair Trading to the FCA.

How we do it

DMS has a scalable collections platform and makes use of the latest call centre and customer relationship management technology, including market leading dialler capability, IVR technology and payment websites. The business has an experienced management team with significant sector specific knowledge. The business ensures that repayment plans are affordable by the customer and are therefore sustainable.

DMS also offers business process outsourcing to clients, enabling the outsourcing of call centre activities.

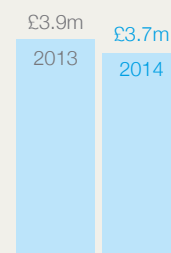
During the year the business has started a field services operation, offering a range of services including reconnection visits, asset recovery and process serving.

2014 performance

Income decreased by 5% to £3.7 million when compared to 2013.

During the year, DMS acquired delinquent debt from the Bank, which has contributed to an increase in the value of purchased debt portfolios to £3.1 million, from £0.3 million in the previous year.

Revenue and lending performance vs prior years



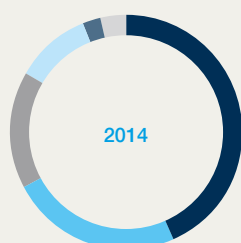
Debt Collection revenue



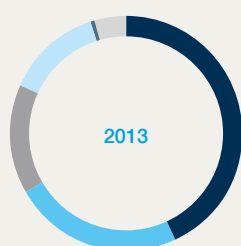
Debt Collection portfolios at 31 December

Strategic report: Financial review

Revenue composition
2014 vs 2013



● Personal Lending:	£49.4m
● Motor Finance:	£27.2m
● Retail Finance:	£18.4m
● Current Account and OneBill:	£12.1m
● Business Finance:	£2.6m
● Debt Collection and other:	£4.1m
Total:	£113.8m



● Personal Lending:	£41.8m
● Motor Finance:	£23.0m
● Retail Finance:	£14.5m
● Current Account and OneBill:	£12.8m
● Business Finance:	£0.1m
● Debt Collection and other:	£4.3m
Total:	£96.5m

Summarised income statement

	2014 £million	2013 £million	Variance £million
Interest, fee and commission income	113.8	96.5	17.3
Interest, fee and commission expense	(15.9)	(17.5)	1.6
Operating income	97.9	79.0	18.9
Impairment losses	(15.3)	(15.6)	0.3
Operating expenses	(56.5)	(45.8)	(10.7)
Acquisition related items	–	(0.5)	0.5
Profit before tax	26.1	17.1	9.0
Costs of acquisition	0.2	0.9	
Fair value amortisation	5.3	4.9	
Share based incentive scheme	1.5	2.2	
Net ABG management recharges	0.2	0.1	
Underlying profit before tax	33.3	25.2	8.1
Underlying tax	(7.2)	(6.7)	(0.5)
Underlying profit after tax	26.1	18.5	7.6
Underlying basic earnings per share (pence)	155.8	118.2	37.6

Income analysis

Operating income increased by 24% to £97.9 million. Growth was achieved through increased levels of activity in all lending sectors as well as the introduction of a full business lending suite. New lending volumes in the personal lending, motor and retail finance businesses increased in total by £96 million, representing an increase of 31% on 2013.

Real Estate Finance generated income of £2.4 million during the year, from a standing start, whilst the Asset Finance and Commercial Finance businesses are in their nascent state and will contribute towards the Group's profits during 2015. Income from retail finance increased by 27%, which was helped through the full integration of the legacy retail finance business with that of the V12 Finance

Group, which was acquired during the preceding year. The Bank intends to create further diversified and balanced growth in the lending books during 2015.

Income from the current account with a prepaid card remained relatively stable during the year at £4.9 million, whilst the expected decline in the income from the OneBill product following its closure to new accounts in 2009 continued.

Impairment losses during the year were £15.3 million (2013: £15.6 million). This is a decrease as a percentage of income despite the inclusion of an increase in the collective provision. Firstly, we believe this is a function of prudent underwriting and an improving economy and secondly, as a result of a market benchmarking exercise for non-performing loans, the Company

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reassessed the recoverable value of charged-off loans resulting in a reduction in the impairment charge of £2.4 million.

Operating expenses have increased, in line with expectations, as significant investments have occurred in the infrastructure and human capital of the Group. This investment will generate further returns in the future.

Underlying profit before tax was £33.3 million, which is an increase of 32% on the 2013 underlying profit before tax. Underlying profit removes the effects from the income statement of acquisition costs, fair value amortisation arising from acquisitions, share option scheme costs and net ABG management recharges.

The key financial and operational indicators of the Group are shown on pages 4 and 5.

Taxation

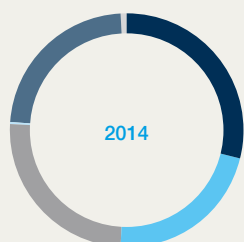
The effective tax rate on profit before tax is 21.5% (2013: 28.1%), which is in line with the weighted average corporate tax rate during the year. The prior year's tax rate reflected the effects of acquisition adjustments relating to deferred tax.

Distributions to shareholders

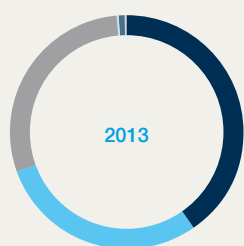
The directors recommend the payment of a final dividend of 52 pence per share which, together with the interim dividend of 16 pence per share paid on 19 September 2014, represents a total dividend for the year of 68 pence per share (2013: 62 pence per share).

Earnings per share

Detailed disclosures of earnings per ordinary share are shown in Note 11 to the financial statements. Basic earnings per share increased by 56% to 122.3 pence per share (2013: 78.3p). Whilst the underlying basic earnings per share increased by 32% to 155.8 pence per share (2013: 118.2p per share).

Lending portfolio composition
2014 vs 2013

● Personal Lending:	£181.4m
● Motor Finance:	£137.9m
● Retail Finance:	£156.3m
● Current Account and OneBill:	£0.4m
● Business Finance:	£143.3m
● Debt Collection and other:	£3.2m
Total:	£622.5m



● Personal Lending:	£159.2m
● Motor Finance:	£114.7m
● Retail Finance:	£114.4m
● Current Account and OneBill:	£0.5m
● Business Finance:	£1.8m
● Debt Collection and other:	£0.4m
Total:	£391.0m

Summarised balance sheet

	2014 £million	2013 £million
Assets		
Cash and balances at central banks	81.2	–
Debt securities held-to-maturity	16.3	–
Loans and advances to banks	39.8	110.0
Loans and advances to customers	622.5	391.0
Other assets	22.5	24.9
	782.3	525.9
Liabilities and equity		
Due to banks	15.9	0.1
Deposits from customers	608.4	436.6
Other liabilities	33.1	27.6
Total equity	124.9	61.6
	782.3	525.9

The total assets of the Group increased by £256.4 million or 49% primarily due to the continued growth in customer lending. Real Estate Finance lending balances were £133.7 million at the year end, from a virtual standing start this year, whilst Asset and Commercial Finance balances, in their nascent stages of lending, had lending balances totalling £9.6 million at the year end. The consumer lending business sectors of Personal Lending, Motor Finance and Retail Finance had increased lending balances of £22.2 million, £23.2 million and £41.9 million respectively. During the year the Retail Finance business increased its portfolio size by 37% to close at £156.3 million, as the Group benefits from the synergistic benefits following the V12 Finance Group acquisition in 2013 as now all retail finance is administered from the V12 offices. Personal lending grew by 14% as the business was able to source new business from online brokers and

affinity partners. Motor finance increased its portfolio size by 20% through a growing number of dealer relationships.

Customer deposits grew by 39% to close at £608.4 million to fund the increased lending balances. The Group also obtained £15.9 million of wholesale deposits at the year end, following the sale and repurchase agreement of the FLS Treasury Bills, however the Group continues with its conservative funding policy, ending the year with a loan to deposit ratio of 102% (2013: 90%).

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 described 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. The policy is not to take significant unmatched own account positions in any market. The Group and the Bank have no exposures to currency fluctuations.

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Liquidity risk is the risk that the Group cannot meet its liabilities as they fall due, due to insufficient liquid assets. The Group takes a conservative approach to managing its liquidity profile and is primarily funded by retail customer deposits, having limited exposure to 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 Bank 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.

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 previous year the Bank was admitted to the Funding for Lending Scheme (FLS). The FLS is a scheme launched by the Bank of England and HM Treasury, designed initially to incentivise banks and building societies to boost their lending to UK households and 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 institution's 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 is 0.25% pa on the amount borrowed. As banks increase lending, their overall funding costs falls. For banks or building societies whose lending declines, the fee increases 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. If the FLS Treasury Bills are not subject to a repurchase agreement with another institution the UK Treasury Bills borrowed from the Bank of England under the FLS are not recognised on the Statement of Financial Position of an institution as they will not meet the criteria for de-recognition by the Bank of England. When the UK Treasury Bills are pledged as part of a sale and repurchase agreement with a third party, amounts borrowed from the third party are recognised on the Statement of Financial Position.

Strategic report: Capital, leverage and liquidity

Capital

The Group's capital management policy is focused on optimising shareholder value over the long-term. Processes exist to ensure that capital is allocated to achieve targeted risk adjusted returns whilst ensuring appropriate surpluses are held above the minimum regulatory requirements. The Board reviews the capital position at every board meeting. Changes relating to the implementation of Capital Requirements Directive IV (CRD IV) in 2014 did not have a material impact on the capital resources of the Group.

In accordance with the EU's Capital Requirements Directive (CRD) and the required parameters set out in the EU's Capital Requirements Regulation (CRR), the Arbuthnot 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 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 to the Bank by the Prudential Regulation Authority (PRA).

The Group's regulatory capital is divided into:

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

The ICAAP includes a summary of the capital required to mitigate the identified risks in its regulated entities and the amount of capital that the Group has available. All regulated entities within the Group have complied with all of the externally imposed capital requirements to which they are subject.

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

At the year end the solo-consolidated group had the following capital resources and risk weighted assets. Risk weighted assets now reflect both credit risks and operational risks, in accordance with CRR (shown as Total Risk Exposure in the table below). The solo-consolidated group includes all entities where a solo consolidation waiver has been received from the PRA; this excludes the V12 Finance Group and the Debt Managers Group.

Common Equity Tier 1 (CET 1) capital	£121.4 million
Tier 2 capital	£2.0 million
Total capital	£123.4 million
Total Risk Exposure (TRE)	£649.8 million

Straightforward transparent banking

The CET 1 capital ratio is the ratio of CET1 divided by the TRE and was 18.7% at the year end. This compares to 14.2% at the end of 2013. On a like for like basis the Core Tier 1 capital ratio in 2014 would be 22.6% (2013: 19.7%).

The Total capital ratio is the ratio of Total capital divided by the TRE. This was 19.0% at the year end, compared to 14.6% at the end of 2013.

Leverage

An underlying cause of the global financial crisis was the build-up of excessive on and off balance sheet leverage in the banking system. In many cases, banks built up excessive leverage while apparently maintaining strong risk-based capital ratios. At the height of the crisis, financial markets forced the banking sector to reduce its leverage in a manner that amplified downward pressures on asset prices.

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

The Basel III leverage ratio is defined by the CRR as Tier 1 capital divided by on and off sheet asset exposure values, expressed as a percentage. The minimum leverage ratio requirement of 4% (originally proposed to be 3%) will be imposed on the Bank from 2018, subject to a review in 2017.

The Bank has a leverage ratio at 31 December 2014 of 14.7%, comfortably ahead of the minimum requirement.

Liquidity

One of the Basel Committee on Banking Supervision's key reforms to develop a more resilient banking sector is the Liquidity Coverage Ratio (LCR), which they introduced in 2013. 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.

