15 March 2012 **For Immediate Release**

SECURE TRUST BANK PLC

Audited Final Results for the year to 31 December 2011

A Milestone Year

Secure Trust Bank PLC (“STB” or the “Company”) has had another successful year, with both the lending and deposit-gathering businesses demonstrating strong, controlled organic growth.

Financial Highlights

- Operating income £28.5m
- Profit before tax* £9.6m
- Adjusted earnings per share* 55.6p
- Capital, liquidity and balance sheet remain strong
- Pre-tax return on average equity* 52.2%
- Stub dividend 4.2 p per share

Operational income

- Lending volumes increased to £135.9 million (51% increase on 2010)
- Customer deposits increased to £272.1 million (77% increase on 2010)
- Fee based current accounts grew to 17,178 (79% increase on 2010)

* Before IPO costs and ABG management charges

The underlying growth potential of the business has been enhanced by the successful IPO of the Company in November through which STB raised new capital to support significant growth in the lending businesses. STB enters its 60th year very well positioned to take advantage of the many opportunities available to it. Looking forward the company’s stance will be consistent with the historic approach of providing simple, straightforward banking, in a cautious and customer focused manner.

Commenting on the results, Paul Lynam, Chief Executive Officer, said “2011 has been a milestone year for the development of Secure Trust Bank. We have delivered a strong underlying financial performance whilst putting in place the foundations necessary to control our ambitious growth plans across a diversified portfolio of products. With strong organic business volumes written in the early months of 2012 and good work continuing on a large pipeline of significant organic and external business opportunities we are in a cautiously confident mood”.

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The 2011 Annual Report, Notice of Meeting and accompanying letter from the Chairman will be posted and available on the Secure Trust Bank website http://www.securetrustbank.com/general/results-presentation by 5th April 2012. Copies may also be obtained from the Company Secretary, Secure Trust Bank plc, One Arleston Way, Solihull, B90 4LH.

Consolidated statement of comprehensive income

	Note	Year ended 31 December 2011 £000	Year ended 31 December 2010 £000
Interest and similar income		22,836	15,891
Interest expense and similar charges		(5,609)	(3,419)
Net interest income	6	**17,227**	**12,472**
Fee and commission income		12,662	13,203
Fee and commission expense		(1,429)	(1,453)
Net fee and commission income		**11,233**	**11,750**
Operating income		**28,460**	**24,222**
Impairment losses on loans and advances	14	(4,601)	(2,168)
Other income		36	982
Share listing transaction costs	26	(536)	-
Operating expenses	7	(16,079)	(14,350)
Profit before income tax		**7,280**	**8,686**
Income tax expense	9	(2,216)	(2,436)
Profit for the year		**5,064**	**6,250**
Other comprehensive income			
Revaluation reserve			
- Amount transferred to profit and loss		-	(2)
Hedging reserve			
- Effective portion of changes in fair value		(333)	-
- Net amount transferred to profit or loss		4	-
Other comprehensive income for the year, net of income tax		**(329)**	**(2)**
Total comprehensive income for the year		**4,735**	**6,248**
Profit attributable to:			
Equity holders of the Group		**5,064**	**6,250**
Total comprehensive income attributable to:			
Equity holders of the Group		**4,735**	**6,248**
Earnings per share for profit attributable to the equity holders of the Group during the year			
(expressed in pence per share)			
Basic and diluted earnings per share	10	39.6	50.0

Consolidated statement of financial position

	Note	At 31 December 2011 £000	2010 £000
ASSETS			

	Note		
Cash	11	-	13
Derivative financial instruments	19	58	-
Loans and advances to banks	12	139,498	42,577
Loans and advances to customers	13	154,585	89,482
Debt securities held-to-maturity	15	-	25,627
Current tax asset		351	-
Other assets	20	7,524	16,852
Intangible assets	16	686	783
Property, plant and equipment	18	4,926	5,295
Deferred tax asset	24	212	70
Total assets		**307,840**	**180,699**
LIABILITIES AND EQUITY			
Liabilities			
Deposits from customers	21	272,063	153,778
Current tax liability		12	1,564
Other liabilities	22	8,853	7,035
Deferred tax liability	24	97	126
Debt securities in issue	23	3,000	2,400
Total liabilities		**284,025**	**164,903**
Equity attributable to owners of the parent			
Share capital	26	5,667	5,000
Share premium		9,547	-
Retained earnings		8,790	10,654
Cash flow hedging reserve		(329)	-
Revaluation reserve		140	142
Total equity		**23,815**	**15,796**
Total liabilities and equity		**307,840**	**180,699**

Chairman's statement

2011 has been a milestone year in Secure Trust Bank's successful 59 year history. Notwithstanding extremely challenging market conditions we successfully concluded the IPO of the business on the AIM Market on 2 November. The firm demand for the shares in the IPO and subsequent strong increase in the share price reflect well on both our historic track record and the considerable potential ahead.

In preparation for the IPO the Board was reorganised with James Cobb, Kevin Hayes, David Nield, Dean Proctor, Atholl Turrell and Robert Wickham all resigning from the Board. Kevin and David remain as key members of the Executive Committee. I extend my thanks to them for all their commitment and contribution. I was delighted to welcome Paul Marrow and Carol Sergeant to the Board as Independent Non Executive Directors and look forward to working with them going forward.

The IPO was the culmination of a series of actions undertaken during the year to make the bank safer, stronger and more sustainable in order to take advantage of growth opportunities. This is consistent with our ongoing determination to manage the business prudently which saw us finish the year with robust capital ratios, strong liquidity, a diversified lending portfolio and modest gross leverage ratios.

The consumer finance joint venture referred to both at the time of Arbuthnot Banking Group's interim results and the admission document did not materialise as, despite exhaustive efforts, we were unable to agree a structure which met regulatory requirements and fell within our risk appetite. Whilst disappointing for all concerned this is a tangible demonstration that the Board will not put short term profitability ahead of the longer term interests of the company and its shareholders.

We remain true to our philosophy of simple straightforward banking, with a customer focus and are greatly encouraged that the 45% increase in overall customer numbers would seem to show that this approach has significant appeal to UK consumers.

The Board proposes to pay a final dividend of 4.2p per share relating to the stub period from the admission to AIM to 31 December 2011. If approved, the dividend will be paid on 18 May 2012 to shareholders on the register as at 20 April 2012

With the benefit of its new listed status, increased profile and strong momentum, the Board is confident that Secure Trust Bank will continue to demonstrate profitable and sustainable growth over the coming period.

Chief Executive's statement

Secure Trust Bank is determined to be a profitable and sustainable bank by providing a genuine alternative to the traditional high street banking model. The growth I have detailed below is well diversified across the lending portfolio and wider business and evidences the demand for our products and services by consumers either unhappy with other banks or those underserved by them. This represents a very substantial opportunity for us which the successful listing of Secure Trust Bank will, in part, help to unlock.

Simple, straightforward banking

We fundamentally agree with the principles of treating customers fairly which guide the way in which we interact with our customers and the products and services we provide to them. Ultimately the effectiveness of how well we treat our customers will be measured by the sustained growth in their numbers so we are pleased to note that our overall customer numbers have increased by 45% over the last 12 months to 139,693 (2010: 96,446).

Our internal Net Promoter Score surveys point to high levels of customer satisfaction which is further evidenced by low customer complaint levels. Externally, we were delighted to receive unsolicited third party recognition of our customer focus last year. This included being the only UK bank to receive a Fairbanking Award in respect of its current account and being named as the Association of Cycle Traders' partner of the year award for the second year running.

Strong funding profile

The Secure Trust Bank balance sheet has continued to be run on a prudent basis throughout 2011. As at 31 December we had no direct exposure to wholesale funding or interbank markets. All of our lending activities continued to be funded by customer deposits. Our Loan to Deposit ratio at the year end was a modest 57%. Our robust funding profile was further improved with the highly successful introduction of unbreakable fixed term, fixed rate deposit products in May 2011. These proved very popular with customers enabling the bank broadly to match its tenor of lending against deposits. This strategy helped to reduce the bank's exposure to interest rate basis risk and substantially strengthened its funding profile.

Modestly leveraged balance sheet

In capital terms our year end Tier 1 Capital ratio was a very robust 21% and Total Capital ratio stood at 23%. Comparing the relative balance sheet strength of individual banks is extremely difficult due to the differing methodologies used under Basel II which can lead to a picture of seemingly similar capital ratios despite the underlying gross leverage positions being wildly different. As at 31 December the Secure Trust Bank Gross Leverage ratio (total lending divided by tier one capital) was only 6.7x.

Robust underlying profit growth

The adjusted 2011 pre-tax profits of Secure Trust Bank, before IPO costs and group recharges from Arbuthnot Banking Group PLC, were £9.6 million (2010: £9.6 million). This rather understates the much stronger underlying picture and the actual momentum in the business. The 2010 results were heavily influenced by the profits generated by the portfolios acquired from LV and Citi in 2009. These portfolios are in run-off, their income contribution peaked in 2010 at £6.1 million and reduced by £4.4 million in 2011. Income from personal lending, motor finance and retail finance increased to £19.5 million in 2011 from £9.3 million in 2010. We have also invested heavily in people and infrastructure terms to create the platform needed to control the ambitious growth plans we have. Additionally, as highlighted in the Chairman's statement, we had anticipated creating a Joint Venture in the second half and geared up our deposit balances to fund the expected initial portfolio purchase of circa £50 million. We announced on 10th January 2012 that we had been unable to agree a structure which fell within our risk appetite and the JV would not be proceeding as anticipated. The costs incurred with this project have been expensed during the year. The cost of carrying the surplus deposits for the JV reduced our 2011 profit before tax by in excess of £1 million. Taking these three factors into consideration we are pleased with the underlying growth in the business during 2011 of 119%.

Lending operations

During the year the Bank's lending operations continued to generate very strong, controlled, organic growth. Overall new business lending volumes grew 51% to £135.9 million (2010: £90.2 million) which led to an increase of 73% in overall balance sheet lending assets to £154.6 million (2010: £89.5 million)

Motor finance, a business which we started cautiously during 2009, grew lending, net of provisions to £63.4 million at 31 December 2011 (2010: £31.3 million). This business, which targets the near prime market segment, substantially expanded its network of brokers and dealers to the point where it has national coverage and a fully independent sales force which services the majority of the Top 100 UK car dealer groups.

Personal unsecured lending also delivered strong growth with the 31 December 2011 balance sheet increasing to £43.6 million (2010: £22.4 million). The bank has continued to broaden its distribution capabilities in this market and entered into a number of significant new introducer relationships during the year.