On 10 October 2014, The European Commission published a delegated act to supplement the CRR with regard to the liquidity coverage requirement for credit institutions. This will be directly applicable in the United Kingdom from 1 October 2015. The LCR requirements have been set in the CRR, with a minimum path of 60% from 1 October 2015, rising to 100% from 1 January 2018. The PRA is currently consulting on the minimum requirements which will apply in the United Kingdom; proposals indicate that the PRA's path will be higher than the CRR's minimum requirements up until 1 January 2018.

The Bank continues to manage its liquidity on a conservative basis with only limited funding coming from the wholesale markets. In December 2012, Secure Trust Bank was admitted as a participant in the Bank of England's Sterling Money Market Operations under the Sterling Monetary Framework, to participate in the Discount Window Facility. From July 2013, the Group was permitted to draw down facilities under the Funding for Lending Scheme (FLS). FLS monies are maintained as a liquidity buffer, above that required to support lending.

At 31 December 2014, the Group had significant headroom over the minimum requirements due to its stock of high quality liquid assets, in the form of the Bank of England Reserve Account and 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 2014, the Group had an NSFR with significant headroom over the minimum requirement.

By order of the Board

Neeraj Kapur
Chief Financial Officer

18 March 2015

Culture

The culture of the Group has been aligned with the Group's values, which are detailed on page 2. The Group aims for its employees to be both customer and colleague centric, innovative and inspiring, whilst being compliant, safe and trustworthy.



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

Customer outcomes

Customer focus is at the heart of what the Group does and how our employees behave. Our products are consistently straightforward in their design and aim to offer value to our customers. This has attracted a significant increase in customers to the Bank, with overall customer numbers increasing during the year by more than 22% to 429,507 by the end of 2014.

On the back of the high quality 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 Bank 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 Bank. If there are any poor or bad ratings received, attempts are made to contact the customer, in order to resolve any issues. Service improvement ideas received via Feefo from customers are also considered by the Bank. The ratings and comments are available on the Company's website.

Active partners for business

The Group continues to foster strong, mutually beneficial relationships, with stakeholders and business introducers. The underlying philosophy is to make it as easy as possible for introducers to do business with us and to continually seek to improve the ways we work together. This approach to relationships has contributed to the renewal of a number of contracts with key partners including the Association of Cycle Traders and Evans Cycles. It is also a major factor in the gaining of substantial new business partnerships including those with a number of high profile football clubs and Halfords. The move into SME finance has also allowed us to provide more support to businesses in the UK.

Investors in People award

During the year the Bank celebrated news that it had been awarded Investors in People (liP) silver level accreditation, an improvement on the bronze level status achieved in 2013. This places Secure Trust Bank in the top 6% of accredited organisations. liP 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.

liP carried out an in-depth assessment of the Bank, involving interviews with numerous members of the Bank team and found that the Bank's values were embedded throughout all operations. The assessment saw the motivation and enthusiasm of the team shine through and that employees were continually inspired and motivated by their managers to improve their own performance.

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 550 to 625 during 2014. 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 opportunities within the Group. As the size of the Group grows, these opportunities will further expand.

Straightforward transparent banking



Secure Trust Bank celebrates exceptional performance by awarding monthly Customer Service Excellence Awards and Be Valued Awards, of which over 300 had been given to staff during the year. Individuals are also recognised through the annual 'Outstanding Achievers' award.

On a quarterly basis the Chief Executive Officer reviews employee suggestions for improving performance, efficiency and effectiveness and awards a cash prize for the best suggestion. There have been 219 'bright ideas' submitted during 2014.

Professional qualifications

More than 25 employees have gained professional qualifications during the year through the Company's association with the **ifs** University College. These qualifications include Diplomas and Certificates in Retail Banking Conduct of Business and Team Leading, Customer Service and Financial Services apprenticeships.

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

Employee Council

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

Charitable and environmental considerations

During the year the Company raised over £25,000 for its nominated charity, the Birmingham Children's Hospital, through a number of organised events, including sponsored parachute jumps, abseiling and cycling events.

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.



AWARDS

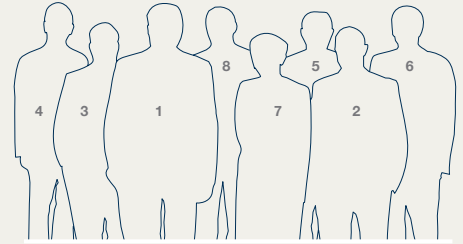


The prestigious Customer Service Excellence Award was developed by the Cabinet Office to acknowledge excellence in public services.



The Fairbanking Foundation operates an accreditation scheme to encourage banking organisations to improve the financial well-being delivered by their products.

Board of Directors



1.
Henry Angest LLL, Hon.F.UHI
Non-Executive Chairman



Henry Angest is Chairman and Chief Executive of Arbutnot Banking Group PLC as well as Chairman of Arbutnot 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.

2.
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.

Committees

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

3.
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 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.

4.
Andrew Salmon ACA
Non-Executive Director



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

5.
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.

6.
Paul Marrow ACIB
Independent Non-Executive Director



Paul Marrow has over 40 years' banking experience and has over the last decade been responsible for the Commercial Banking and Specialist Corporate Banking business divisions of RBS Group in the UK. Paul is currently the Chairman of JCB Finance Limited, a joint venture between J C Bamford Excavators Limited and RBS Group, and a non-executive director of Arbutnot Latham & Co., Limited.

7.
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 A/S, Chairman of the Standards, Strategy and Policy Committee of the British Standards Institute and Chairman of the UK whistle blowing charity Public Concern at Work.

8.
Alan Karter LLB (Hons)
Company Secretary

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

Straightforward transparent banking



Directors' report

Report and financial statements

The directors submit their report, the related Strategic Report and the audited financial statements of Secure Trust Bank PLC ('the Company') for the year ended 31 December 2014. 'The Group' includes the Company and its subsidiaries. The Strategic Report is set out on pages 16 to 29.

Principal activities and review

The principal activity of the Group is retail banking.

Results and dividend

The results for the year are shown on page 44. The profit for the year after taxation attributable to equity holders of the parent company amounted to £20.5 million (2013: £12.3 million). An analysis of the movement in profit after taxation between the current and preceding year is contained in the Financial Review on pages 24 and 25.

The directors recommend the payment of a final dividend of 52 pence per share which, together with the interim dividend of 16 pence per share paid on 19 September 2014, represents total dividends for the year of 68 pence per share (2013: 62 pence per share). The final dividend, if approved by members at the Annual General Meeting, will be paid on 15 May 2015 to shareholders on the register at the close of business on 17 April 2015.

Future developments

The Strategic Report on pages 16 to 29 as well as the Chairman's Statement and the Chief Executive's Statement contain a fair review of, likely future trends and factors that might affect the development, performance and position of the Group.

Share capital

On 8 July 2014 the Company issued 2,083,333 ordinary shares, raising gross proceeds of £50.0 million.

On 3 November 2014 the Company issued 460,412 ordinary shares, following the exercise of share options by directors and senior employees of the Company, raising gross proceeds of £3.3 million.

The share capital of the Company comprises ordinary shares with a nominal value of 40p each. As at 18 March 2015 the Company had 18,191,894 ordinary shares in issue. Each ordinary share entitles the holder to one vote.

Substantial shareholders

As at 18 March 2015 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	9,444,538	51.92%
Mr Steven A Cohen Ruffer	1,510,412	8.30%
Threadneedle Investments	1,124,979	6.18%
Unicorn Asset Management	894,804	4.92%
Standard Life	870,009	4.78%
Investments	665,833	3.66%

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 32.

Neeraj Kapur retires under Article 82 of the Articles of Association and, being eligible, offers himself for re-election. Neeraj Kapur does have a service agreement with the Company.

Henry Angest, Paul Lynam and Andrew 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 shares of the Company at the dates shown were as follows:

Straightforward transparent banking

Beneficial interests	At 1 January 2014	Acquired during the year following the exercise of options	Sold during the year	At 31 December 2014 and 18 March 2015
Neeraj Kapur	1,000	35,416	(35,416)	1,000
Paul Lynam	9,110	141,666	(141,666)	9,110
Paul Marrow	5,440	–	–	5,440
Andrew Salmon	7,500	141,666	(141,666)	7,500
Carol Sergeant	6,600	–	–	6,600

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

On 3 November 2014 both Paul Lynam and Andrew Salmon exercised their first tranche of options and accordingly the Company issued 141,666 new ordinary shares to each of Paul Lynam and Andrew Salmon. Paul Lynam and Andrew Salmon then sold the new ordinary shares issued to them. The gain made by each director on the exercise of his share options was £2,514,571.

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

On 3 November 2014 Neeraj Kapur exercised his first tranche of options and accordingly the Company issued 35,416 new ordinary shares to Neeraj Kapur. Neeraj Kapur then sold the new ordinary shares issued to him. The gain made on the exercise of his share options was £628,633.

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 40 to 41 will be the subject of an Ordinary Resolution at the Annual General Meeting.

Information on the Audit, Nomination, Risk and Assets and Liabilities Committees is included in the Corporate Governance statement on pages 38 to 39.

Employment policies and equal opportunities

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

Employee communications and involvement

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

Political donations and expenditure

The Group made no political donations and incurred no political expenditure during the year (2013: nil).

Post balance sheet events

There are no post balance sheet events.

Auditor

KPMG LLP was appointed as auditor at the Annual General Meeting held in 2014. A resolution for its reappointment as auditor will be proposed at the 2015 Annual General Meeting. KPMG LLP has indicated its willingness to continue in office.

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

Going concern

In assessing the Group as a going concern, the directors have given consideration to the factors likely to affect its future performance and development, the Group's financial position and the principal risks and uncertainties facing the Group, 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 13 May 2015.

At the Annual General Meeting a special resolution will be proposed authorising the Company to make market purchases of ordinary shares within the limits set out in the resolution. The resolution is in a similar form to that proposed at the 2014 Annual General Meeting. The directors have no present intention of exercising the authority granted by the resolution, but regard it as a useful tool to have available.

By order of the Board

A J Karter
Secretary

18 March 2015

Straightforward transparent banking

Directors' responsibility statement

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

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

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

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

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

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

On behalf of the Board

Paul Lynam
Chief Executive Officer

18 March 2015

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 Group contains subsidiaries authorised to undertake regulated business under the Financial Services and Markets Act 2000 and regulated by the Financial Conduct Authority. The Bank is also an authorised deposit taking business. Accordingly, the Group operates to the high standards of corporate accountability and regulatory compliance appropriate for such businesses.

The Board

The Group is 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 four other non-executive directors. In 2014 Lord Forsyth was appointed as an independent non-executive director. He joined the Board that had been established at the time of the AIM IPO of the Company in November 2011 and which comprised one-third of directors appointed by Arbuthnot Banking Group PLC ('ABG'), one-third of whom were full-time executive directors and the final one-third were 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. In addition to ongoing matters concerning

the strategy and management of the Company and of the Group, the Board has determined certain items which are reserved for decision by itself. These matters include the acquisition and disposal of other than minor businesses, the issue of capital by any Group company and any transaction by a subsidiary company that cannot be made within its own resources, or that is not in the normal course of its business.

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. The Board keeps the governance arrangements under review. The development of the Group in 2014 and in particular the establishment of the new SME lending activities has resulted in changes to the operational governance of the Group.

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 and its 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

Straightforward transparent banking

to the risk principles, policies and standards adopted by the wider group; and keep the wider group regularly informed of any risk issues or breaches faced by the Group which may affect the wider group.

Assets and Liabilities Committee

The Assets and Liabilities Committee is responsible for implementing and controlling the liquidity and asset and liability management risk appetite established by the Board. The committee is also responsible for ensuring the high level financial control over the Bank's balance sheet and the associated risks undertaken in the course of its business. The committee sets and controls capital deployment, Treasury strategy guidelines and limits focusing on the effects of the future plans and strategy on STB's assets and liabilities. The committee is chaired by Paul Lynam and its members are: Stuart Clarke, James Cobb, Kevin Hayes, Neeraj Kapur, Ashley King, Robert Lane and Andrew Salmon. The committee meets monthly.

Remuneration Committee

Information on the Remuneration Committee and details of the directors' remuneration are set out in the separate Remuneration Report.

Nomination Committee

The Nomination Committee is chaired by 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.

Before a Board appointment is made the skills, knowledge and experience required for a particular appointment are evaluated and a recommendation made to the Board. The 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. Regulatory 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 adopted a Group Risk Appetite Statement which sets out the Board's attitude to risk and internal control. Key risks identified by the directors are formally reviewed and assessed at least once a year by the Board. 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 are provided by a combination of internal resources and services provided by EY. The Audit Committee also receives reports from the external auditors, KPMG LLP, which include details of internal control matters that they have identified. Certain aspects of the system of internal control are also subject to regulatory supervision, the results of which are monitored closely by the Board.

From January 2014, the Group established its own Internal Audit function reflecting the continuing business investment in risk mitigation and compliance processes. EY has continued to be engaged in both an audit and advisory capacity and provided 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. The Committee applies the Company's remuneration policy and monitors its implementation, reviews the Remuneration Report, considers and, if thought fit, awards any incentives to be offered under the Company's Share Option Scheme, other long-term incentive schemes and pension arrangements, subject to the achievement of specific criteria. The Remuneration Committee also follows the ICSA Guidance on Terms of Reference for Remuneration Committees. Members of the Committee do not vote on their own remuneration.

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

Remuneration policy

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

The remuneration package can comprise a combination of basic annual salary and benefits (including pension), a discretionary annual bonus award related to the Committee's assessment of the contribution made by the executive during the year and longer term incentives, including executive share options and similar awards. Pension benefits take the form of annual contributions paid by the Company to individual money purchase schemes. The Remuneration Committee reviews salary levels each year based on the performance of the Group during the preceding financial period. This review does not necessarily lead to increases in salary levels. During 2014 the Group implemented applicable provisions required under the Prudential Regulation Authority's Remuneration Code having regard to the treatment of the Group under the Remuneration Code. The Company and its subsidiaries are all considered to be Tier III institutions, due to the size of their relevant total assets. At the Annual General Meeting in 2014 shareholders passed a resolution, to the extent required by the then anticipated regulatory rules, authorising the Company to pay a discretionary bonus up to two times annual basic salary. The Company is satisfied that the so called bonus cap does not currently apply to it. Nevertheless the authorisation from shareholders remains in force should the position change.

Directors' service contracts

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

Share Option Scheme

On 17 October 2011 the Company established The Secure Trust Bank Share Option Scheme which is administered by the Remuneration Committee. Details of the options granted to, as well as those exercised during the year by, directors of the Company can be found in the Directors' Report on pages 34 to 36.

A detailed description of the Share Option Scheme, including Scheme Conditions, is contained in Note 27 of the financial statements.

The market price for each ordinary share at the Company's year end was 2,835.5p. The highest and lowest market price for each ordinary share during the year was 2,975p and 2,245p respectively.

Following the exercise in November 2014 of the first tranche of share options granted in 2011 under the Share Option Scheme, the Remuneration Committee has given consideration to the establishment of a subsequent long-term incentive scheme. Careful consideration has been given to the type of incentive scheme that would be appropriate to meet the objectives of the Company. It has been concluded that a phantom share option scheme would be best suited to achieve these. Accordingly, the Remuneration Committee has approved arrangements for the establishment of a four year scheme under which those granted awards under it would be entitled to a payment by reference to the increase in the value of an ordinary share in the Company over an initial value determined by the Remuneration Committee. For those who are granted awards under the new scheme who were employed in November 2014 the four years is expected to run from November 2014 and the initial value is expected to be set at £25 per ordinary share. The price of £25 per ordinary share is the price at which the shares resulting from the exercise of the first tranche of share options

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under the Share Option Scheme were sold in November 2014 and along with the start date of the four year period is intended to provide continuity of incentivisation to those to whom new phantom options may be granted who were employed in November 2014.

The phantom scheme would not result in actual shares ever being issued by the Company. The phantom scheme would, like the Share Option Scheme, be subject to the achievement of performance conditions. The Remuneration Committee

is satisfied that a long-term incentive scheme of this nature will operate to motivate, incentivise and assist in the retention of the services of individuals who are regarded as important to the success of the business.

Directors' emoluments

This part of the remuneration report is audited information.

	2014 £000	2013 £000
Salary and fee payments (including bonuses and benefits in kind)	1,674	1,427
Gains from the exercise of share options	5,659	–
Pension contributions	60	60
	7,393	1,487

	Salary/fees £000	Bonus £000	Benefits £000	Pension £000	Gains from the exercise of share options £000	Total 2014 £000	Total 2013 £000
M Forsyth	42	–	–	–	–	42	–
N Kapur	213	150	18	25	629	1,035	328
P Lynam	600	500	21	35	2,515	3,671	1,031
P Marrow	80	–	–	–	–	80	83
A Salmon	–	–	–	–	2,515	2,515	–
C Sergeant	50	–	–	–	–	50	45
	985	650	39	60	5,659	7,393	1,487

The salaries of Henry Angest and Andrew Salmon are paid by Arbutnot Banking Group PLC and disclosed in the Arbutnot Banking Group PLC consolidated financial statements. The cost of the provision of the services of Henry Angest and Andrew Salmon of £60,000 and £45,000 respectively, have been recharged to the Company in accordance with the Services and Relationship Agreements created at the time of the IPO in 2011 (2013: £60,000 and £45,000 respectively).

The emoluments of the highest paid director were £3,671,000 for the year ended 31 December 2014 (2013: £1,031,000), including contributions made to a money purchase scheme of £35,000 (2013: £35,000) and a gain from the exercise of share options of £2,514,571.

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

The bonuses awarded to Neeraj Kapur and Paul Lynam by the Remuneration Committee were made in recognition of both the performance of the business as well as each individual's performance during the year.

Retirement benefit contributions are being paid for two directors who served during 2014 (2013: Two).

Henry Angest

Chairman of the Remuneration Committee

18 March 2015

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 2014 set out on pages 44 to 93. 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 37, 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 2014 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.

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

In our opinion:

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

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

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

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

Andrew Walker (Senior Statutory Auditor)
for and on behalf of KPMG LLP,
Statutory Auditor
Chartered Accountants
One Snowhill
Snow Hill Queensway
Birmingham
B4 6GH

18 March 2015

Consolidated statement of comprehensive income

	Note	Year ended 31 December 2014 £million	Year ended 31 December 2013 £million
Interest receivable and similar income		93.6	73.8
Interest expense and similar charges		(14.2)	(12.9)
Net interest income	7	79.4	60.9
Fee and commission income		20.2	22.7
Fee and commission expense		(1.7)	(4.6)
Net fee and commission income		18.5	18.1
Operating income		97.9	79.0
Net impairment losses on loans and advances to customers		(15.3)	(15.6)
Gain from a bargain purchase		–	0.4
Costs arising from acquisitions		–	(0.9)
Operating expenses	8	(56.5)	(45.8)
Profit before income tax		26.1	17.1
Income tax expense	10	(5.6)	(4.8)
Profit for the year		20.5	12.3
Other comprehensive income, net of income tax			
Cash flow hedging reserve			
– Net amount transferred to profit or loss		0.4	–
Other comprehensive income for the year, net of income tax		0.4	–
Total comprehensive income for the year		20.9	12.3
Profit attributable to:			
Equity holders of the Company		20.5	12.3
Total comprehensive income attributable to:			
Equity holders of the Company		20.9	12.3
Earnings per share for profit attributable to the equity holders of the Company during the year (expressed in pence per share)			
Basic earnings per share	11	122.3	78.3
Diluted earnings per share	11	119.9	76.7

The notes on pages 51 to 93 are an integral part of these consolidated financial statements

Straightforward transparent banking

Consolidated statement of financial position

	Note	At 31 December 2014 £million	At 31 December 2013 £million
ASSETS			
Cash and balances at central banks		81.2	–
Loans and advances to banks	12	39.8	110.0
Loans and advances to customers	13	622.5	391.0
Debt securities held-to-maturity	15	16.3	–
Property, plant and equipment	18	8.1	5.0
Intangible assets	16	8.2	9.9
Deferred tax assets	24	1.0	1.9
Other assets	20	5.2	8.1
Total assets		782.3	525.9
LIABILITIES AND EQUITY			
Liabilities			
Due to banks	21	15.9	0.1
Deposits from customers	22	608.4	436.6
Current tax liabilities		3.6	1.4
Deferred tax liabilities	24	–	0.4
Other liabilities	23	29.5	25.8
Total liabilities		657.4	464.3
Equity attributable to owners of the parent			
Share capital	26	7.3	6.3
Share premium		79.3	28.2
Retained earnings		38.1	27.3
Cash flow hedging reserve		–	(0.4)
Revaluation reserve		0.2	0.2
Total equity		124.9	61.6
Total liabilities and equity		782.3	525.9

The financial statements on pages 44 to 93 were approved by the Board of Directors on 18 March 2015 and were signed on its behalf by:

P Lynam
Chief Executive Officer

N Kapur
Chief Financial Officer

The notes on pages 51 to 93 are an integral part of these consolidated financial statements

Company statement of financial position

	Note	At 31 December 2014 £million	At 31 December 2013 £million
ASSETS			
Cash and balances at central banks		81.2	–
Loans and advances to banks	12	37.9	108.5
Loans and advances to customers	13	500.1	283.9
Debt securities held-to-maturity	15	16.3	–
Property, plant and equipment	18	3.7	0.5
Intangible assets	16	1.3	0.9
Investments	17	3.7	3.7
Deferred tax assets	24	0.3	0.8
Other assets	20	116.2	101.0
Total assets		760.7	499.3
LIABILITIES AND EQUITY			
Liabilities			
Due to banks	21	15.9	0.1
Deposits from customers	22	608.4	436.6
Current tax liabilities		1.5	0.2
Other liabilities	23	22.2	15.5
Total liabilities		648.0	452.4
Equity attributable to owners of the parent			
Share capital	26	7.3	6.3
Share premium		79.3	28.2
Retained earnings		26.1	12.8
Cash flow hedging reserve		–	(0.4)
Total equity		112.7	46.9
Total liabilities and equity		760.7	499.3

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 44 to 93 were approved by the Board of Directors on 18 March 2015 and were signed on its behalf by:

P Lynam
Chief Executive Officer

N Kapur
Chief Financial Officer

Registered number: 00541132

The notes on pages 51 to 93 are an integral part of these consolidated financial statements

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Consolidated statement of changes in equity

	Shared capital £million	Share premium £million	Revaluation reserve £million	Cash flow hedging reserve £million	Retained earnings £million	Total £million
Balance at 1 January 2013	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 between reserves	–	–	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
Total comprehensive income for the period						
Profit for 2014	–	–	–	–	20.5	20.5
Other comprehensive income, net of income tax						
Cash flow hedging reserve						
– Net amount transferred to profit and loss	–	–	–	0.4	–	0.4
Total other comprehensive income	–	–	–	0.4	–	0.4
Total comprehensive income for the period	–	–	–	0.4	20.5	20.9
Transactions with owners, recorded directly in equity						
Contributions by and distributions to owners						
Dividends	–	–	–	–	(10.2)	(10.2)
Charge for share based payments	–	–	–	–	0.5	0.5
Issue of ordinary shares	1.0	52.3	–	–	–	53.3
Transaction costs on issue of shares	–	(1.2)	–	–	–	(1.2)
Total contributions by and distributions to owners	1.0	51.1	–	–	(9.7)	42.4
Balance at 31 December 2014	7.3	79.3	0.2	–	38.1	124.9

The notes on pages 51 to 93 are an integral part of these consolidated financial statements