Retail point of sale business grew strongly driven by retailer demand for our in store and online services with balances at 31 December 2011 increasing to £42.6 million (2010: £21.6 million)

The portfolios of books acquired in 2009 continue to be collected out in line with expectations, with the balance outstanding declining to £2.5 million at 31 December 2011 (2010: £10.7 million).

Fee based current account

2011 has seen a significant investment in our operational infrastructure which in particular will enhance the competitiveness of our current account offering. Despite tempering the growth rate of this product pending a new on-line platform going live, net customer numbers increased to 17,178 at the end of the year (2010: 9,576). Over 1,000 new customers are signing up each month and we continue to see substantial potential here.

As anticipated, OneBill customer numbers continue to decline over time, however the attrition rates have been somewhat slower than expected which serves to highlight the attraction of a product with these attributes. The growth of profit streams developed over the last three years means that this product is becoming progressively less significant to the profitability of the overall business. Work continues on the development of a next generation OneBill product and we expect to begin customer trials in the second half of this year.

Risk and governance focus

We monitor all aspects of risk extremely closely. We have taken progressive steps to strengthen our corporate governance to reflect the growth in the business throughout the year and were very pleased to appoint two highly experienced independent non executive directors in the form of Paul Marrow and Carol Sergeant during 2011.

Our impairments levels have risen as we expected given our growing and maturing lending portfolio, in line with our pricing for risk methodology. These remained below the level which we had assumed with our pricing models when writing the business. We continue to adopt a robust, formulaic and dynamic approach to impairment provisioning. During the latter stages of 2011 it became increasingly apparent that the economic outlook was deteriorating which we responded to by tightening up our lending criteria and increasing our margins.

Our people

Our success in creating value for our shareholders and providing a great service for our customers is enabling us to provide job security and career opportunities for our staff. Our staff numbers at 31 December 2011 increased by 42 last year representing a 20% increase on the prior period. In addition to investing in the local community via these new jobs, Secure Trust Bank employees, on average, donated a half day each to charity last year and in so doing generated many thousands of pounds for a range of worthy causes. We were delighted to be identified as 'one to watch' in the Sunday Times Best Companies To Work For survey which reflects our ongoing commitment to our staff .This commitment included changes to ensure our total pay proposition was competitive and each member of staff, on average receiving nearly a week's worth of training during 2011. I thank all my colleagues for their determination and professionalism throughout the year.

Current developments

The business continues to trade in line with management's expectations in the early months of 2012. We continue to see strong demand for all of our core products, with February representing a record month for lending business. We envisage robust organic growth this year. We were delighted to receive the Dealer Finance Provider 2012 award from the Institute of Transport Management in February in recognition of our increased importance to the motor industry.

The IPO has significantly increased our corporate profile and we have seen an increase in the scale, scope and range of opportunities being brought to us for consideration. We have a clear growth strategy and are working on a number of significant projects which will add considerable value to our business model.

Business review - lending

During the year, the bank's lending operations continued to grow in a controlled organic way, with new business lending volumes in the year increasing to £135.9 million from £90.2 million in the previous year. This generated an increase in lending assets during the year, which at the year-end totalled £154.6 million (December 2010: £89.5 million). The growth in new business volumes has not been at the expense of price or quality.

The business utilises highly automated underwriting systems which, in addition to providing significant cost advantages, ensure that highly 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. These systems have enabled the business to control risk whilst retaining the speed of service needed to support its retail partners and their flexibility was a major element in the successful acquisition of retailers and the receipt of various awards during the year.

The bad debt performance on all of the books has been better than the expectations set in the pricing models and this continues to be frequently scrutinised. To support this further the business invested in a new collections system that is more appropriate for the balance sheet size the business now operates.

Motor finance

Secure Trust Bank's motor finance business started lending in 2009. As at 31 December 2011, it represented the Company's largest lending portfolio with net outstanding motor finance loans of £63.4 million (£31.3 million as at 31 December 2010).

Motor finance loans are fixed rate, fixed term hire-purchase agreements and are secured against the vehicle being financed. Only passenger vehicles with certain features including an engine size of less than three litres, an age ranging from new to a maximum of ten years old by the end of the hire-purchase agreement and with a maximum mileage of 100,000 miles are financed. The majority of vehicles are used cars. Finance term periods range from 24 months to 60 months with a maximum loan of £15,000.

The Company distributes its motor finance products via UK motor dealers and motor dealer brokers. New dealer relationships are established by our UK-wide motor finance sales team with all introducers subject to a strict vetting policy.

Retail finance

Secure Trust Bank's retail point of sale finance business commenced lending in 2009 and provides point of sale finance for in-store and online retailers. The portfolio at 31 December 2011 totalled £42.6 million (£21.6 million as at 31 December 2010).

Retail point of sale finance products are unsecured, fixed rate and fixed term loans with payments received monthly in arrears. Loans range in term from 6 months to 48 months and the size of the loans vary from £250 to £12,000 depending on the type of product being financed. The loans are either interest bearing or have promotional credit subsidised by retailers or suppliers. Secure Trust Bank does not pay retailers commissions and lending is restricted to UK-residents who are either employed or self-employed.

The Group focuses on ten sub-markets. The three largest of these at 31 December 2011 are the provision of point of sale finance for the purchase of musical instruments, cycles and the leasing of computer equipment. The latter of these is transacted through the subsidiary company STB Leasing Limited.

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

In addition to in-store finance, Secure Trust Bank has an online e-tailer proposition which is distributed in conjunction with Pay4Later Limited ("Pay4Later"), a UK provider of web interfaces for online point of sale credit. Retailers on the Pay4Later platform include Andertons Music, bathtek.com, Power Plate, SuperFit, The Great Furniture Trading Company, Toolstop and WorldStores.

Personal lending

Secure Trust Bank has provided personal unsecured lending for nearly 35 years. Net outstanding loans totalled £43.6 million at 31 December 2011 (31 December 2010: £22.4 million). Following the decision in 2007 to materially reduce new lending in response to deteriorating lending conditions the portfolio reduced to less than £10 million. New lending was increased in 2009 and since then has delivered annual growth. Net new lending volumes amounted to £34.5 million in the twelve months to 31 December 2011.

Personal unsecured loans are fixed rate, fixed term products with payments received monthly in arrears. 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 for the purchase of vehicles. Distribution of unsecured personal loans is through brokers, existing customers and Affinity Partners, and targeted to UK-resident customers who are either employed or self-employed.

Business review – current account

The Secure Trust Bank Current Account is a refreshingly simple and transparent bank account.

In late 2010, Secure Trust Bank relaunched its current account product. At 31 December 2011, the current account product had been taken up by approximately 17,000 customers with the account experiencing growth averaging 1,000 new accounts per month for the twelve months to 31 December 2011. The growth in the current account volumes has now outstripped the reduction in OneBill accounts. OneBill generated income of over £9.3 million in the year, but the Company has closed this product to new customers.

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

The business has developed an on-line capability to both service and sign up accounts. It is now possible for a customer to open an account on-line, be provided with the new account details and automatically to transfer all of their direct debits and standing orders in minutes. The account charges a monthly fee of £12.50 but as part of this the customers get rewarded for using their card by selected retailers and this is between 3% and 4% of the amount spent. Any cash rebated as a consequence of customer spending at the retailers on the scheme can, in effect, help to reduce or offset the monthly account charge.

A real Current Account with a Prepaid Card

Our Current Account helps the customer control their finances and manage their budget by only letting them spend the money they have available each month. This is because the account does not have an overdraft facility so the account holder cannot spend money that isn't there.

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 way, it can help the customers manage their money more effectively because the money set aside on 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 kept aside in the 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, and the remaining money can be transferred onto their Prepaid Card to spend at over 30 million outlets and for online and telephone purchases and to make cash withdrawals at ATMs showing the MasterCard® acceptance mark.

Rewards

The Current Account gives the customer the ability to earn cash rewards of up to 4% paid back into the account on purchases made with their Prepaid Card, both online and in store, at over 30 participating major high street retailers.

The account holder can have additional Prepaid 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 Argos, Boots, Debenhams, Comet, B&Q and M&S.

Putting the account holder in control

Our Current Account is designed to help customers to manage their money and keep control of what they are spending, giving them the peace of mind that the money they spend is money they actually have.

Once the account is opened the account holder can register for our online and telephone banking service which gives access to their account 24 hours a day, 7 days a week and allows the movement of money to and from the Current Account and Prepaid Card free of charge.

Clear and transparent charges

In addition, there are no charges should a Direct Debit or Standing Order payment fail - our fees are simple and transparent, there are no hidden or unexpected charges. So, unlike most high street banks, if a Direct Debit or Standing Order payment is returned unpaid, there isn't a penalty fee. These fees can be as much as £35 at other banks.

Business review - savings

The Company continues to manage its liquidity on a conservative basis with none of its funding coming from the wholesale markets. All of the lending is entirely funded by way of customer deposits.

Secure Trust Bank's deposit activities comprise deposit accounts and fee-based accounts, being fee-based current accounts and the OneBill accounts. As at 31 December 2011 customer deposits totalled £272.1 million. This represents an increase of £118.3 million since the last year end.

The bank's deposit accounts consist of instant access accounts, notice accounts and fixed term, fixed price bonds.

Competitive rates

At Secure Trust Bank, savings accounts offer a simple way to save money. Interest rates offered are very competitive and offer real value for money. 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 Company.

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 very successful in attracting term deposits from a wide range of personal and non-personal customers.

Notice deposits

The deposit account notice periods range from 60 days to 183 days, with the majority at the 120 day term. This provides a secure funding profile which again gives additional financial security to the business. The bank's notice deposits totalled £170 million at the year end (December 2010: £126 million), an increase of £44 million or 35%. The 183 day notice account was introduced in May 2011 and has been very successful.

Introduction of deposit bonds

In May 2011, the bank launched fixed rate deposit bonds in two, three, four and five year maturities. Within six weeks the Company raised net deposits of £63 million achieving its desired funding maturity profile at that time. At the year end term deposit balances totalled £71 million.

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

Financial review

Secure Trust Bank adopts a conservative approach to risk taking and seeks to maximise long term revenues and returns.