Company statement of changes in equity

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

Straightforward transparent banking

Consolidated statement of cash flows

	Note	Year ended 31 December 2014 £million	Year ended 31 December 2013 £million
Cash flows from operating activities			
Profit for the year		20.5	12.3
Adjustments for:			
Income tax expense	10	5.6	4.8
Depreciation of property, plant and equipment	18	0.5	0.6
Amortisation of intangible assets	16	2.5	2.4
Gain from a bargain purchase		–	(0.4)
Impairment losses on loans and advances to customers		15.3	15.6
Share based compensation		0.5	2.5
Cash flows from operating profits before changes in operating assets and liabilities		44.9	37.8
Changes in operating assets and liabilities:			
– net (increase)/decrease in loans and advances to banks		(11.3)	41.3
– net increase in loans and advances to customers		(246.8)	(76.1)
– net decrease/(increase) in other assets		2.9	(0.6)
– net increase in amounts due to banks		15.8	0.1
– net increase in deposits from customers		171.8	37.7
– net increase in other liabilities		4.3	5.5
Income tax paid		(3.1)	(2.5)
Net cash (outflow)/inflow from operating activities		(21.5)	43.2
Cash flows from investing activities			
Borrowings repaid on acquisition of subsidiary undertakings		–	(36.9)
Cash acquired on purchase of subsidiary undertakings		–	1.6
Purchase of subsidiary undertakings		–	(3.9)
Purchase of property, plant and equipment	18	(3.6)	(0.4)
Purchase of computer software	16	(0.8)	(0.7)
Proceeds from sale of property, plant and equipment		–	0.3
Proceeds from sale of computer software		–	1.9
Net cash flows from investing activities		(4.4)	(38.1)
Cash flows from financing activities			
Net inflow on issue of share capital		52.1	–
Dividends paid		(10.2)	(9.1)
Net cash flows from financing activities		41.9	(9.1)
Net increase/(decrease) in cash and cash equivalents		16.0	(4.0)
Cash and cash equivalents at 1 January		90.0	94.0
Cash and cash equivalents at 31 December	28	106.0	90.0

The notes on pages 51 to 93 are an integral part of these consolidated financial statements

Company statement of cash flows

	Note	Year ended 31 December 2014 £million	Year ended 31 December 2013 £million
Cash flows from operating activities			
Profit for the year		23.0	9.8
Adjustments for:			
Income tax expense		4.8	3.0
Depreciation of property, plant and equipment	18	0.2	0.3
Amortisation of intangible assets	16	0.3	0.3
Impairment losses on loans and advances to customers		8.7	9.6
Share based compensation		0.5	2.5
Cash flows from operating profits before changes in operating assets and liabilities		37.5	25.5
Changes in operating assets and liabilities:			
– net (increase)/decrease in loans and advances to banks		(11.3)	41.3
– net increase in loans and advances to customers		(224.9)	(96.0)
– net (increase)/decrease in other assets		(15.2)	34.0
– net increase in amounts due to banks		15.8	0.1
– net increase in deposits from customers		171.8	37.7
– net increase in other liabilities		7.0	6.0
Income tax paid		(2.9)	(2.5)
Net cash (outflow)/inflow from operating activities		(22.2)	46.1
Cash flows from investing activities			
Borrowings repaid on acquisition of subsidiary undertaking		–	(36.9)
Purchase of subsidiary undertakings	17	–	(3.7)
Purchase of property, plant and equipment	18	(3.4)	(0.2)
Purchase of computer software	16	(0.7)	(0.4)
Proceeds from sale of property, plant and equipment		–	0.4
Net cash flows from investing activities		(4.1)	(40.8)
Cash flows from financing activities			
Net inflow on issue of share capital		52.1	–
Dividends paid		(10.2)	(9.1)
Net cash flows from financing activities		41.9	(9.1)
Net increase/(decrease) in cash and cash equivalents		15.6	(3.8)
Cash and cash equivalents at 1 January		88.5	92.3
Cash and cash equivalents at 31 December	28	104.1	88.5

The notes on pages 51 to 93 are an integral part of these consolidated financial statements

Straightforward transparent banking

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 Arlestone Way, Solihull, West Midlands, B90 4LH. The consolidated financial statements of the Company as at and for the year ended 31 December 2014 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 18 March 2015.

a) Interpretations and amendments to existing standards applicable to the Group which are effective for annual periods beginning on 1 January 2014 or which have been early adopted:

- IFRS 10 'Consolidated Financial Statements' and IAS 27 (Revised) 'Separate Financial Statements'. 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. Due to the adoption of IFRS 10 the Group had to change its accounting policy for determining whether it has control over and consequently whether it consolidates other investees. According to this standard, control is now defined as when the investor is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. However, this standard did not have any material impact on the financial statements as there was no change in the investees consolidated.
- IFRS 11 'Joint Arrangements' (effective 1 January 2013). 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 2013). 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'. 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'. 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.
- IFRIC 21 'Levies'. The interpretation defines a levy as an outflow from an entity imposed by a government in accordance with legislation. A levy is recognised as a liability when, and only when, the triggering event specified in the legislation occurs.

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

Notes to the consolidated financial statements *continued*

1.2 Basis of presentation *continued*

b) Published standards and amendments to existing standards applicable to the Group which are not yet effective and which have not been early adopted:

- Annual improvements to IFRSs (2010-2012 and 2011-2013 cycles) (effective for annual periods beginning on 1 February 2015). Sets out minor improvements to IFRS standards as part of the annual improvement process.
- IFRS 15 'Revenue from contracts with customers' (effective for annual periods beginning on 1 January 2017). The standard replaces a number of existing standards and interpretations and applies to contracts with customers, but does not apply to insurance contracts, financial instruments or lease contracts, which are in the scope of other IFRSs. It also does not apply if two companies in the same line of business exchange non-monetary assets to facilitate sales to other parties. The standard specifies how and when an IFRS reporter will recognise revenue as well as requiring such entities to provide users of financial statements with more informative relevant disclosures. It introduces a new revenue recognition model that recognises revenue either at a point in time or over time. The model features a principles-based five-step model to be applied to all contracts with customers.¹

The above standard and amendments to existing standards are unlikely to have a material impact on the Group.

- IFRS 9 'Financial instruments' (effective for annual periods beginning after 1 January 2018). This is the IASB's replacement of IAS 39 'Financial Instruments: Recognition and Measurement'. Phase one of this standard deals with the classification and measurement of financial assets and represents a significant change from the existing requirements in IAS 39. The standard contains three primary measurement categories for financial assets: 'amortised cost', 'fair value through other comprehensive income' and 'fair value through profit or loss' and eliminates the existing categories of 'held to maturity', 'available for sale' and 'loans and receivables'. The potential effect of phase one of this standard is not expected to have a pervasive impact on the Group's financial statements, due to the nature of the Group's operations. Phase two of the standard covers impairment, with a new expected loss impairment model that will require expected credit losses to be accounted for from when financial instruments are first recognised and lowers the threshold for the recognition of full lifetime expected losses. The impact of this development is currently being evaluated but is likely to be material to the Group once it becomes effective. Phase three covers general hedge accounting and introduces a substantially reformed model for hedge accounting with enhanced disclosure about risk management activity. The new model aligns the accounting treatment with risk management activities. The potential effect of phase three of this standard is not expected to have a pervasive impact on the Group's financial statements.¹

¹ These standards and amendments to existing standards have not yet been endorsed by the EU.

1.3 Consolidation

Subsidiaries

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

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

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

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

Straightforward transparent banking

1.4 Interest income and expense

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

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

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

1.5 Net fee and commission income

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

1.6 Financial assets and financial liabilities

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

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

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

(b) Loans and receivables

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

(c) Held-to-maturity

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

(d) Other financial liabilities

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

Notes to the consolidated financial statements *continued*

1.6 Financial assets and financial liabilities *continued*

Derecognition

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

Amortised cost measurement

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

Fair value measurement

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

1.7 Derivative financial instruments and hedge accounting

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

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

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

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

1.8 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.

Straightforward transparent banking

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

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

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

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

1.10 Intangible assets

(a) Goodwill

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

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

(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.

Notes to the consolidated financial statements *continued*

1.10 Intangible assets *continued*

(c) Other intangibles

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

Other intangible include trademarks, customer relationships, broker relationships and technology. The intangible assets recognised as part of the Everyday Loans and V12 Finance Group acquisitions have been recorded at fair value and are being amortised over their expected useful lives, which are between five and ten years, apart from Everyday Loans broker relationships, which are being amortised over three years.

1.11 Property, plant and equipment

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

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

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

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

1.12 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 short-term highly liquid debt securities.

1.14 Employee benefits

(a) Post-retirement obligations

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

Straightforward transparent banking

1.14 Employee benefits *continued*

(b) Share-based compensation

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

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

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

1.15 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 Taxation

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

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

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

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

1.17 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 not recognised on the Statement of Financial Position of the institution until such time as they are subject to a repurchase agreement with a third party, as they will not meet the criteria for derecognition by the Bank of England. When the UK Treasury Bills are pledged as part of a sale and repurchase agreement with a third party, amounts borrowed from the third party are recognised on the Statement of Financial Position.

Notes to the consolidated financial statements *continued*

2. Critical judgements and estimates

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

2.1 Impairment losses on loans and advances to customers

The Group reviews its loan portfolios to assess impairment at least on a half-yearly basis. The basis for evaluating impairment losses is described in accounting policy 1.9. 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 recent actual loss experience.

For any SME lending in arrears the business has performed a discounted cash flow calculation in order to assess whether an impairment provision is required.

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.

As described in Note 1.9, certain customers' accounts may be modified to such an extent that they are no longer considered to be past due but, rather, are treated as new loans. There is judgement involved in determining the level of modification that results in this reassessment and with regard to the fair value at which the renegotiated loans are recorded. The Group makes these judgements based on analyses of the loans involved and consideration of market rates of interest.

To the extent that the default rates differ from those estimated by 10%, the allowance for impairment on loans and advances would change by an estimated £3.2 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 cash flows using a risk adjusted discount factor. A fair value adjustment is then applied to the carrying value in the Group's Statement of Financial Position.

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 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 cost savings resulting from the ownership of trade names as opposed to licensing them. Customer Relationships are valued through the application of a discounted cash flow 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.

Straightforward transparent banking

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 remains a number of key uncertainties to be considered when calculating the probability of pay-out, which are set out below. The directors also considered the probability of option holder attrition prior to the vesting dates, details of which are also set out below.

Uncertainties in the regulatory environment continue, 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 remaining share options (SOS2) which vest on 2 November 2016.

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

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 these estimates would therefore be affected by unexpected market movements resulting in altered customer behaviour, inaccuracies in the models used compared to actual outcomes and incorrect assumptions.

2.5 Valuation of financial instruments

The Group measures the fair value of a financial instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions. If a market for a financial instrument is not active, the Group establishes a fair value 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. The objective of valuation techniques is to determine the fair value of the financial instrument at the reporting date 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. In the instance that fair values of assets and liabilities cannot be reliably measured, they are carried at cost.

The Group measures fair value using the following fair value hierarchy that reflects the significance of the inputs used in making measurements:

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

The consideration of factors such as the magnitude and frequency of trading activity, the availability of prices and the size of bid/offer spreads, assist in the judgement as to whether a market is active. If in the opinion of management, a significant proportion of the instrument's carrying amount is driven by unobservable inputs, the instrument in its entirety is classified as valued using significant unobservable inputs. 'Unobservable' in this context means that there is little or no current market data available from which to determine the level at which an arm's length transaction would be likely to occur. It generally does not mean that there is no market data available at all upon which to base a determination of fair value (consensus pricing data may, for example, be used).

The fair value hierarchy levels and values attributable to the financial assets and financial liabilities of the Group are disclosed in Note 4.

2.6 PPI Provisioning

The Group provides for its best estimate of redress payable in respect of historical sales of PPI, by considering the likely future uphold rate for claims, in the context of confirmed issues and historical experience. The likelihood of potential new claims is projected forward for the next 12 months, as management believe this to be an appropriate time horizon, recognising the significant decline in recent claims experience and the increasing subjectivity beyond that. The accuracy of these estimates would be affected, were there to be a significant change in either the number of future claims or, the incidence of claims upheld by the Financial Ombudsman. The amounts are included within accruals.

Notes to the consolidated financial statements *continued***3. Maturity analysis of consolidated assets and liabilities**

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

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

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 £million	Due after more than one year £million	Total £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			
Due to 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 directors do not consider that the behavioural maturity is significantly different to the contractual maturity.

Straightforward transparent banking

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

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

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

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 £million	Due after more than one year £million	Total £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 asset	–	0.8	0.8
Other assets	101.0	–	101.0
Total assets	325.4	173.9	499.3
LIABILITIES			
Due to 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 directors do not consider that the behavioural maturity is significantly different to the contractual maturity.

Notes to the consolidated financial statements *continued***4. Classification of financial assets and liabilities**

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

	Held to maturity £million	Loans and receivables £million	Other financial liabilities £million	Total carrying amount £million	Fair value £million	Fair value hierarchy level
At 31 December 2014						
Cash and balances at central banks	–	81.2	–	81.2	81.2	Level 1
Loans and advances to banks	–	39.8	–	39.8	39.8	Level 2
Loans and advances to customers	–	622.5	–	622.5	630.1	Level 3
Debt securities held-to-maturity	16.3	–	–	16.3	16.3	Level 2
	16.3	743.5	–	759.8	767.4	
Due to banks	–	–	15.9	15.9	15.9	Level 2
Deposits from customers	–	–	608.4	608.4	617.7	Level 2
Other financial liabilities	–	–	17.8	17.8	17.8	Level 3
	–	–	642.1	642.1	651.4	
At 31 December 2013						
Loans and advances to banks	–	110.0	–	110.0	110.0	Level 2
Loans and advances to customers	–	391.0	–	391.0	391.0	Level 3
	–	501.0	–	501.0	501.0	
Due to banks	–	–	0.1	0.1	0.1	Level 2
Deposits from customers	–	–	436.6	436.6	436.6	Level 2
Other financial liabilities	–	–	17.0	17.0	17.0	Level 3
	–	–	453.7	453.7	453.7	

Straightforward transparent banking

4. Classification of financial assets and liabilities *continued*

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

At 31 December 2014	Held to maturity £million	Loans and receivables £million	Other financial liabilities £million	Total carrying amount £million	Fair value £million	Fair value hierarchy level
Cash and balances at central banks	–	81.2	–	81.2	81.2	Level 1
Loans and advances to banks	–	37.9	–	37.9	37.9	Level 2
Loans and advances to customers	–	500.1	–	500.1	507.6	Level 3
Debt securities held-to-maturity	16.3	–	–	16.3	16.3	Level 2
	16.3	619.2	–	635.5	643.0	
Due to banks	–	–	15.9	15.9	15.9	Level 2
Deposits from customers	–	–	608.4	608.4	617.7	Level 2
Other financial liabilities	–	–	15.5	15.5	15.5	Level 3
	–	–	639.8	639.8	649.1	

At 31 December 2013	Held to maturity £million	Loans and receivables £million	Other financial liabilities £million	Total carrying amount £million	Fair value £million	Fair value hierarchy level
Loans and advances to banks	–	108.5	–	108.5	108.5	Level 2
Loans and advances to customers	–	283.9	–	283.9	283.9	Level 3
	–	392.4	–	392.4	392.4	
Due to banks	–	–	0.1	0.1	0.1	Level 2
Deposits from customers	–	–	436.6	436.6	436.6	Level 2
Other financial liabilities	–	–	10.5	10.5	10.5	Level 3
	–	–	447.2	447.2	447.2	

Fair value classification

The tables above include the fair values and fair value hierarchies of the Group and Company's financial assets and liabilities. Details of the measurement of the fair values is disclosed below:

Cash and balances at central banks

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

At the end of December 2014 the fair value of cash and balances at central banks was calculated to be equivalent to their carrying value.

Loans and advances to banks

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

At the end of December 2014 the fair value of loans and advances to banks was calculated to be equivalent to their carrying value.

Loans and advances to customers

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

Notes to the consolidated financial statements *continued*

4. Classification of financial assets and liabilities *continued*

Debt securities held-to-maturity

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

At the end of December 2014 the fair value of debt securities held-to-maturity was calculated to be equivalent to their carrying value.

Due to banks

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

At the end of December 2014 the fair value of amounts due to banks was calculated to be equivalent to their carrying value due to the short maturity term of the amounts due.

Deposits from customers

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

Other financial liabilities

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

At the end of December 2014 the fair value of other financial liabilities was calculated to be equivalent to their carrying value due to the short maturity term of the other liabilities. The other financial liabilities include all other liabilities other than non-interest accruals.

5. Financial risk management

Strategy

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

A more detailed description of the risk governance structure is contained in the Corporate Governance Statement on pages 38 to 39.

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

(a) Credit risk

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

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

Straightforward transparent banking

5. Financial risk management *continued*

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

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

	Group		Company	
	2014 £million	2013 £million	2014 £million	2013 £million
Credit risk exposures relating to on-balance sheet assets are as follows:				
Cash and balances at central banks	81.2	–	81.2	–
Loans and advances to banks	39.8	110.0	37.9	108.5
Loan and advances to customers	622.5	391.0	500.1	283.9
Debt securities held-to-maturity	16.3	–	16.3	–
Trade receivables	0.9	0.6	0.6	0.1
Amounts due from related companies	0.8	4.1	114.6	99.9
Credit risk exposures relating to off-balance sheet assets are as follows:				
Loan commitments	96.0	6.6	96.0	6.6
At 31 December	776.3	512.3	765.5	499.0

The above table represents the maximum credit risk exposure (net of impairment) to the Company and Group at 31 December 2014 and 2013 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.

Notes to the consolidated financial statements *continued*5. Financial risk management *continued**Concentration risk*

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

	Group				Company			
	Loans and advances to customers		Loan commitments		Loans and advances to customers		Loan commitments	
	2014 £million	2013 £million	2014 £million	2013 £million	2014 £million	2013 £million	2014 £million	2013 £million
Concentration by product:								
Business lending	143.3	1.8	95.8	5.7	143.3	1.8	95.8	5.7
Residential mortgages	0.2	0.2	–	–	0.2	0.2	–	–
Unsecured lending:								
Personal lending								
Motor	181.4	159.2	–	–	87.6	77.8	–	–
Cycle	137.9	114.7	0.2	0.9	137.9	114.7	0.2	0.9
Music	33.3	23.3	–	–	33.3	23.3	–	–
Consumer electronics	13.8	10.6	–	–	13.8	10.6	–	–
Sport and leisure	24.8	7.7	–	–	24.8	7.7	–	–
Healthcare	6.9	6.8	–	–	6.9	6.8	–	–
RentSmart	8.8	5.2	–	–	8.8	5.2	–	–
Pay4later	25.5	25.5	–	–	–	–	–	–
Furniture	14.0	18.8	–	–	14.0	18.8	–	–
Other	5.3	3.7	–	–	5.3	3.7	–	–
Other	27.3	13.5	–	–	24.2	13.3	–	–
At 31 December	622.5	391.0	96.0	6.6	500.1	283.9	96.0	6.6
Concentration by region:								
East Midlands	36.0	27.8	–	–	24.7	17.8	–	–
East	41.3	33.1	7.2	–	35.6	28.3	7.2	–
London	177.5	44.1	41.6	–	149.3	19.6	41.6	–
North East	36.4	18.9	17.6	–	17.8	2.7	17.6	–
North West	60.9	48.0	–	–	43.5	32.4	–	–
Northern Ireland	8.6	6.1	–	–	6.0	4.6	–	–
Scotland	42.4	39.1	–	–	36.0	33.5	–	–
South East	82.2	52.3	17.8	6.6	74.5	46.1	17.8	6.6
South West	34.7	27.0	10.5	–	29.2	22.3	10.5	–
Wales	25.7	24.8	–	–	20.6	19.6	–	–
West Midlands	44.1	36.1	1.3	–	32.4	25.5	1.3	–
Yorkshire and the Humber	32.7	33.7	–	–	30.5	31.5	–	–
At 31 December	622.5	391.0	96.0	6.6	500.1	283.9	96.0	6.6

Straightforward transparent banking

5. Financial risk management *continued*

Forbearance

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

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 2014 the gross balance of rescheduled loans included in the Consolidated Statement of Financial Position was £14.7 million, with an allowance for impairment on these loans of £1.0 million. The gross balance of deferred loans was £3.0 million with an allowance for impairment on these of £0.4 million. (31 December 2013: the gross balance of rescheduled loans was £13.9 million, with an allowance for impairment of £1.1 million. The gross balance of deferred loans was £2.8 million with an allowance for impairment of £0.4 million).

(b) Market risk

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

Interest rate risk

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

The interest rate mismatch is monitored, throughout the maturity bandings of the book on a parallel scenario for 50 and 200 basis points movements. The Group considers the 50 and 200 basis points movement to be appropriate for scenario testing given the current economic outlook and industry expectations. This typically results in a pre-tax mismatch of £0.8m or less (2013: £0.2m 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 hedge exposure to interest rate risk. Items are allocated to time bands by reference to the earlier of the next contractual interest rate re-price and the maturity date.

Notes to the consolidated financial statements *continued*5. Financial risk management *continued*

Group At 31 December 2014	Within 3 months £million	More than 3 months but less than 6 months £million	More than 6 months but less than 1 year £million	More than 1 year but less than 5 years £million	More than 5 years £million	Non interest bearing £million	Total £million
ASSETS							
Cash and balances at central banks	81.2	–	–	–	–	–	81.2
Loans and advances to banks	24.8	15.0	–	–	–	–	39.8
Loans and advances to customers	102.1	69.9	114.2	366.8	0.2	(30.7)	622.5
Debt securities held-to-maturity	16.3	–	–	–	–	–	16.3
Other assets	–	–	–	–	–	22.5	22.5
Total assets	224.4	84.9	114.2	366.8	0.2	(8.2)	782.3
LIABILITIES AND EQUITY							
Due to banks	15.9	–	–	–	–	–	15.9
Deposits from customers	248.9	18.2	37.3	236.5	29.7	37.8	608.4
Other liabilities	–	–	–	–	–	33.1	33.1
Equity	–	–	–	–	–	124.9	124.9
Total liabilities and equity	264.8	18.2	37.3	236.5	29.7	195.8	782.3
Impact of derivative instruments	(20.0)	20.0	–	–	–	–	–
Interest rate sensitivity gap	(60.4)	86.7	76.9	130.3	(29.5)	(204.0)	
Cumulative gap	(60.4)	26.3	103.2	233.5	204.0	–	
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 AND EQUITY							
Due to 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 and equity	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	–	

Straightforward transparent banking

5. Financial risk management *continued*

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

Company At 31 December 2013	Within 3 months £million	More than 3 months but less than 6 months £million	More than 6 months but less than 1 year £million	More than 1 year but less than 5 years £million	More than 5 years £million	Non interest bearing £million	Total £million
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	–	–	–	–	34.3	106.9
Total assets	223.5	32.5	50.1	181.6	0.2	11.4	499.3
LIABILITIES AND EQUITY							
Due to banks	–	–	–	–	–	0.1	0.1
Deposits from customers	105.9	116.0	13.9	163.3	3.9	33.6	436.6
Other liabilities	–	–	–	–	–	15.7	15.7
Equity	–	–	–	–	–	46.9	46.9
Total liabilities and equity	105.9	116.0	13.9	163.3	3.9	96.3	499.3
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	–	

Notes to the consolidated financial statements *continued*

5. Financial risk management *continued*

(c) Liquidity risk

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

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

The Company has a formal governance structure in place to manage and mitigate liquidity risk on a day to day basis. The Board sets and approves the Company's liquidity risk management strategy. The Assets and Liabilities Committee ('ALCO'), comprising senior executives of the Company, monitors liquidity risk. Key liquidity risk management information is reported by the 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 £160 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 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 and cash and balances at central banks. At the year end this ratio was 19.9% (2013: 25.2%).