Summarised income statement

	2011	2010	Variance
	£million	£million	£million
Income by income stream:			
Personal lending	**6.0**	3.8	2.2
Motor finance	**9.9**	3.4	6.5
Retail finance	**3.6**	2.1	1.5
Acquired portfolios	**1.7**	6.1	(4.4)
Current account	**1.9**	0.8	1.1
One Bill	**9.3**	10.5	(1.2)
Other	**1.7**	0.9	0.8
Interest expense	**(5.6)**	(3.4)	(2.2)
Operating income	**28.5**	24.2	4.3
Net operating expenses before IPO costs and ABG management charges	**(14.3)**	(12.4)	(1.9)

Impairment losses	**(4.6)**	(2.2)	(2.4)
Profit before tax, IPO costs and ABG management charges	**9.6**	9.6	-

Operating income increased by 18% to £28.5million. This growth is largely due to the increased levels of activity in the lending business, which has three main product areas: asset finance, personal lending and acquired portfolios. Income from motor finance increased by over 190% to £9.9million. Secure Trust Bank intends to create diversified and balanced growth in our lending books which will serve the business well when the market becomes more competitive.

Income from the current account with a prepaid card increased by 145%, and this offsets the decline in the OneBill account. The current account closed this year with 17,178 open accounts (2010: 9,576), and OneBill ended the year with 28,698 open accounts (2010: 31,720).

Summarised balance sheet

	2011	2010
	£million	£million
Assets		
Loans and advances to customers		
Asset finance		
Motor finance	**63.4**	31.3
Retail finance	**42.6**	21.7
Personal lending	**43.6**	22.4
Acquired portfolios	**2.5**	10.7
Other	**2.5**	3.4
Loans and advances to banks	**139.5**	42.6
Debt securities held to maturity	-	25.6
Other assets	**13.7**	23.0
	307.8	180.7
Liabilities and equities		
Deposits from customers	**272.1**	153.8
Other liabilities	**11.9**	11.1
Share capital and retained earnings	**23.8**	15.8
	307.8	180.7

The total assets of the Group increased by 70% due to the continued growth in the lending business, total assets now exceed a quarter of a billion pounds. Customer deposits grew by 77% to close at £272.1 million. The Group continues with its conservative funding policy, remaining entirely funded by customer deposits and closed with a loan to deposit ratio of 57% (2010: 58%).

During the year the asset finance business increased its portfolio size by 100% to close at £106.0 million, being predominantly due to a growth in motor vehicle finance of £32.1 million. Personal lending grew by £21.2 million as the business was able to source new business from online brokers and offer new financing to customers from the acquired portfolios. The acquired portfolios reduced to £2.5 million as customers continued to repay their loans according to our expectations.

Capital

The Group's capital management policy is focused on optimising shareholder value over the long term. There is a clear focus on delivering organic growth and ensuring capital resources are sufficient to support planned levels of growth. The Board reviews the capital position at every Board Meeting.

In accordance with the EU's Capital Requirements Directive (CRD) and the required parameters set out in the FSA Handbook (BIPRU 2.2), the Individual Capital Adequacy Assessment Process (ICAAP) is embedded in the risk management framework of the Group and is subject to ongoing updates and revisions where necessary, but as a minimum an annual review 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 deliver a sufficient capital sum adequate to cover anticipated risks. Where the Board considered that the Pillar I calculations did not reflect the risk, an additional capital add-on in Pillar II is applied.

The Group's regulatory capital is divided into:

Tier 1, comprises shareholders' funds and non-controlling interest, after deducting intangible assets.

Lower Tier 2 comprises qualifying subordinated loan capital and revaluation reserves. This tier cannot exceed 50% of tier 1 capital.

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

Net Core Tier 1 capital	£ 23.0 million	21% of Basel II Risk Weighted Assets
Tier 2 capital	£ 3.1 million	
Total capital	£ 26.1 million	23% of Basel II Risk Weighted Assets

Risk 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 Company's business are credit, liquidity, market, operational and regulatory risks. A detailed description of the risk management policies in these areas is set out in Note 4 to the financial statements.

Credit risk is the risk that a counterparty will be unable to pay amounts in full, when due. This risk is managed through the Company'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.

Liquidity risk is the risk that the Group cannot meet its liabilities as they fall due. The Group takes a conservative approach to managing its liquidity profile and is entirely funded by retail customer deposits, placing no reliance on the wholesale lending markets. The loan to deposit ratios are maintained at prudent levels.

Market risk arises in relation to movements in interest rates. ABG's treasury function operates on behalf of the Company and it does not take significant unmatched positions in any market for its own account. The Company also has no significant exposure to currency fluctuations.

Operational risk is the risk that the Group may be exposed to financial losses from conducting its business. 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 section of the Annual Report.

Regulatory risk is the risk that the Group will have insufficient capital resources to support the business or does not comply with regulatory requirements including, for example, the way it conducts its business or treats its customers. The Group adopts a conservative approach to managing the capital of the Group and at least annually assesses the robustness of the capital requirements as part of ICAAP where stringent stress tests are performed to ensure that capital resources are adequate over a future three year horizon.

Exceptional items

During the year there were exceptional items totalling £0.5 million, relating to the transaction costs on the AIM share listing in November. During the previous year, there were no exceptional items.

Taxation

The full effective tax rate on underlying profit before tax is 30% (2010: 28%) reflecting the benefit of changes to the UK corporation tax rate during the year which were more than offset by the effect of tax disallowed costs.

Distribution to shareholders

A special interim dividend of 140 pence per share (2010: 50 pence per share) was declared and paid prior to IPO during the year. The directors propose the payment of a final stub dividend for the period from admission to AIM to the 31 December 2011 of 4.2 pence per share (2010: nil).

Earnings per share

Detailed disclosures of earnings per share are shown in note 10 of the financial statements. Adjusted earnings per share, before IPO costs and ABG management charges, were 55.6p (2010: 55.5p). Basic earnings per share decreased by 21% to 39.6p per share (2010: 50p).

Company statement of financial position

	Note	At 31 December 2011 £000	2010 £000
ASSETS			
Cash	11	-	13
Derivative financial instruments	19	58	-
Loans and advances to banks	12	139,498	42,577
Loans and advances to customers	13	137,613	84,273
Debt securities held-to-maturity	15	-	25,627
Current tax asset		351	-
Other assets	20	23,394	22,096
Intangible assets	16	686	783
Investments	17	101	1
Property, plant and equipment	18	760	1,051
Deferred tax asset	24	212	70
Total assets		**302,673**	**176,491**
LIABILITIES AND EQUITY			
Liabilities			
Deposits from customers	21	272,063	153,778
Current tax liability		-	1,289
Other liabilities	22	6,028	4,824
Debt securities in issue	23	3,000	2,400
Total liabilities		**281,091**	**162,291**
Equity attributable to owners of the parent			
Share capital	26	5,667	5,000
Share premium		9,547	-
Retained earnings		6,697	9,200
Cash flow hedging reserve		(329)	-
Total equity		**21,582**	**14,200**
Total liabilities and equity		**302,673**	**176,491**

Consolidated statement of changes in equity

	Share capital £000	Share premium £000	Revaluation reserve £000	Cash flow hedging reserve £000	Retained earnings £000	Total £000
Balance at 1 January 2011	**5,000**	-	**142**	-	**10,654**	**15,796**
Total comprehensive income for the period						
Profit for 2011	-	-	-	-	5,064	5,064
Other comprehensive income, net of income tax						
Revaluation reserve						
- Amount transferred to profit and loss	-	-	(2)	-	2	-
Cash flow hedging reserve						
- Effective portion of changes in fair value	-	-	-	(333)	-	(333)
- Net amount transferred to profit or loss	-	-	-	4	-	4
Total other comprehensive income	-	-	**(2)**	**(329)**	**2**	**(329)**
Total comprehensive income for the period	-	-	**(2)**	**(329)**	**5,066**	**4,735**
Transactions with owners, recorded directly in equity						
Contributions by and distributions to owners						
Dividends	-	-	-	-	(7,000)	(7,000)

Charge for share based payments	-	-	-	-	70	70
Issue of ordinary shares	667	11,333	-	-	-	12,000
Transaction costs on issue of shares	-	(1,786)	-	-	-	(1,786)
Total contributions by and distributions to owners	**667**	**9,547**	-	-	**(6,930)**	**3,284**
Balance at 31 December 2011	**5,667**	**9,547**	**140**	**(329)**	**8,790**	**23,815**

	Share capital	Revaluation reserve	Retained earnings	Total
	£000	£000	£000	£000
Balance at 1 January 2010	**5,000**	**144**	**6,904**	**12,048**
Total comprehensive income for the period				
Profit for 2010	-	-	6,250	6,250
Other comprehensive income, net of income tax				
Revaluation reserve				
- Amount transferred to profit and loss	-	(2)	-	(2)
Total other comprehensive income	-	**(2)**	-	**(2)**
Total comprehensive income for the period	-	**(2)**	**6,250**	**6,248**
Transactions with owners, recorded directly in equity				
Contributions by and distributions to owners				
Dividends	-	-	(2,500)	(2,500)
Total contributions by and distributions to owners	-	-	**(2,500)**	**(2,500)**
Balance at 31 December 2010	**5,000**	**142**	**10,654**	**15,796**

Company statement of changes in equity

	Share capital	Share premium	Cash flow hedging reserve	Retained earnings	Total
	£000	£000	£000	£000	£000
Balance at 1 January 2010	5,000	-	-	6,724	11,724
Total comprehensive income for the period	-	-	-	**4,976**	**4,976**
Transactions with owners, recorded directly in equity					
Contributions by and distributions to owners					
Dividends	-	-	-	(2,500)	(2,500)
Total contributions by and distributions to owners	-	-	-	**(2,500)**	**(2,500)**
Balance at 1 January 2011	**5,000**	-	-	**9,200**	**14,200**
Total comprehensive income for the period					
Profit for 2011	-	-	-	4,427	4,427
Other comprehensive income, net of income tax					
Cash flow hedging reserve					
- Effective portion of changes in fair value	-	-	(333)	-	(333)
- Net amount transferred to profit or loss	-	-	4	-	4
Total other comprehensive income	-	-	**(329)**	-	**(329)**
Total comprehensive income for the period	-	-	**(329)**	**4,427**	**4,098**
Transactions with owners, recorded directly in equity					
Contributions by and distributions to owners					
Dividends	-	-	-	(7,000)	(7,000)
Charge for share based payments	-	-	-	70	70
Issue of ordinary shares	667	11,333	-	-	12,000
Transaction costs on issue of shares	-	(1,786)	-	-	(1,786)
Total contributions by and distributions to owners	**667**	**9,547**	-	**(6,930)**	**3,284**

Balance at 31 December 2011	**5,667**	**9,547**	**(329)**	**6,697**	**21,582**

Consolidated statement of cash flows

	Note	Year ended 31 December 2011 £000	Year ended 31 December 2010 £000
Cash flows from operating activities			
Profit for the year		5,064	6,250
Income tax expense		2,216	2,436
Depreciation		467	781
Amortisation		139	179
Profit on sale of property, plant and equipment		(3)	-
Provisions against amounts due from customers		4,601	2,168
Share based compensation		70	-
Cash flows from operating profits before changes in operating assets and liabilities		12,554	11,814
Changes in operating assets and liabilities:			
- net increase in loans and advances to customers		(69,704)	(40,210)
- net increase in derivative financial instruments		(58)	-
- net decrease/(increase) in other assets		9,328	(9,572)
- net increase in loans and advances to banks		(19,953)	-
- net increase in amounts due to customers		118,285	60,436
- net (decrease)/increase in other liabilities		(986)	612
- Income tax paid		(1,815)	(2,400)
Net cash inflow from operating activities		**47,651**	**20,680**
Cash flows from investing activities			
Purchase of computer software	16	(42)	(177)
Purchase of property, plant and equipment	18	(98)	(124)
Proceeds from sale of property, plant and equipment		3	-
Net cash from investing activities		**(137)**	**(301)**
Cash flows from financing activities			
Increase in subordinated loan		600	-
Net inflow on issue of share capital		10,214	-
Dividends paid		(7,000)	(2,500)
Net cash used in financing activities		**3,814**	**(2,500)**
Net increase in cash and cash equivalents		51,328	17,879
Cash and cash equivalents at 1 January		68,217	50,338
Cash and cash equivalents at 31 December	28	**119,545**	**68,217**

Company statement of cash flows

	Note	Year ended 31 December 2011 £000	Year ended 31 December 2010 £000
Cash flows from operating activities			
Profit for the year		4,427	4,976
Income tax expense		1,983	2,221
Depreciation		389	703
Amortisation		139	179
Profit on sale of property, plant and equipment		(3)	-
Release of a provision against investments		(100)	-
Provisions against amounts due from customers		4,616	2,166
Share based compensation		70	-
Cash flows from operating profits before changes in operating assets and liabilities		11,521	10,245
Changes in operating assets and liabilities:			
- net increase in loans and advances to customers		(57,956)	(35,417)
- net increase in derivative financial instruments		(58)	-

- net increase in other assets		(1,298)	(10,513)
- net increase in loans and advances to banks		(19,953)	
- net increase in amounts due to customers		118,285	60,436
- net decrease in other liabilities		(1,075)	(2,421)
- income tax paid		(1,815)	(1,650)
Net cash inflow from operating activities		**47,651**	**20,680**
Cash flows from investing activities			
Purchase of computer software	16	(42)	(177)
Purchase of property, plant and equipment	18	(98)	(124)
Proceeds from sale of property, plant and equipment		3	-
Net cash from investing activities		**(137)**	**(301)**
Cash flows from financing activities			
Increase in subordinated loan		600	-
Net inflow on issue of share capital		10,214	-
Dividends paid		(7,000)	(2,500)
Net cash used in financing activities		**3,814**	**(2,500)**
Net increase in cash and cash equivalents		51,328	17,879
Cash and cash equivalents at 1 January		68,217	50,338
Cash and cash equivalents at 31 December	28	**119,545**	**68,217**

Principal 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 domiciled in the United Kingdom (referred to as the "Company"). The registered address of Secure Trust Bank PLC is One Arleston Way, Solihull, B90 4LH. The consolidated financial statements of Secure Trust Bank PLC as at and for the year ended 31 December 2011 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 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 Group has not previously prepared Group accounts and therefore the comparatives have been prepared on the basis of the net assets of the subsidiaries being incorporated at the carrying amounts as per the ultimate parent's consolidated financial statements.

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.

a) Standards, interpretations and amendments effective in 2011 – relevant to the Group

- IFRS 2 (Revised), 'Share-based payments'. The revised standard clarifies the scope and accounting for group cash-settled share-based payments in the separate financial statements of the entity receiving the goods or services when that entity has no obligation to settle the share-based payment transaction.

- IFRS 3 (Revised), 'Business combinations'. The revised standard continues to apply the acquisition method to business combinations, however, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the income statement. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed.

- IAS 24 (Revised), 'Related party disclosures' (effective from 1 January 2011). The revised standard includes an exemption from the disclosure requirements for related party transactions between "state controlled" entities and includes a revised definition for related parties.

- IAS 27 (Revised), 'Consolidated and separate financial statements'. The revised standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control. Any remaining interest in an investee is re-measured to fair value in determining the gain or loss recognised in profit or loss where control over the investee is lost.

- Improvements to IFRSs. Sets out minor amendments to IFRS standards as part of annual improvements process.

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

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

The following standards and amendments to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2012 or later periods, but the Group has not early adopted them:

- IFRS 7 (Revised), 'Disclosures - Transfers of Financial Assets' (endorsed for use in the EU on 22 November 2011). The revised standard requires additional disclosures for transfers of financial assets and where there are a disproportionate amount of transactions undertaken around the period end.

- IFRS 7 (Revised), 'Disclosures - Offsetting Financial Assets and Financial Liabilities' (effective 1 January 2013). The revised standard amend the required disclosures to include information that will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off associated with the entity's recognised financial assets and recognised financial liabilities, on the entity's financial position. [1]

- IFRS 10, 'Consolidated Financial Statements' and IAS 27 (Revised), 'Separate Financial Statements' (effective 1 January 2013). 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 IAS27, and the requirements of IAS 28 and IAS 31 have been incorporated into IAS 27. [1]

- 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. [1]

- 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. [1]

- IFRS 13, 'Fair Value Measurement' (effective 1 January 2013). This standard replaces the existing guidance on fair value measurement in different IFRSs with a single definition of fair value, a framework for measuring fair values and disclosures about fair value measurements. [1]

- IAS 32 (Revised), 'Offsetting Financial Assets and Financial Liabilities' (effective 1 January 2014). This standard was amended to clarify the offsetting criteria, specifically when an entity currently has a legal right of set off; and when gross settlement is equivalent to net settlement. [1]

- IFRS 9 'Financial instruments' (effective from 1 January 2015). This standard deals with the classification and measurement of financial assets and will replace IAS 39. The requirements of this standard represent a significant change from the existing requirements in IAS 39. The standard contains two primary measurement categories for financial assets: amortised cost and fair value. The standard eliminates the existing IAS 39 categories of 'held to maturity', 'available for sale' and ' loans and receivables'. The potential effect of this standard is currently being evaluated but it is not expected to have a pervasive impact on the Group's financial statements, due to the nature of the Group's operations.[1]

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

[1] These standards have not yet been endorsed by the EU.

1.3 Consolidation

Subsidiaries

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

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. 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 shares of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

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

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 using the effective interest method.

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

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

1.5 Net fee and commission income

Fees and commissions which are not considered integral to the effective interest rate are generally recognised on an accruals basis when the service has been provided. Fees and commissions income consists principally of weekly and monthly fees from the One Bill and Current Account products along with associated insurance commissions. Fees and commissions expense consists primarily of referral fees.

1.6 Financial assets and financial liabilities

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

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

This category comprises interest rate caps. All caps at 31 December 2011 are in qualifying hedge relationships. These cash flow hedges are used to hedge against fluctuations in future cash flows from interest rate movements on variable rate customer deposits. On initial purchase the derivative is valued at fair value and then the effective portion of the change in the fair value of the hedging instrument is recognised in equity (cash flow hedging reserve) until the gain or loss on the hedged item is realised, when it is amortised; the ineffective portion of the hedging instrument is recognised in the statement of comprehensive income immediately. Fair values are based on quoted market prices in active markets and where these are not available, using valuation techniques such as discounted cashflow models.

(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 on origination. Loans and receivables are carried at amortised cost using the effective interest method.

(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 balance sheet date.

(e) 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 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.

(f) 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.

(g) Fair value measurement
Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction on the measurement date. The fair value of assets and liabilities traded in active markets are based on current bid and offer prices respectively. If the market is not active the Group establishes a fair value by using appropriate valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same for which market observable prices exist, net present value and discounted cash flow analysis.

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

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

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

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

The criteria that the Group uses to determine that there is objective evidence of an impairment loss include, but are not limited to, the following:
• Delinquency in contractual payments of principal or interest;
• Cash flow difficulties experienced by the borrower; and
• Initiation of bankruptcy proceedings.

If there is objective evidence that an impairment loss on loans and receivables 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.

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

1.10 Intangible assets

(a) Goodwill

Goodwill represents the excess of the cost of a loan book acquisition over the fair value of the net identifiable assets of the acquired loan book at the date of acquisition. Goodwill is held at cost less accumulated impairment losses. Goodwill is deemed to have an infinite life.

Goodwill is tested at least annually for impairment 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 (three to five years).

Costs associated with developing or maintaining computer software programs are recognised as an expense as incurred in line with IAS 38.

1.11 Property, plant and equipment

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

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

Freehold buildings	2%
Other equipment	5% to 15%
Computer equipment	20% to 33%

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.

Assets leased to customers under agreements which do not transfer substantially all the risks and rewards of ownership are classified as operating leases. When assets are held subject to operating leases, the underlying assets are held at cost less accumulated depreciation, The assets are depreciated down to their estimated residual values on a straight line basis over the lease term. Lease rental income is recognised on a straight line basis over the lease term.

(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 that are convertible into cash with an insignificant risk of changes in value with a maturity of three months or less at the date of acquisition, including certain loans and advances to banks and building societies and short-term highly liquid debt securities.

1.14 Employee benefits

(a) Post-retirement obligations

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

(b) Share based payments

As set out in notes 27 and 29, during the year the Group awarded share options to three directors under an equity settled share-based compensation plan. The costs associated with the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted. At each balance sheet date, the Group revises its estimate of the number of options that are expected to vest and recognises the impact of the revision to original estimates, if any, in the statement of comprehensive income, with a corresponding adjustment to equity.

The proceeds received net of any directly attributable transaction costs are credited to share capital and share premium when the options are exercised.

1.15 Share issue costs

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

1.16 Income taxation

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

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the 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 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.

Notes to the consolidated financial statements

2. Critical accounting estimates and judgements in applying accounting policies

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements 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. Estimation uncertainty

Credit losses

The Group reviews its loan portfolios and held-to-maturity investments to assess impairment at least on a half-yearly basis. The basis for evaluating impairment losses is described in accounting policy 1.9. 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, in determining the expected future cash flows. Loans which are forborne are managed in the same pool as non-forborne loans for impairment purposes.