Straightforward transparent banking

5. Financial risk management *continued*

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

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

At 31 December 2013	Carrying amount £million	Gross nominal inflow/ (outflow) £million	Not more than 3 months £million	More than 3 months but less than 1 year £million	More than 1 year but less than 5 years £million	More than 5 years £million
Non-derivative financial liabilities						
Due to banks	0.1	(0.1)	(0.1)	–	–	–
Deposits from customers	436.6	(457.0)	(64.3)	(208.7)	(181.1)	(2.9)
Other financial liabilities	17.0	(17.0)	(17.0)	–	–	–
	453.7	(474.1)	(81.4)	(208.7)	(181.1)	(2.9)

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

At 31 December 2014	Carrying amount £million	Gross nominal inflow/ (outflow) £million	Not more than 3 months £million	More than 3 months but less than 1 year £million	More than 1 year but less than 5 years £million	More than 5 years £million
Non-derivative financial liabilities						
Due to banks	15.9	(15.9)	(15.9)	–	–	–
Deposits from customers	608.4	(635.2)	(87.3)	(257.6)	(255.0)	(35.3)
Other financial liabilities	15.5	(15.5)	(15.5)	–	–	–
	639.8	(666.6)	(118.7)	(257.6)	(255.0)	(35.3)

At 31 December 2013	Carrying amount £million	Gross nominal inflow/ (outflow) £million	Not more than 3 months £million	More than 3 months but less than 1 year £million	More than 1 year but less than 5 years £million	More than 5 years £million
Non-derivative financial liabilities						
Due to banks	0.1	(0.1)	(0.1)	–	–	–
Deposits from customers	436.6	(457.0)	(64.3)	(208.7)	(181.1)	(2.9)
Other financial liabilities	10.5	(10.5)	(10.5)	–	–	–
	447.2	(467.6)	(74.9)	(208.7)	(181.1)	(2.9)

Notes to the consolidated financial statements *continued*

5. Financial risk management *continued*

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

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

(d) Operational risk (unaudited)

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Group's processes, personnel, technology and infrastructure, and from external factors other than the risks identified above. Operational risks arise from all of the Group's operations.

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

The Corporate Governance statement on pages 38 and 39 describes the Group's system of internal controls which are used to mitigate against operational risk. An operational risk department within the Bank also supports and provides assurance to the business in recognising, assessing and managing risk. Compliance with Group standards is supported by a programme of periodic reviews undertaken by an internal audit function. The results of the internal audit reviews are discussed with the Company's senior management with summaries submitted to the Group Audit Committee.

6. Capital management

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

In accordance with the EU's Capital Requirements Directive IV (CRD IV) and the required parameters set out in the EU's Capital Requirements Regulation (CRR), the 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.

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 Prudential Regulation Authority (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 Arbutnot Banking Group for the year ended 31 December 2014 are published as a separate document on the Arbutnot Banking Group website.

Straightforward transparent banking

6. Capital management *continued*

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

	2014 £million	2013 £million
Tier 1		
Share capital	7.3	6.3
Share premium	79.3	28.2
Retained earnings	38.7	29.0
Revaluation reserve	0.2	0.2
Goodwill	(0.3)	(0.3)
Intangible assets net of attributable deferred tax	(2.8)	(3.1)
Deferred tax assets due to losses	(1.0)	(1.9)
Common Equity Tier 1 capital	121.4	58.4
Tier 2		
Collective allowance for impairment of loans and advances	2.0	1.6
Total Tier 2 capital	2.0	1.6
Own Funds	123.4	60.0
Reconciliation to total equity:		
Goodwill and other intangible assets net of attributable deferred tax	3.1	3.4
Collective allowance for impairment of loans and advances	(2.0)	(1.6)
Deferred tax assets due to losses	1.0	1.9
Net cumulative losses of non-solo consolidated entities	(0.6)	(1.2)
Dividends received from non-solo consolidated entities	–	(0.5)
Cash flow hedging reserve	–	(0.4)
Total equity	124.9	61.6

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

Notes to the consolidated financial statements *continued*

7. Net interest income

	2014 £million	2013 £million
Cash and balances at central banks	0.3	–
Loans and advances to banks	–	0.2
Loans and advances to customers	93.1	73.6
Debt securities held-to-maturity	0.2	–
Interest receivable and similar income	93.6	73.8
Deposits from customers	(14.2)	(12.9)
Interest expense and similar charges	(14.2)	(12.9)
Net interest income	79.4	60.9

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

8. Operating expenses

	2014 £million	2013 £million
Staff costs, including those of directors:		
Wages and salaries	25.7	20.1
Social security costs	2.4	1.9
Pension costs	0.9	0.7
Share based payment transactions	1.5	2.2
Depreciation of property, plant and equipment (Note 18)	0.5	0.7
Amortisation of intangible assets (Note 16)	2.5	2.5
Operating lease rentals	1.6	1.4
Other administrative expenses	21.4	16.3
Total operating expenses	56.5	45.8

Remuneration of the auditor and its associates, excluding VAT, was as follows:	2014 £'000	2013 £'000
Fees payable to the Company's auditor for the audit of the Company's annual accounts	138	132
Fees payable to the Company's auditor for other services:		
The audit of the Company's subsidiaries, pursuant to legislation	115	128
Audit related assurance services	17	30
Tax advisory services	47	53
Corporate finance services	115	–
All other non-audit services	292	64
	724	407

Remuneration for corporate finance services in 2014 was £115,000 (2013: £nil). All other non-audit services incurred during 2014 included £183,000 relating to advice received on the transitioning of consumer credit licencing from the Office of Fair Trading to the Financial Conduct Authority. The 2013 auditor's remuneration for statutory audit services relate solely to amounts paid to KPMG Audit Plc, whilst the 2014 amounts relate solely to amounts paid to KPMG LLP.

Straightforward transparent banking

9. Average number of employees

	2014	2013
Directors	7	6
Management	69	50
Administration	532	474
Total	608	530

10. Income tax expense

	2014 £million	2013 £million
Current taxation		
Corporation tax charge – current year	5.2	3.1
Corporation tax charge – adjustments in respect of prior years	–	0.5
	5.2	3.6
Deferred taxation		
Deferred tax charge – current year	0.2	0.7
Deferred tax charge – adjustments in respect of prior years	0.2	0.5
	0.4	1.2
Income tax expense	5.6	4.8
Tax reconciliation		
Profit before tax	26.1	17.1
Tax at 21.5% (2013: 23.25%)	5.6	4.0
Permanent differences	(0.2)	(0.3)
Tax rate change	–	0.1
Prior period adjustments	0.2	1.0
Income tax expense for the year	5.6	4.8

At 31 December 2014 the Group had accumulated tax losses of £5.0 million (2013: £8.2 million). These tax losses will be recovered within future periods, consequently the Group has continued to recognise a deferred tax asset of £1.0 million (2013: £1.9 million).

On 2 July 2013 the Government substantively enacted a reduction in the main rate of UK corporation tax from 23% to 21% with effect from 1 April 2014 and then from 21% to 20% with effect from 1 April 2015. This will reduce the Company's future current tax charge accordingly.

11. Earnings per ordinary share

Basic

Basic earnings per ordinary share are calculated by dividing the profit attributable to equity holders of the parent of £20.5 million (2013: £12.3 million) by the weighted average number of ordinary shares 16,725,876 (2013: 15,648,149) in issue during the year.

Diluted

Diluted earnings per ordinary share are calculated by dividing the profit attributable to equity holders of the parent of £20.5 million (2013: £12.3 million) by the weighted average number of ordinary shares in issue during the year, as noted above, as well as the number of dilutive share options in issue during the year.

The number of dilutive shares in issue at the year end was 332,429, being based on the number of options granted of 460,419, the exercise price of 720 pence per option and the average share price during the year of 2,590 pence.

Notes to the consolidated financial statements *continued*

12. Loans and advances to banks

Group	2014 £million	2013 £million
Placements with banks included in cash and cash equivalents (Note 28)	24.8	90.0
Other loans and advances to banks	15.0	20.0
	39.8	110.0

Included within loans and advances to banks are amounts placed with Arbuthnot Latham & Co., Limited, a related company, of £20.0 million (31 December 2013: £31.6 million).

Moody's long-term ratings:

Group	2014 £million	2013 £million
Aa1	–	57.1
A2	19.8	21.3
No rating	20.0	31.6
	39.8	110.0

Company	2014 £million	2013 £million
Placements with banks included in cash and cash equivalents (Note 28)	22.9	88.5
Other loans and advances to banks	15.0	20.0
	37.9	108.5

Moody's long-term ratings:

Company	2014 £million	2013 £million
Aa1	–	57.1
A2	17.9	19.8
No rating	20.0	31.6
	37.9	108.5

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

Straightforward transparent banking

13. Loans and advances to customers

Group	2014 £million	2013 £million
Gross loans and advances	656.6	418.1
Less: allowances for impairment on loans and advances (Note 14)	(34.1)	(27.1)
	622.5	391.0

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

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

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

Group	2014 £million	2013 £million
Gross investment in finance lease receivables:		
No later than 1 year	18.3	16.4
Later than 1 year and no later than 5 years	13.0	16.0
	31.3	32.4
Unearned future finance income on finance leases	(5.8)	(6.9)
Net investment in finance leases	25.5	25.5

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

No later than 1 year	13.9	12.9
Later than 1 year and no later than 5 years	11.6	12.6
	25.5	25.5

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

Group	2014 £million	2013 £million
Neither past due nor impaired	581.9	371.3
Past due but not impaired	0.3	0.4
Past due up to 90 days and impaired	30.3	23.4
Past due after 90 days and impaired	44.1	23.0
Gross	656.6	418.1
Less: allowance for impairment	(34.1)	(27.1)
Net	622.5	391.0

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

Group	2014 £million	2013 £million
Past due up to 30 days	22.6	17.0
Past due 30 to 60 days	5.3	4.1
Past due 60 to 90 days	2.7	2.7
Total	30.6	23.8

Interest income on loans classified as impaired totalled £3.1 million (31 December 2013: £2.6 million).

Notes to the consolidated financial statements *continued*13. Loans and advances to customers *continued*

Company	2014 £million	2013 £million
Gross loans and advances	518.1	306.8
Less: allowances for impairment on loans and advances (Note 14)	(18.0)	(22.9)
	500.1	283.9

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	2014 £million	2013 £million
Neither past due nor impaired	461.7	266.7
Past due up to 90 days and impaired	26.2	19.4
Past due after 90 days and impaired	30.2	20.7
Gross	518.1	306.8
Less: allowance for impairment	(18.0)	(22.9)
Net	500.1	283.9

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

Company	2014 £million	2013 £million
Past due up to 30 days	20.4	15.0
Past due 30 to 60 days	4.0	2.8
Past due 60 to 90 days	1.8	1.6
Total	26.2	19.4

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 2014 loans and advances to customers of £11.5 million were pre-positioned under the Bank of England's Funding for Lending Scheme and were available for use as collateral within the scheme (2013: £43.9 million).

£0.2 million (2013: £0.2 million) is a standard mortgage loan secured upon residential property and this is neither past due nor impaired. The residential property over which the mortgage loan is secured has a fair value of £0.2 million based on other recent property sales, giving a loan to value ratio of 76% (2013:73%).

£133.7 million (2013: £1.8 million) of the loans are secured upon residential property and these are neither past due nor impaired. All loans secured are at a loan to value ratio of less than 80%.

£137.9 million (2013: £114.7 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 £109.5 million.