Goodwill impairment

The accounting policy for goodwill is described in note 1.10 (a). Significant management judgements are made in estimations, to evaluate whether an impairment of goodwill is necessary.

Goodwill is monitored for management purposes throughout the period. This will enable management to complete goodwill impairment testing if indicators arise. The accuracy of future cash flows is subject to a high degree of uncertainty in volatile market conditions. During such conditions, management would do impairment testing more frequently than annually to ensure that the assumptions applied are still valid in the current market conditions.

At the time of the impairment testing, if the future expected cash flows decline and/or the cost of capital has increased, then the recoverable amount will reduce.

Purchased Loan Books

Income on purchased books is calculated using the EIR method. Future cash flows were estimated at inception and are reviewed in line with business performance on a regular basis. Any revisions in estimates are recognised immediately through the statement of comprehensive income in accordance with IAS 39.

Taxation

Significant estimates are required in determining the provision for income taxation. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current tax and deferred tax provisions in the period in which such determination is made.

2.2. Judgements

Impairment losses on loans and advances

The Group reviews its loan portfolios to assess impairment at least on a half-yearly basis. 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. Management uses estimates based on historical loss experience for assets with similar credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Forbearance is available to support customers who are in financial difficulty and help them re-establish their contractual payment plan. The main option offered by the Group is an arrangement to reduce payments for a set period. If the forbearance request is granted the account is monitored in accordance with the Group's policy and procedures. All debts however retain the customer's normal contractual payment due dates. Arrears tracking and the allowance for impairment is based on the original contractual due dates for both the secured and unsecured lending channels.

Valuation of financial instruments

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices. If the market is not active the Group establishes a fair value by using appropriate valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same for which market observable prices exist, net present value and discounted cash flow analysis. The objective of valuation techniques is to determine the fair value of the financial instrument at the reporting date as the price that would have been agreed between active market participants in an arm's length transaction.

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).

Fair value of financial assets and financial liabilities that are traded in active markets are based on quoted market prices. For all other financial instruments the Group determines fair values using valuation techniques.

The Group uses widely recognized valuation models for determining the fair value of common and more simple financial instruments. Observable prices and model inputs are usually available in the market for simple over the counter derivatives like interest rate caps. Availability of observable market prices and model inputs reduces the need for management judgement and estimation and also reduces the uncertainty associated with the determination of fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

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).

At 31 December 2011	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Derivative financial instruments	-	58	-	58
Total	-	**58**	-	**58**

	Level 1	Level 2	Level 3	Total

At 31 December 2010	£000	£000	£000	£000
Derivative financial instruments	-	-	-	-
Total	-	-	-	-

3. Maturity analysis of consolidated assets and liabilities

The table below shows the maturity analysis of the consolidated assets and liabilities as at 31 December 2011:

At 31 December 2011	Due within one year £000	Due after more than one year £000	Total £000
ASSETS			
Derivative financial instruments	-	58	58
Loans and advances to banks	139,498	-	139,498
Loans and advances to customers	52,316	102,269	154,585
Current tax asset	351	-	351
Other assets	7,524	-	7,524
Intangible assets	-	686	686
Property, plant and equipment	-	4,926	4,926
Deferred tax asset	-	212	212
Total assets	**199,689**	**108,151**	**307,840**
LIABILITIES			
Deposits from customers	200,945	71,118	272,063
Current tax liability	12	-	12
Other liabilities	5,924	2,929	8,853
Deferred tax liability	-	97	97
Debt securities in issue	-	3,000	3,000
Total liabilities	**206,881**	**77,144**	**284,025**

The table below shows the maturity analysis of the consolidated assets and liabilities as at 31 December 2010:

At 31 December 2010	Due within one year £000	Due after more than one year £000	Total £000
ASSETS			
Cash	13	-	13
Loans and advances to banks	42,577	-	42,577
Loans and advances to customers	35,318	54,164	89,482
Debt securities held-to-maturity	25,627	-	25,627
Other assets	15,850	1,002	16,852
Intangible assets	-	783	783
Property, plant and equipment	-	5,295	5,295
Deferred tax asset	-	70	70
Total assets	**119,385**	**61,314**	**180,699**
LIABILITIES			
Deposits from customers	153,778	-	153,778
Current tax liability	1,564	-	1,564
Other liabilities	7,035	-	7,035
Deferred tax liability	-	126	126
Debt securities in issue	-	2,400	2,400
Total liabilities	**162,377**	**2,526**	**164,903**

The table below shows the maturity analysis of the company assets and liabilities as at 31 December 2011:

At 31 December 2011	Due within one year £000	Due after more than one year £000	Total £000
ASSETS			
Derivative financial instruments	-	58	58
Loans and advances to banks	139,498	-	139,498

Loans and advances to customers	43,951	93,662	137,613
Current tax asset	351	-	351
Other assets	23,394	-	23,394
Intangible assets	-	686	686
Investments	-	101	101
Property, plant and equipment	-	760	760
Deferred tax asset	-	212	212
Total assets	**207,194**	**95,479**	**302,673**
LIABILITIES			
Deposits from customers	200,945	71,118	272,063
Other liabilities	6,028	-	6,028
Debt securities in issue	-	3,000	3,000
Total liabilities	**206,973**	**74,118**	**281,091**

The table below shows the maturity analysis of the company assets and liabilities as at 31 December 2010:

At 31 December 2010	Due within one year £000	Due after more than one year £000	Total £000
ASSETS			
Cash	13	-	13
Loans and advances to banks	42,577	-	42,577
Loans and advances to customers	33,804	50,469	84,273
Debt securities held-to-maturity	25,627	-	25,627
Other assets	22,096	-	22,096
Intangible assets	-	783	783
Investments	-	1	1
Property, plant and equipment	-	1,051	1,051
Deferred tax asset	-	70	70
Total assets	**124,117**	**52,374**	**176,491**
LIABILITIES			
Deposits from customers	153,778	-	153,778
Current tax liability	1,289	-	1,289
Other liabilities	4,824	-	4,824
Debt securities in issue	-	2,400	2,400
Total liabilities	**159,891**	**2,400**	**162,291**

4. Financial risk management

Strategy

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

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

(a) Credit risk

The Group takes on exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. 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.

The Group structures the levels of credit risk 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.

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. The assets undergo a rigorous scoring process to mitigate risk and are monitored by the Board.

The Group's maximum exposure to credit risk is as follows:

	2011 £000	2010 £000
Credit risk exposures relating to on-balance sheet assets are as follows:		
Loans and advances to banks	139,498	42,577
Loan and advances to customers	154,585	89,482
Debt securities held-to-maturity	-	25,627
Amounts due from related companies	4,795	11,379
Derivative financial instruments	58	-
Credit risk exposures relating to off-balance sheet assets are as follows:		
Loan commitments	924	757
At 31 December	**299,860**	**169,822**

The Company's maximum exposure to credit risk is as follows:

	2011 £000	2010 £000
Credit risk exposures relating to on-balance sheet assets are as follows:		
Loans and advances to banks	139,498	42,577
Loan and advances to customers	137,613	84,273
Debt securities held-to-maturity	-	25,627
Amounts due from related companies	21,332	19,579
Derivative financial instruments	58	-
Credit risk exposures relating to off-balance sheet assets are as follows:		
Loan commitments	787	612
At 31 December	**299,288**	**172,668**

The above table represents the maximum credit risk exposure (net of impairment) to the Group and Company at 31 December 2011 and 2010 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.

(b) Market risk

Market risks arise from open positions in interest rate and currency products, all of which are exposed to general and specific market movements.

Currency risk

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

Interest rate risk

Interest rate risk is the potential adverse impact on the Group's future cash flows from changes in interest rates and arises from the differing interest rate risk characteristics of the Group's assets and liabilities. In particular, fixed rate 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. 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, 100 and 200 basis points movements. The Group consider the 50 and 100 basis points movement to be appropriate for scenario testing given the current economic outlook and industry expectations. This typically results in a pre-tax mismatch of £0.2m or less (2010: £0.5m to £0.9m) for the Company and Group, with the same impact to equity pre-tax. In 2011 the Group put interest rate caps 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 repricing periods for the assets and liabilities in the Group, including derivative financial instruments which are principally used to reduce exposure to interest rate risk. Items are allocated to time bands by reference to the earlier of the next contractual interest rate and the maturity date.

Group As at 31 December 2011	Within 3 months £000	More than 3 months but less than 6 months £000	More than 6 months but less than 1 year £000	More than 1 year but less than 5 years £000	More than 5 years £000	Non interest bearing £000	Total £000
ASSETS							
Derivative financial instruments	-	-	-	-	-	58	58
Loans and advances to banks	124,532	14,966	-	-	-	-	139,498
Loans and advances to customers	16,658	14,796	23,849	103,936	-	(4,654)	154,585
Other assets	-	-	-	-	-	13,699	13,699
Total assets	**141,190**	**29,762**	**23,849**	**103,936**	-	**9,103**	**307,840**
LIABILITIES							
Deposits from customers	200,945	-	-	71,118	-	-	272,063
Other liabilities	-	-	-	-	-	8,962	8,962
Debt securities in issue	3,000	-	-	-	-	-	3,000
Equity	-	-	-	-	-	23,815	23,815
Total liabilities	**203,945**	-	-	**71,118**	-	**32,777**	**307,840**
Impact of derivative instruments	(40,000)	20,000		20,000			
Interest rate sensitivity gap	**(102,755)**	**49,762**	**23,849**	**52,818**	-	**(23,674)**	
Cumulative gap	**(102,755)**	**(52,993)**	**(29,144)**	**23,674**	**23,674**	-	

Group As at 31 December 2010	Within 3 months £000	More than 3 months but less than 6 months £000	More than 6 months but less than 1 year £000	More than 1 year but less than 5 years £000	More than 5 years £000	Non interest bearing £000	Total £000
ASSETS							
Cash	-	-	-	-	-	13	13
Loans and advances to banks	36,590	5,987	-	-	-	-	42,577
Loans and advances to customers	13,274	11,376	15,490	55,861	-	(6,519)	89,482
Debt securities held-to-maturity	15,589	5,028	5,010	-	-	-	25,627
Other assets	-	-	-	-	-	23,000	23,000
Total assets	**65,453**	**22,391**	**20,500**	**55,861**	-	**16,494**	**180,699**
LIABILITIES							
Deposits from customers	153,778	-	-	-	-	-	153,778
Other liabilities	-	-	-	-	-	8,725	8,725
Debt securities in issue	2,400	-	-	-	-	-	2,400
Equity	-	-	-	-	-	15,796	15,796
Total liabilities	**156,178**	-	-	-	-	**24,521**	**180,699**
Interest rate sensitivity gap	**(90,725)**	**22,391**	**20,500**	**55,861**	-	**(8,027)**	
Cumulative gap	**(90,725)**	**(68,334)**	**(47,834)**	**8,027**	**8,027**	-	

Company As at 31 December 2011	Within 3 months £000	More than 3 months but less than 6 months £000	More than 6 months but less than 1 year £000	More than 1 year but less than 5 years £000	More than 5 years £000	Non interest bearing £000	Total £000
ASSETS							
Derivative financial instruments	-	-	-	-	-	58	58
Loans and advances to banks	124,532	14,966	-	-	-	-	139,498
Loans and advances to customers	14,588	12,693	19,657	95,329	-	(4,654)	137,613
Other assets	-	-	-	-	-	25,504	25,504

Total assets	**139,120**	**27,659**	**19,657**	**95,329**	**-**	**20,908**	**302,673**
LIABILITIES							
Deposits from customers	200,945	-	-	71,118	-	-	272,063
Other liabilities	-	-	-	-	-	6,028	6,028
Debt securities in issue	3,000	-	-	-	-	-	3,000
Equity	-	-	-	-	-	21,582	21,582
Total liabilities	**203,945**	**-**	**-**	**71,118**	**-**	**27,610**	**302,673**
Impact of derivative instruments	(40,000)	20,000		20,000			
Interest rate sensitivity gap	**(104,825)**	**47,659**	**19,657**	**44,211**	**-**	**(6,702)**	
Cumulative gap	**(104,825)**	**(57,166)**	**(37,509)**	**6,702**	**6,702**	**-**	

Company	Within 3 months	More than 3 months but less than 6 months	More than 6 months but less than 1 year	More than 1 year but less than 5 years	More than 5 years	Non interest bearing	Total
As at 31 December 2010	£000	£000	£000	£000	£000	£000	£000
ASSETS							
Cash	-	-	-	-	-	13	13
Loans and advances to banks	36,590	5,987	-	-	-	-	42,577
Loans and advances to customers	12,928	11,007	14,686	52,154	-	(6,502)	84,273
Debt securities held-to-maturity	15,589	5,028	5,010	-	-	-	25,627
Other assets	-	-	-	-	-	24,001	24,001
Total assets	**65,107**	**22,022**	**19,696**	**52,154**	**-**	**17,512**	**176,491**
LIABILITIES							
Deposits from customers	153,778	-	-	-	-	-	153,778
Other liabilities	-	-	-	-	-	6,113	6,113
Debt securities in issue	2,400	-	-	-	-	-	2,400
Equity	-	-	-	-	-	14,200	14,200
Total liabilities	**156,178**	**-**	**-**	**-**	**-**	**20,313**	**176,491**
Interest rate sensitivity gap	**(91,071)**	**22,022**	**19,696**	**52,154**	**-**	**(2,801)**	
Cumulative gap	**(91,071)**	**(69,049)**	**(49,353)**	**2,801**	**2,801**	**-**	

(c) Liquidity risk

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

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

The Group relies on deposits from customers. During the year the Company issued over £71million of fixed rate deposit bonds to customers over terms ranging from 2 to 5 years. These were issued to broadly match the term lending by the bank.

The new Liquidity regime came into force on the 1 October 2010. The FSA 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 liquid 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 prepared and approved its Individual Liquidity Adequacy Assessment (ILAA). The liquidity buffer required by the ILAA has been put in place and maintained since. Liquidity resources outside of the buffer are made up of deposits placed via Arbuthnot Latham at the Bank of England..

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. An unmatched position potentially enhances profitability, but also increases the risk of losses.

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 and exchange rates.

The table below analyses the contractual undiscounted cash flows for the Group's non-derivative financial liabilities into relevant maturity groupings at 31 December 2011:

At 31 December 2011	Carrying amount £000	Gross nominal inflow/ (outflow) £000	Not more than 3 months £000	More than 3 months but less than 1 year £000	More than 1 year but less than 5 years £000	More than 5 years £000
Non-derivative liabilities						
Deposits from customers	272,063	(283,672)	(70,002)	(132,968)	(80,702)	-
Debt securities in issue	3,000	(3,825)	-	-	-	(3,825)
	275,063	**(287,497)**	**(70,002)**	**(132,968)**	**(80,702)**	**(3,825)**

The table below analyses the contractual undiscounted cash flows for the Group's non-derivative financial liabilities into relevant maturity groupings at 31 December 2010:

At 31 December 2010	Carrying amount £000	Gross nominal inflow/ (outflow) £000	Not more than 3 months £000	More than 3 months but less than 1 year £000	More than 1 year but less than 5 years £000	More than 5 years £000
Non-derivative liabilities						
Deposits from customers	153,778	(154,876)	(74,715)	(80,161)	-	-
Debt securities in issue	2,400	(2,697)	-	-	-	(2,697)
	156,178	**(157,573)**	**(74,715)**	**(80,161)**	-	**(2,697)**

The table below analyses the contractual undiscounted cash flows for the Company's non-derivative financial liabilities into relevant maturity groupings at 31 December 2011:

At 31 December 2011	Carrying amount £000	Gross nominal inflow/ (outflow) £000	Not more than 3 months £000	More than 3 months but less than 1 year £000	More than 1 year but less than 5 years £000	More than 5 years £000
Non-derivative liabilities						
Deposits from customers	272,063	(283,672)	(70,002)	(132,968)	(80,702)	-
Debt securities in issue	3,000	(3,825)	-	-	-	(3,825)
	275,063	**(287,497)**	**(70,002)**	**(132,968)**	**(80,702)**	**(3,825)**

The table below analyses the contractual undiscounted cash flows for the Company's non-derivative financial liabilities into relevant maturity groupings at 31 December 2010:

At 31 December 2010	Carrying amount £000	Gross nominal inflow/ (outflow) £000	Not more than 3 months £000	More than 3 months but less than 1 year £000	More than 1 year but less than 5 years £000	More than 5 years £000
Non-derivative liabilities						
Deposits from customers	153,778	(154,876)	(74,715)	(80,161)	-	-
Debt securities in issue	2,400	(2,697)	-	-	-	(2,697)
	156,178	**(157,573)**	**(74,715)**	**(80,161)**	-	**(2,697)**

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 and exchange rates.

(d) Financial assets and liabilities

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

At 31 December 2011	Fair value through profit or loss £000	Held-to-maturity £000	Loans and receivables £000	Other liabilities at amortised cost £000	Total carrying amount £000	Fair value £000
Loans and advances to banks	-	-	139,498	-	139,498	139,498
Loans and advances to customers	-	-	154,585	-	154,585	154,585
Derivative financial instruments	58	-	-	-	58	58
	58	-	**294,083**	-	**294,141**	**294,141**
Deposits from customers	-	-	-	272,063	272,063	272,063
Debt securities in issue	-	-	-	3,000	3,000	3,000
	-	-	-	**275,063**	**275,063**	**275,063**

At 31 December 2010	Fair value through profit or loss £000	Held-to-maturity £000	Loans and receivables £000	Other liabilities at amortised cost £000	Total carrying amount £000	Fair value £000
Cash	-	-	13	-	13	13
Loans and advances to banks	-	-	42,577	-	42,577	42,577
Loans and advances to customers	-	-	89,482	-	89,482	89,482
Debt securities held-to-maturity	-	25,627	-	-	25,627	25,627
	-	**25,627**	**132,072**	-	**157,699**	**157,699**
Deposits from customers	-	-	-	153,778	153,778	153,778
Debt securities in issue	-	-	-	2,400	2,400	2,400
	-	-	-	**156,178**	**156,178**	**156,178**

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

At 31 December 2011	Fair value through profit or loss £000	Held-to-maturity £000	Loans and receivables £000	Other liabilities at amortised cost £000	Total carrying amount £000	Fair value £000
Loans and advances to banks	-	-	139,498	-	139,498	139,498
Loans and advances to customers	-	-	137,613	-	137,613	137,613
Derivative financial instruments	58	-	-	-	58	58
	58	-	**277,111**	-	**277,169**	**277,169**
Deposits from customers	-	-	-	272,063	272,063	272,063
Debt securities in issue	-	-	-	3,000	3,000	3,000
	-	-	-	**275,063**	**275,063**	**275,063**

At 31 December 2010	Fair value through profit or loss £000	Held-to-maturity £000	Loans and receivables £000	Other liabilities at amortised cost £000	Total carrying amount £000	Fair value £000
Cash	-	-	13	-	13	13
Loans and advances to banks	-	-	42,577	-	42,577	42,577
Loans and advances to customers	-	-	84,273	-	84,273	84,273
Debt securities held-to-maturity	-	25,627	-	-	25,627	25,627
	-	**25,627**	**126,863**	-	**152,490**	**152,490**
Deposits from customers	-	-	-	153,778	153,778	153,778
Debt securities in issue	-	-	-	2,400	2,400	2,400

-	-	-	**156,178**	**156,178**	**156,178**

5. Capital management

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

In accordance with the EU's Capital Requirements Directive (CRD) and the required parameters set out in the FSA Handbook (BIPRU 2.2), the Individual Capital Assessment Process (ICAAP) is embedded in the risk management framework of the Group and is subject to ongoing updates and revisions when necessary. However, at a minimum, the ICAAP is updated annually as part of the business planning process. The ICAAP is a process that brings together 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 managements' anticipated risks. Where the Board considered that the Pillar 1 calculations does 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 FSA.

The Group's regulatory capital is divided into two tiers:
- Tier 1 comprises mainly shareholders' funds, non-controlling interests, after deducting goodwill and other intangible assets.
- Lower Tier 2 comprises qualifying subordinated loan capital and revaluation reserves. Lower Tier 2 capital cannot exceed 50% of tier 1 capital.