Straightforward transparent banking

14. Allowances for impairment of loans and advances

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

Group	2014 £million	2013 £million
Specific allowances for impairment		
At 1 January	25.5	15.8
Provision for impairment losses	15.1	15.5
Loans written off during the year as uncollectible	(8.5)	(5.8)
At 31 December	32.1	25.5
Collective allowances for impairment		
At 1 January	1.6	0.4
Provision for impairment losses	0.4	1.2
At 31 December	2.0	1.6
Total allowances for impairment	34.1	27.1
Company		
Specific allowances for impairment		
At 1 January	21.9	13.2
Provision for impairment losses	8.5	9.4
Release of allowance for impairment on the sale of debt	(12.5)	–
Loans written off during the year as uncollectible	(1.0)	(0.7)
At 31 December	16.9	21.9
Collective allowances for impairment		
At 1 January	1.0	0.4
Provision for impairment losses	0.1	0.6
At 31 December	1.1	1.0
Total allowances for impairment	18.0	22.9

15. Debt securities held-to-maturity

Debt securities represent Bank of England Treasury Bills. The Group's intention is to hold them to maturity and, therefore, they are stated in the Statement of Financial Position at amortised cost.

All of the debt securities held-to-maturity had a rating agency designation at 31 December 2014, based on Moody's long-term ratings of Aa1. None of the debt securities held-to-maturity are either past due or impaired.

In the previous year £57.1 million of debt securities held-to-maturity were included in loans and advances to banks.

At 31 December 2014 debt securities held-to-maturity of £15.0 million were pre-positioned under the Bank of England's Funding for Lending Scheme and were available for use as collateral within the scheme (2013: £9.9 million).

During the year, the Company's UK Treasury Bills acquired under the Funding for Lending Scheme were pledged as part of a sale and repurchase agreement with a third party, with a maturity period of three months.

Notes to the consolidated financial statements *continued*

16. Intangible assets

Group	Goodwill £million	Computer software £million	Other intangible assets £million	Total £million
Cost or valuation				
At 1 January 2013	0.3	2.3	5.1	7.7
On acquisition of subsidiary undertaking	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
Additions	–	0.8	–	0.8
At 31 December 2014	1.0	7.3	7.3	15.6
Accumulated amortisation				
At 1 January 2013	–	(1.8)	(0.7)	(2.5)
Amortisation charge	–	(0.9)	(1.5)	(2.4)
At 31 December 2013	–	(2.7)	(2.2)	(4.9)
Amortisation charge	–	(1.1)	(1.4)	(2.5)
At 31 December 2014	–	(3.8)	(3.6)	(7.4)
Net book amount				
At 31 December 2013	1.0	3.8	5.1	9.9
At 31 December 2014	1.0	3.5	3.7	8.2
Company				
Cost or valuation				
At 1 January 2013		0.3	2.2	2.5
Additions		–	0.4	0.4
At 31 December 2013		0.3	2.6	2.9
Additions		–	0.7	0.7
At 31 December 2014		0.3	3.3	3.6
Accumulated amortisation				
At 1 January 2013		–	(1.7)	(1.7)
Amortisation charge		–	(0.3)	(0.3)
At 31 December 2013		–	(2.0)	(2.0)
Amortisation charge		–	(0.3)	(0.3)
At 31 December 2014		–	(2.3)	(2.3)
Net book amount				
At 31 December 2013		0.3	0.6	0.9
At 31 December 2014		0.3	1.0	1.3

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

Straightforward transparent banking

17. Investments

Company	Shares at cost £million	Impairment provisions £million	Net investments £million
At 1 January 2013	1.4	(1.4)	–
Acquisition of V12 Finance Group Limited	3.7	–	3.7
On liquidation of subsidiaries	(1.4)	1.4	–
At 31 December 2013	3.7	–	3.7
At 31 December 2014	3.7	–	3.7

The principal subsidiary undertakings of Secure Trust Bank PLC at 31 December 2014 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 Lending 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 via intermediate holding companies.

Notes to the consolidated financial statements *continued*

18. 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 2013	4.4	0.3	9.0	13.7
On acquisition of subsidiary undertaking	–	–	0.1	0.1
Additions	–	0.1	0.3	0.4
Disposals	–	–	(0.5)	(0.5)
At 31 December 2013	4.4	0.4	8.9	13.7
Additions	2.7	–	0.9	3.6
Disposals	–	–	(0.5)	(0.5)
At 31 December 2014	7.1	0.4	9.3	16.8
Accumulated depreciation				
At 1 January 2013	(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)
Depreciation charge	(0.1)	(0.1)	(0.3)	(0.5)
Disposals	–	–	0.5	0.5
At 31 December 2014	(0.5)	(0.3)	(7.9)	(8.7)
Net book amount				
At 31 December 2013	4.0	0.2	0.8	5.0
At 31 December 2014	6.6	0.1	1.4	8.1

Straightforward transparent banking

18. Property, plant and equipment *continued*

Company	Freehold property £million	Computer and other equipment £million	Total £million
Cost			
At 1 January 2013	–	8.8	8.8
Additions	–	0.2	0.2
Disposals	–	(0.5)	(0.5)
At 31 December 2013	–	8.5	8.5
Additions	2.7	0.7	3.4
Disposals	–	(0.5)	(0.5)
At 31 December 2014	2.7	8.7	11.4
Accumulated depreciation			
At 1 January 2013	–	(7.8)	(7.8)
Depreciation charge	–	(0.3)	(0.3)
Disposals	–	0.1	0.1
At 31 December 2013	–	(8.0)	(8.0)
Depreciation charge	–	(0.2)	(0.2)
Disposals	–	0.5	0.5
At 31 December 2014	–	(7.7)	(7.7)
Net book amount			
At 31 December 2013	–	0.5	0.5
At 31 December 2014	2.7	1.0	3.7

The Group's opening freehold property is the Registered Office of the Company and is fully utilised for the Group's own purposes. During the year, the Company acquired a further freehold property, Secure Trust House, Boston Drive, Bourne End SL8 5YS. The majority of this property will be used for the Group's own purposes, however the existing tenant of the property has remained in situ. The cost of the property was £2.7 million.

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

The carrying value of freehold land which is included in the total carrying value of freehold land and buildings and which is not depreciated is £1.7 million (2013: £0.5 million).

Notes to the consolidated financial statements *continued***18. Property, plant and equipment** *continued*

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

	2014 £million	2013 £million
Cost	7.5	4.8
Accumulated depreciation	(1.2)	(1.1)
Net book amount	6.3	3.7

19. Derivative financial instruments

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

	2014			2013		
	Contract/ notional amount £million	Fair value assets £million	Fair value liabilities £million	Contract/ notional amount £million	Fair value assets £million	Fair value liabilities £million
Group and Company						
Interest rate cap held in qualifying hedge relationships	20.0	–	–	20.0	–	–
	20.0	–	–	20.0	–	–

Moody's long term ratings:

	2014 £million	2013 £million
Contract amount:		
A2	20.0	20.0
	20.0	20.0

Straightforward transparent banking

20. Other assets

Group	2014 £million	2013 £million
Trade receivables	0.9	0.6
Amounts due from related companies	0.8	4.1
Prepayments and accrued income	3.5	3.4
	5.2	8.1

Company	2014 £million	2013 £million
Trade receivables	0.6	0.1
Amounts due from related companies	114.6	99.9
Prepayments and accrued income	1.0	1.0
	116.2	101.0

21. Due to banks

Group and Company	2014 £million	2013 £million
Amounts due to related companies	–	0.1
Amounts due to other credit institutions	15.9	–
	15.9	0.1

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

22. Deposits from customers

Group and Company	2014 £million	2013 £million
Current/demand accounts	37.8	36.4
Term deposits	570.6	400.2
	608.4	436.6

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

Notes to the consolidated financial statements *continued*

23. Other liabilities

Group	2014 £million	2013 £million
Trade payables	10.9	9.8
Amounts due to related companies	0.3	2.2
Accruals and deferred income	18.3	13.8
	29.5	25.8

Company	2014 £million	2013 £million
Trade payables	4.2	3.3
Amounts due to related companies	4.6	2.2
Accruals and deferred income	13.4	10.0
	22.2	15.5

Within Group trade payables at 31 December 2014 there is £4.3 million (2013: £4.3 million) collateral held from RentSmart. The Group buys assets which are then leased to customers of RentSmart and the Group pays RentSmart a commission, which is recognised within operating income. In return, RentSmart continues to operate the agreement, retains the credit risk and provides the Group with a collateral amount that is based upon the balance of customer receivables and expected new agreements during the following month.

Within Group and Company accruals and deferred income there is £6.6 million relating to accrued interest payable (2013: £5.1 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 accrual of £0.1 million relates to the interest levy for the scheme year 2014/15 which is payable in September 2015. 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 2014/15 was paid by the Company in September 2014.

Straightforward transparent banking

24. Deferred taxation

Group	2014 £million	2013 £million
Deferred tax liabilities:		
Unrealised surplus on revaluation of freehold property	0.2	0.2
Other short term timing differences	(0.2)	(0.6)
Deferred tax liabilities	–	(0.4)
Deferred tax assets:		
Carried forward losses	1.0	1.9
Deferred tax assets	1.0	1.9
Deferred tax liabilities:		
At 1 January	(0.4)	(1.2)
Arising on acquisition of subsidiary undertaking	–	(1.0)
Profit and loss account	0.4	1.8
At 31 December	–	(0.4)
Deferred tax assets:		
At 1 January	1.9	5.1
Profit and loss account	(0.8)	(3.0)
Losses utilised through group relief during the year	–	(0.2)
Cash flow hedges	(0.1)	–
At 31 December	1.0	1.9
Company	2014 £million	2013 £million
Accelerated capital allowances and other short-term timing differences	0.3	0.7
Cash flow hedges	–	0.1
Deferred tax assets	0.3	0.8
At 1 January	0.8	0.6
Arising on acquisition of subsidiary undertaking	–	0.2
Profit and loss account – accelerated capital allowances and other short-term timing differences	(0.4)	–
Cash flow hedges	(0.1)	–
Deferred tax assets at 31 December	0.3	0.8

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

Notes to the consolidated financial statements *continued***25. Contingent liabilities and commitments***Capital commitments*

At 31 December 2014, the Group had £0.1 million of capital commitments relating to the refurbishment of an Everyday Loans branch. The Company had no capital commitments (2013: £nil).

Credit commitments

At 31 December 2014, the Group and Company both had commitments of £96.0 million to extend credit to customers (2013: £6.6 million and £6.6 million respectively).

Operating lease commitments

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

	2014		2013	
	Land and buildings £million	Other £million	Land and buildings £million	Other £million
Group				
Within 1 year	0.8	0.3	0.8	0.4
Between 1 year and 5 years	1.5	0.2	1.6	0.2
Over 5 years	0.1	–	0.1	–
	2.4	0.5	2.5	0.6
	2014		2013	
	Land and buildings £million	Other £million	Land and buildings £million	Other £million
Company				
Within 1 year	–	0.3	–	0.4
Between 1 year and 5 years	–	0.1	–	0.2
Over 5 years	0.4	–	0.4	–
	0.4	0.4	0.4	0.6

There are 35 leases classified as land and buildings in the Group (2013: 36). Other leases include motor vehicles and computer hardware.

Other commitments

At 31 December 2014 a commitment exists to make further payments with regard to the Financial Services Compensation Scheme Levy for 2015 and thereafter. Due to uncertainties regarding the elements in the calculation of the levy and the Group's share thereof, the directors consider this cost to be unquantifiable.

Straightforward transparent banking

26. Share capital

	Number of shares	Ordinary shares £million
At 1 January 2013	15,648,149	6.3
At 31 December 2013	15,648,149	6.3
Shares issued during year	2,543,745	1.0
At 31 December 2014	18,191,894	7.3

On 8 July 2014 an additional 2,083,333 ordinary shares were issued by the Company, at a price of 2,400 pence each, raising gross proceeds of £50 million.

On 3 November 2014 an additional 460,412 ordinary shares were issued by the Company following the exercise of share options, at a price of 720 pence each, raising gross proceeds of £3.3 million.