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

	2011 £000	2010 £000
Tier 1		
Share capital	5,667	5,000
Share premium	9,547	-
Cash flow hedging reserve	(329)	-
Retained earnings	8,790	10,654
Goodwill	(309)	(309)
Other deductions	(377)	(474)
Total tier 1 capital	**22,989**	**14,871**
Tier 2		
Revaluation reserve	140	142
Debt securities in issue	3,000	2,400
Total tier 2 capital	**3,140**	**2,542**
Total tier 1 & tier 2 capital	**26,129**	**17,413**

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

	2011 £000	2010 £000
Tier 1		
Share capital	5,667	5,000
Share capital	9,547	-
Cash flow hedging reserve	(329)	-
Retained earnings	6,697	9,200
Goodwill	(309)	(309)
Other deductions	(478)	(475)
Total tier 1 capital	**20,795**	**13,416**
Tier 2		
Debt securities in issue	3,000	2,400
Total tier 2 capital	**3,000**	**2,400**
Total tier 1 & tier 2 capital	**23,795**	**15,816**

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. The FSA sets ICG for each UK bank calibrated by references to its Capital Resources Requirement, broadly equivalent to 8 percent of risk weighted assets and thus representing the capital required under Pillar 1 of the Basel II framework. The ICAAP is a key input into the FSA's ICG setting process, which addresses the requirements of Pillar 2 of the Basel II framework. The FSA'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.

6. Net interest income

Total interest income and expense calculated using the effective interest method reported that relates to financial assets or liabilities not carried at fair value through profit or loss are £22,836,000 (2010: £15,891,000) and £5,605,000 (2010: £3,419,000) respectively.

7. Operating expenses

Operating expenses comprise:	2011 £000	2010 £000
Staff costs, including Directors:		
Wages and salaries	6,705	6,359
Social security costs	669	665
Pension costs	213	202
Share based payment transactions	70	-
Amortisation of computer software (Note 16)	139	179
Depreciation (Note 18)	467	781
Profit on disposals of property, plant and equipment	(3)	-
Charitable donations	3	5
Operating lease rentals	282	95
Other administrative expenses	7,534	6,064
Total operating expenses	**16,079**	**14,350**

Remuneration of the auditor and its associates, excluding VAT, was as follows:	2011 £'000	2010 £'000
Audit of these financial statements	75	75
Audit of subsidiary undertakings	5	10
Services related to taxation	16	75
All other services	647	5
	743	**165**

Remuneration for all other services in 2011 comprises £250,000 for providing services in respect of the issue of new shares, £250,000 for providing services in respect of the share listing and £147,000 for other advice.

The cost of the advice on share issue has been charged against the share premium account. All other costs have been expensed.

8. Average number of employees

	2011	2010
Directors	9	9
Management	20	12
Administration	200	185
Total	**229**	**206**

The figures above include the directors of the Company.

9. Income tax expense

Current taxation	2011 £000	2010 £000
United Kingdom corporation tax at 26.5% (2010: 28%)		
Corporation tax charge - current year	2,326	2,238
Corporation tax charge - adjustments in respect of prior years	(49)	207
	2,277	**2,445**

Deferred taxation		
Origination and reversal of temporary differences	(63)	(124)
Adjustments in respect of prior years	2	115
	(61)	**(9)**
Income tax expense	**2,216**	**2,436**

Tax reconciliation		
Profit before tax	7,280	8,686
Tax at 26.5% (2010: 28%)	1,929	2,432
Permanent differences	337	(317)
Tax rate change	(3)	(1)
Prior period adjustments	(47)	322
Corporation tax charge for the year	**2,216**	**2,436**

The Government implemented a reduction in the main rate of corporation tax from the year beginning 1 April 2011 from 28% to 26%. This results in a weighted average rate of 26.5% for 2011 (2010: 28%). Furthermore it has announced further reductions of 1% per annum until the year beginning 1 April 2014. The reduction to 25% was substantively enacted on 5 July 2011. These changes will reduce the Group's future current tax charge.

10. Earnings per ordinary share

Basic and diluted

Earnings per ordinary share are calculated by dividing the profit attributable to equity shareholders of the Group of £5,064,000 (2010: £6,250,000) by the weighted average number of ordinary shares 12,773,973 (2010: 12,500,000) in issue during the year. As a result of the share consolidation and division during 2011, the 2010 weighted average number of ordinary shares has been restated on a comparable basis.

The share options granted through the share option scheme do not meet the definition of dilutive shares due to them being contingently issuable based on the Group achieving specified future targets.

11. Cash

Group and Company	2011 £000	2010 £000
Cash in hand included in cash and cash equivalents (Note 28)	-	**13**

12. Loans and advances to banks

Group and Company	2011 £000	2010 £000
Placements with banks included in cash and cash equivalents (Note 28)	119,545	42,577
Other loans and advances to banks	19,953	-
	139,498	**42,577**

Moody's long term ratings: Group and Company	2011 £000	2010 £000
Aaa	52,936	16,457
Aa3	4,961	2,491
No rating (Arbuthnot Latham & Co., Limited)	81,601	23,629
	139,498	**42,577**

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

13. Loans and advances to customers

Group	2011 £000	2010 £000
Gross loans and advances	163,449	97,296
Less: allowances for impairment on loans and advances (Note 14)	(8,864)	(7,814)
	154,585	**89,482**

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	2011 £000	2010 £000
Gross investment in finance lease receivables:		
- No later than 1 year	12,804	3,294
- Later than 1 year and no later than 5 years	10,663	5,324
	23,467	8,618
Unearned future finance income on finance leases	(6,495)	(3,392)
Net investment in finance leases	**16,972**	**5,226**
The net investment in finance leases may be analysed as follows:		
- No later than 1 year	8,365	1,405
- Later than 1 year and no later than 5 years	8,607	3,821
	16,972	**5,226**

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

Group	2011 £000	2010 £000
Neither past due nor impaired	144,299	79,893
Past due but not impaired	364	125
Past due up to 90 days and impaired	10,989	5,632
Past due after 90 days and impaired	7,797	11,646
Gross	163,449	97,296
Less: allowance for impairment	(8,864)	(7,814)
Net	**154,585**	**89,482**

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

Group	2011 £000	2010 £000
Past due up to 30 days	8,550	3,863
Past due 30 - 60 days	1,861	1,416
Past due 60 - 90 days	942	478
Total	**11,353**	**5,757**

Interest income on loans classified as impaired totalled £716,000 (2010: £1,906,000).

Company	2011 £000	2010 £000
Gross loans and advances	146,477	92,070
Less: allowances for impairment on loans and advances (Note 14)	(8,864)	(7,797)
	137,613	**84,273**

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	2011 £000	2010 £000
Neither past due nor impaired	127,694	74,814
Past due up to 90 days and impaired	10,989	5,632
Past due after 90 days and impaired	7,794	11,624
Gross	146,477	92,070
Less: allowance for impairment	(8,864)	(7,797)
Net	**137,613**	**84,273**

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

	2011	2010

Company	£000	£000
Past due up to 30 days	8,292	3,762
Past due 30 - 60 days	1,796	1,400
Past due 60 - 90 days	901	470
Total	**10,989**	**5,632**

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. Only £204,000 (2010: £204,000) of the loans are secured (upon residential property) and these are neither past due nor impaired. The residential property over which the mortgage is secured has an indicative fair value of £245,000 based on other recent property sales, giving a loan to value ratio of 83%.

14. Allowances for impairment of loans and advances

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

Group	2011 £000	2010 £000
At 1 January	7,814	5,812
Impairment losses	5,280	2,168
Amounts recovered previously written off	(679)	-
Release of provision on debt sale	(2,439)	-
Loans written off during the year as uncollectible	(1,112)	(166)
At 31 December	**8,864**	**7,814**

Company	2011 £000	2010 £000
At 1 January	7,797	5,795
Impairment losses	5,295	2,166
Amounts recovered previously written off	(679)	-
Release of provision on debt sale	(2,439)	-
Loans written off during the year as uncollectible	(1,110)	(164)
At 31 December	**8,864**	**7,797**

15. Debt securities held-to-maturity

Debt securities represent certificates of deposit. 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 which had a maturity, when placed, of 3 months or less and are therefore included in cash and cash equivalents (Note 28).

The movement in debt securities held to maturity may be summarised as follows:

Group and Company	2011 £000	2010 £000
At 1 January	25,627	11,000
Additions	9,507	150,790
Redemptions	(35,134)	(136,163)
At 31 December	-	**25,627**

Moody's long term ratings:

Group and Company	2011 £000	2010 £000
Aa2	-	5,000
Aa3	-	20,627
	-	**25,627**

None of the debt securities held-to-maturity are either past due or impaired.

16. Intangible assets

	2011 £000	2010 £000

Goodwill Group and Company		
Opening net book amount	309	309
Closing net book amount	**309**	**309**

Computer software Group and Company		
Cost		
At 1 January 2010		1,755
Additions		177
At 31 December 2010		**1,932**
Additions	42	
At 31 December 2011	**1,974**	
Accumulated amortisation		
At 1 January 2010		(1,279)
Amortisation charge		(179)
At 31 December 2010		**(1,458)**
Amortisation charge	(139)	
At 31 December 2011	**(1,597)**	
Net book amount		
At 31 December 2010		474
At 31 December 2011	377	

Total intangible assets Group and Company	2011 £000	2010 £000
Goodwill	309	309
Computer software	377	474
Net book amount at 31 December	**686**	**783**

17. Shares in subsidiary undertakings

	Shares at cost £000	Impairment provisions £000	Net £000
Secure Trust Bank PLC:			
At 1 January 2010	1,513	(1,442)	71
Write off investment	-	(70)	(70)
At 31 December 2010	1,513	(1,512)	1
Write back of impairment	-	100	100
At 31 December 2011	**1,513**	**(1,412)**	**101**

The principal subsidiary undertakings of Secure Trust Bank PLC at 31 December 2011 were:

	Country of incorporation	Interest %	Principal activity
Secure Homes Services Limited	UK	100	Property Rental
STB Leasing Limited	UK	100	Leasing

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.

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

(ii) All the above interests relate wholly to ordinary shares.