27. Share based payments

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

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

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

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

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

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

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

Notes to the consolidated financial statements *continued***27. Share based payments** *continued*

The Share Option Scheme is an equity settled scheme. The original grant date valuation was determined to be £1.69 per option and this valuation has been used in the calculation. An attrition rate of option holders has been assumed of nil for the second tranche of share options. Due to the options being fully conditional knockout options, a probability of pay-out has been assigned based on the likelihood of meeting the performance criteria, which is 95% for SOS2. The Company incurred an expense in relation to share based payments of £1.5 million during 2014, as disclosed in Note 8.

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

28. Cash and cash equivalents

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

Group	2014 £million	2013 £million
Cash and balances at central banks	81.2	–
Loans and advances to banks (Note 12)	24.8	90.0
	106.0	90.0
Company	2014 £million	2013 £million
Cash and balances at central banks	81.2	–
Loans and advances to banks (Note 12)	22.9	88.5
	104.1	88.5

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29. Related party transactions

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

A number of banking transactions are entered into with related parties in the normal course of business on normal commercial terms. These include deposits only during 2014 and 2013. Except for the directors' disclosures, there were no other Key Management Personnel disclosures, therefore the tables below relate to directors only.

	Directors	
	2014 £million	2013 £million
Deposits		
Deposits outstanding at 1 January	0.3	0.3
Additional deposits made during the year	0.1	–
Deposits outstanding at 31 December	0.4	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.

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

	2014 £million	2013 £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)
Arbuthnot Banking Group PLC - group recharges	0.4	0.3
Everyday Loans Holdings Limited - dividends received	5.0	–
Everyday Loans Limited - management recharge income	(8.7)	–
Everyday Lending Limited - interest income on loan receivable	(2.6)	(2.5)
Debt Managers (Services) Limited - income from sale of debt portfolio	3.1	–
Secure Homes Services Limited - building rental paid	0.4	0.4
V12 Finance Group Limited - dividends received	–	(0.5)
V12 Retail Finance Limited - financial intermediary charges - applications proposed	1.5	0.6
V12 Retail Finance Limited - financial intermediary charges - applications accepted	0.8	0.3
V12 Retail Finance Limited - financial intermediary charges - loan set-up and processing	1.7	0.6
V12 Retail Finance Limited - loan book management and servicing fees	1.7	0.9
	3.1	(0.2)

Notes to the consolidated financial statements *continued*

29. Related party transactions *continued*

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

Group	2014 £million	2013 £million
Loans and advances to related companies	20.0	31.6
Amounts receivable from ultimate parent undertaking	0.8	4.1
Amounts due to related companies	(0.3)	(2.3)
	20.5	33.4

Company	2014 £million	2013 £million
Loans and advances to related companies	20.0	31.6
Amounts receivable from ultimate parent undertaking	0.8	4.1
Amounts receivable from subsidiary undertakings	113.8	95.8
Amounts due to related companies	(4.6)	(2.3)
	130.0	129.2

Directors' remuneration

The directors' emoluments (including pension contributions and benefits in kind) for the year are disclosed in the Remuneration Report on pages 40 to 41.

At the year end the ordinary shares held by the directors are disclosed in the Directors' Report on pages 34 to 36. Details of the directors' holdings of share options, as well as details of those share options exercised during the year, are also disclosed in the Directors' Report.

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

30. Operating segments

The Group is organised into six 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.
- 5) **Business Finance** – Real estate finance and asset finance, secured on the properties or assets financed. This segment also includes the commercial finance activities, the most significant of which are invoice discounting and invoice factoring.
- 6) **Debt Collection** – Collection of debts on a contingent collections basis on behalf of a range of clients as well as selective investments in purchased debt portfolios.

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.

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30. Operating segments *continued*

Year ended 31 December 2014	Consumer Finance						Group Total £million
	Personal Lending £million	Motor Finance £million	Retail Finance £million	Current Account and OneBill £million	Business Finance £million	Debt Collection and other £million	
Interest receivable and similar income	45.3	27.2	17.6	–	2.5	1.0	93.6
Fee and commission income	4.1	–	0.8	12.1	0.1	3.1	20.2
Revenue from external customers	49.4	27.2	18.4	12.1	2.6	4.1	113.8
Net impairment losses on loans and advances to customers	9.9	3.9	1.5	–	–	–	15.3
Loans and advances to customers	181.4	137.9	156.3	0.4	143.3	3.2	622.5

Year ended 31 December 2013	Consumer Finance						Group Total £million
	Personal Lending £million	Motor Finance £million	Retail Finance £million	Current Account and OneBill £million	Business Finance £million	Debt Collection and other £million	
Interest receivable and similar income	36.1	23.0	14.5	–	0.1	0.1	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	0.1	4.3	96.5
Net impairment losses on loans and advances to customers	10.3	3.6	1.7	–	–	–	15.6
Loans and advances to customers	159.2	114.7	114.4	0.5	1.8	0.4	391.0

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.

31. Immediate and ultimate parent company

The Company regards Arbutnot 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 Arbutnot Banking Group PLC and is regarded by the Company as the ultimate controlling party. A copy of the consolidated financial statements of Arbutnot Banking Group PLC may be obtained from the Secretary, Arbutnot Banking Group PLC, Arbutnot House, 7 Wilson Street, London, EC2M 2SN.

32. Events after the balance sheet date

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

Five year summary (unaudited)

	2014 £million	2013 £million	2012 £million	2011 £million	2010 £million
Profit for the year					
Interest and similar income	93.6	73.8	44.9	22.9	15.9
Interest expense and similar charges	(14.2)	(12.9)	(10.5)	(5.6)	(3.4)
Net interest income	79.4	60.9	34.4	17.3	12.5
Net fee and commission income	18.5	18.1	12.6	11.2	11.7
Operating income	97.9	79.0	47.0	28.5	24.2
Impairment losses on loans and advances	(15.3)	(15.6)	(8.9)	(4.6)	(2.2)
Gain from a bargain purchase	–	0.4	9.8	–	–
Other income	–	–	0.1	–	1.0
Exceptional costs	–	(0.9)	(1.4)	(0.5)	–
Arbuthnot Banking Group recharges	(0.2)	(0.1)	(0.1)	(1.8)	(0.9)
Operating expenses	(56.3)	(45.7)	(29.3)	(14.3)	(13.4)
Profit before income tax	26.1	17.1	17.2	7.3	8.7
Earnings per share for profit attributable to the equity holders of the Group during the year (expressed in pence per share) - basic	122.3	78.3	108.9	39.6	50.0
Financial position					
Cash and balances at central banks	81.2	–	–	–	–
Loans and advances to banks	39.8	110.0	155.3	139.5	42.6
Loans and advances to customers	622.5	391.0	297.6	154.6	89.5
Debt securities held-to-maturity	16.3	–	–	–	25.6
Other assets	22.5	24.9	21.7	13.7	23.0
Total assets	782.3	525.9	474.6	307.8	180.7
Due to banks	15.9	0.1	–	–	–
Deposits from customers	608.4	436.6	398.9	272.1	153.8
Other liabilities	33.1	27.6	19.8	11.9	11.1
Total shareholders' equity	124.9	61.6	55.9	23.8	15.8
Total liabilities and shareholders' equity	782.3	525.9	474.6	307.8	180.7

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Notice of Meeting

NOTICE IS HEREBY GIVEN that the sixtieth Annual General Meeting of the Company will be held at Arbutnot House, 7 Wilson Street, London EC2M 2SN on Wednesday, 13 May 2015 at 3pm for the following purposes:

ORDINARY BUSINESS

To consider and, if thought fit, pass the following resolutions which will be proposed as ordinary resolutions:

1. To receive and adopt the report of the directors and the financial statements for the year ended 31 December 2014.
2. To receive the report of the Remuneration Committee.
3. To declare a final dividend in respect of the year ended 31 December 2014 which the directors propose should be 52p per ordinary share, payable on 15 May 2015 to shareholders on the register of members at the close of business on 17 April 2015.
4. To re-elect Mr N. Kapur as a director who retires by rotation in accordance with Article 82 of the Articles of Association and offers himself for re-election.
5. To re-appoint KPMG LLP as Auditor and to authorise the directors to fix their remuneration.

SPECIAL BUSINESS

To consider and, if thought fit, pass the following resolution which will be proposed as a special resolution:

6. That the Company be and is hereby generally and unconditionally authorised to make market purchases (as defined in section 693(4) of the Companies Act 2006) of ordinary shares of 40p each in the capital of the Company ("ordinary shares") provided that:
 - (a) the maximum number of ordinary shares hereby authorised to be purchased shall be 1,819,200 (being approximately 10% of the issued share capital of the Company as at 8 April 2015);
 - (b) the minimum price which may be paid for an ordinary share shall be 40p;
 - (c) the maximum price which may be paid for an ordinary share shall be 5% above the average of the closing middle market price of the ordinary shares (as derived from the London Stock Exchange Daily Official List) for the 10 business days prior to the day the purchase is made;
 - (d) the authority hereby conferred shall expire on 31 May 2016 or, if earlier, on the conclusion of the next Annual General Meeting of the Company unless such authority is renewed prior to such time; and
 - (e) the Company may enter into contracts to purchase ordinary shares under the authority hereby conferred prior to the expiry of such authority, which contracts will or may be executed wholly or partly after the expiry of such authority, and may make purchases of ordinary shares pursuant to any such contracts.

By order of the Board
A.J. Karter
Secretary
9 April 2015

Registered Office
One Arleston Way
Solihull B90 4LH

Notice of Meeting *continued*

NOTES:

1. In accordance with Regulation 41 of the Uncertificated Securities Regulations 2001, the Company gives notice that only those shareholders entered on the relevant register of members (the "Register") for certificated or uncertificated shares of the Company (as the case may be) at 6 pm on 11 May 2015 ("the Specified Time") will be entitled to attend or vote at the Annual General Meeting in respect of the number of shares registered in their name at that time. Changes to entries on the Register after the Specified Time will be disregarded in determining the rights of any person to attend or vote at the Annual General Meeting. Should the Annual General Meeting be adjourned to a time not more than 48 hours after the Specified Time, that time will also apply for the purpose of determining the entitlement of members to attend and vote (and for the purpose of determining the number of votes they may cast) at the adjourned Annual General Meeting. Should the Annual General Meeting be adjourned for a longer period, then to be so entitled, members must be entered on the Register at the time which is 48 hours before the time fixed for the adjourned Annual General Meeting, or, if the Company gives notice of the adjourned Annual General Meeting, at the time specified in the notice.
2. Members who want to attend and vote should either attend in person or appoint a proxy or corporate representative to attend, speak and vote on his/her behalf. A member may appoint more than one proxy in relation to the Annual General Meeting provided that each proxy is appointed to exercise the rights attached to a different share or shares of the member, but must attend the meeting in person. A proxy need not be a member. A paper Form of Proxy is enclosed. Please read carefully the instructions on how to complete the form. Forms of Proxy, together with the power of attorney or other authority (if any) under which it is signed or a notarially certified copy of such power of attorney or other authority, must be lodged with the Registrars or submitted not later than 48 hours before the time for which the Annual General Meeting is convened. Completion of the appropriate Form of Proxy does not prevent a member from attending and voting in person if he/she is entitled to do so and so wishes.
3. A corporation which is a member can appoint one or more corporate representatives who may exercise, on its behalf, all its powers as a member provided that no more than one corporate representative exercises powers over the same share.
4. As at 8 April 2015 (being the last business day prior to the publication of the Notice of Annual General Meeting) the Company's issued share capital consists of 18,191,894 ordinary shares carrying one vote each.
5. There are no service contracts of directors other than ones which may be terminated on up to 12 months' notice at any time. Copies of these service agreements will be available for inspection at the registered office during usual business hours on any weekday (Saturdays and public holidays excepted) from the date of this notice until the date of the Annual General Meeting and at the place of the Annual General Meeting for 15 minutes prior to and during the Annual General Meeting.

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Corporate contacts & advisers

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