18. Property, plant and equipment

	Freehold land and buildings	Computer and other equipment	Total

Group	£000	£000	£000
Cost or valuation			
At 1 January 2010	4,400	8,014	12,414
Additions	-	124	124
At 31 December 2010	**4,400**	**8,138**	**12,538**
Additions	-	98	98
Disposals	-	(12)	(12)
At 31 December 2011	**4,400**	**8,224**	**12,624**
Accumulated depreciation			
At 1 January 2010	(78)	(6,384)	(6,462)
Depreciation charge	(78)	(703)	(781)
At 31 December 2010	**(156)**	**(7,087)**	**(7,243)**
Depreciation charge	(78)	(389)	(467)
Disposals	-	12	12
At 31 December 2011	**(234)**	**(7,464)**	**(7,698)**
Net book amount			
At 31 December 2010	**4,244**	**1,051**	**5,295**
At 31 December 2011	**4,166**	**760**	**4,926**

Company	Computer and other equipment £000
Cost or valuation	
At 1 January 2010	8,014
Additions	124
At 31 December 2010	**8,138**
Additions	98
Disposals	(12)
At 31 December 2011	**8,224**
Accumulated depreciation	
At 1 January 2010	(6,384)
Depreciation charge	(703)
At 31 December 2010	**(7,087)**
Depreciation charge	(389)
Disposals	12
At 31 December 2011	**(7,464)**
Net book amount	
At 31 December 2010	**1,051**
At 31 December 2011	**760**

The Group's freehold property was valued on 17 December 2008 by an Independent external valuer, who is a Fellow of the Royal Institute of Chartered Surveyors. The Valuation was in accordance with the requirements of the RICS Valuation Standards 6th Edition and the International Valuation Standards. The Valuation of the property was on the basis and assumption it is an Owner/Occupied property, valued to Market Value assuming that the property will be sold as part of the continuing business. The Valuer's opinion of Market Value was primarily derived using comparable recent market transactions on arms-length terms. The Directors have assessed the value at year end through comparison to current rental yields on similar properties in the year and do not believe that the fair value of freehold property is materially different from the carrying value. The carrying value of freehold land not depreciated is £0.5 million (2010: £0.5 million).

The property is fully utilised for the Group's own purposes.

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

	2011 £000	2010 £000

	2011	2010
Cost	3,778	3,778
Accumulated depreciation	(903)	(827)
Net book amount	**2,875**	**2,951**

19. Derivative financial instruments

Group and Company	2011 Contract/ notional amount £000	2011 Fair value assets £000	2011 Fair value liabilities £000	2010 Contract/ notional amount £000	2010 Fair value assets £000	2010 Fair value liabilities £000
Interest rate caps held in qualifying hedge relationships	40,000	58	-	-	-	-
	40,000	**58**	-	-	-	-

Moody's long term ratings:

Contract amount:	2011 £000	2010 £000
A1	40,000	-
	40,000	-

20. Other assets

Group	2011 £000	2010 £000
Trade receivables	1,559	1,825
Amounts due from related companies	4,795	11,379
Prepayments and accrued income	1,170	3,648
	7,524	**16,852**

Company	2011 £000	2010 £000
Trade receivables	1,485	1,150
Amounts due from related companies	21,332	19,579
Prepayments and accrued income	577	1,367
	23,394	**22,096**

21. Deposits from customers

Group and Company	2011 £000	2010 £000
Current/demand accounts	31,197	27,514
Term deposits	240,866	126,264
	272,063	**153,778**

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

22. Other liabilities

Group	2011 £000	2010 £000
Trade payables	6,047	88
Amounts due to related companies	1,305	4,188
Accruals and deferred income	1,501	2,759
	8,853	**7,035**

Company	2011 £000	2010 £000
Trade payables	3,117	32
Amounts due to related companies	1,410	2,032
Accruals and deferred income	1,501	2,760

	6,028	**4,824**

Within Group trade payables at 31 December 2011 there is £2,929,000 collateral held from Rentsmart. The Group purchases lease receivables from Rentsmart and pays them a commission, which is recognised within fees and commissions. In return Rentsmart will continue to collect the receivables, retain the credit risk and provide the Group with a collateral amount that is at least equal to the capital required for the purchased lease receivables.

FSCS Levy

The Financial Services Compensation Scheme ('FSCS') has provided compensation to consumers following the collapse of a number of deposit takers. The compensation paid out to consumers is currently funded through loans from the Bank of England and HM Treasury. The Group could be liable to pay a proportion of the outstanding borrowings that the FSCS has borrowed from HM Treasury which at 30 September 2010 stood at approximately £20 billion. Currently, the levy paid by the Group represents its share of the interest on these borrowings.

At 31 December 2011, the Group had accrued £124,000 (2010: £99,000) in respect of the levy, based on the bank's estimated share of total market protected deposits.

23. Debt securities in issue

Group and Company	2011 £000	2010 £000
Subordinated loan	**3,000**	**2,400**

As a consequence of the revised regulatory framework being introduced under Basel II, the Company raised £1 million by way of a subordinated loan from the parent Arbuthnot Banking Group PLC in December 2007. This was due to be repaid in 2016 and attracted interest at the rate of LIBOR plus 1.5%.

The loan was increased by £1.4 million in 2009 under the same terms as above. In June 2011 the loan was increased by a further £0.6 million and the interest rate changed to LIBOR plus 4%. The repayment date of the loan was also extended to 2017.

24. Deferred taxation

Group	2011 £000	2010 £000
Deferred tax liability:		
Unrealised surplus on revaluation of freehold property	(97)	(126)
Deferred tax asset:		
Accelerated capital allowances and other short-term timing differences	102	70
Cash flow hedges	110	-
Deferred tax asset:	212	70
Net deferred tax asset / (liability)	**115**	**(56)**
Deferred tax liability:		
At 1 January	(126)	(56)
Profit and loss account - accelerated capital allowances and other short-term timing differences	29	(70)
At 31 December	(97)	(126)
Deferred tax asset:		
At 1 January	70	(9)
Profit and loss account - accelerated capital allowances and other short-term timing differences	32	79
Cash flow hedges	110	-
At 31 December	212	70
Net deferred tax asset / (liability) at 31 December	**115**	**(56)**

Company	2011 £000	2010 £000
Accelerated capital allowances and other short-term timing differences	102	70
Cash flow hedges	110	-
Deferred tax asset	**212**	**70**
At 1 January	70	(9)

Profit and loss account - accelerated capital allowances and other short-term timing differences	32	79
Cash flow hedges	110	-
Deferred tax asset at 31 December	**212**	**70**

During the year the Government substantively enacted a reduction in UK corporation tax rate to 26% with effect from 1 April 2011 and to 25% with effect from 1 April 2012. This will reduce the Group's future current tax charge accordingly. Deferred tax has been calculated at the corporation tax rates applicable to the financial years in which it is expected that the assets will be realised or the liabilities settled, being 25%.

On the 23 March 2011 the Government announced its intention to further reduce the UK corporation tax rate to 23% by April 2014. It has not yet been possible to quantify the full anticipated effect of the announced further 2% reduction, although this will further reduce the Group's future current tax charge and reduce the Group's deferred tax balances accordingly.

25. Contingent liabilities and commitments

Capital commitments
At 31 December 2011, the Group and Company had no capital commitments (2010: £nil).

Credit commitments
At 31 December 2011, the Group and Company had no commitments (2010: £nil) to extend credit to customers.

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

	2011		2010	
	Land and Buildings	Other	Land and Buildings	Other
Group and Company	£000	£000	£000	£000
Within 1 year	14	104	29	32
Between 1 year and 5 years	-	130	15	9
	14	**234**	**44**	**41**

The leases under Land and Buildings is 1 branch (2010: 4 branches). Other leases include motor vehicles and computer hardware.

Other commitments
At 31 December 2011 a commitment exists to make further payments with regard to the Financial Compensation Scheme Levy for 2011 and thereafter. Due to uncertainties regarding the calculation of the levy and the Group's share thereof, the Directors consider this cost to be unquantifiable.

26. Share capital

	Number of shares	Ordinary shares
		£000
At 1 January 2011	5,000,000	5,000
Consolidation of ordinary shares	(2,500,000)	-
Sub-division of ordinary shares	10,000,000	-
Shares issued during year	1,666,667	667
At 31 December 2011	**14,166,667**	**5,667**

On 27 October 2011 an ordinary resolution of the Company was passed such that each of the existing 5,000,000 ordinary shares of £1 per share be consolidated into 2,500,000 ordinary shares of £2 per share and then that each of the 2,500,000 ordinary shares of £2 per share be sub-divided by 5 into 12,500,000 ordinary shares of 40 pence each.

On 2 November 2011, an additional 1,666,667 40 pence ordinary shares were allotted and the gross proceeds on the issue of these shares were £12,000,000. Transaction costs of £1,786,000 were incurred as part of the share issue and have been net against the share premium account, whilst £536,000 was incurred as part of the consequent share listing and have been expensed.

27. Share based payments

On 17 October 2011, the Group established the Share Option Scheme that entitles key management personnel and senior employees to purchase shares in the Company. All options are non-transferable and there are no cash settlement alternatives.

Options are forfeited if they remain unexercised after a period of more than 10 years from the date of grant. If the participant ceases to be employed by the Group by reason of injury, disability, ill-health or redundancy; or because his employing company ceases to be a shareholder of the Group; or because his employing business is being transferred out of the Group, his option may be exercised within 6 months after such cessation. In the event of the death of a participant, the personal representatives of a participant may exercise an option, to the extent exercisable at the date of death, within 6 months after the death of the participant.

On cessation of employment for any other reason (or when a participant serves, or has been served with, notice of termination of such employment), the option will lapse although the Remuneration Committee has discretion to allow the exercise of the option for a period not exceeding 6 months from the date of such cessation.

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

On 2 November 2011 934,998 share options were granted at an exercise price of £7.20 per share. Half of the share options are exercisable on 2 November 2014 with the remainder exercisable on 2 November 2016. At the grant date these share options had a fair value of £1,580,147. The expense recognised in the statement of comprehensive income for share based payments and the corresponding movement within reserves during the year was £70,000 (2010: £nil). Since the year end the scheme was altered to be cash settled.

28. Cash and cash equivalents

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

Group and Company	2011 £000	2010 £000
Cash (Note 11)	-	13
Loans and advances to banks (Note 12)	119,545	42,577
Debt securities held-to-maturity (Note 15)	-	25,627
	119,545	**68,217**

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 loans and deposits. Except for the directors' disclosures, there were no other Key Management Personnel disclosures; therefore the tables below relate to directors.

	Directors	
	2011 £000	2010 £000
Loans		
Loans outstanding at 1 January	229	219
Interest capitalised	3	10
Loan repayments during the year	(232)	-
Loans outstanding at 31 December	-	**229**
Interest income earned	**3**	**5**
Deposits		
Deposits outstanding at 1 January	312	293
Interest applied	8	9
Deposit repayments during the year	-	(92)
Deposit reclassification	(162)	102
Deposits outstanding at 31 December	**158**	**312**
Interest expense on deposits	**8**	**9**

No provisions have been recognised in respect of loans given to related parties as at 31 December 2011 (2010: £nil).

The loans to directors are secured on property or shares and bear interest at rates linked to base rate.

The deposit reclassification relates to directors who resigned during the year (2010: directors appointed during the year).

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

Deposits held with Group Companies	2011 £000	2010 £000
Deposits outstanding at 1 January	-	7,500
Deposits made during the year	3,000	120,078
Deposit repayments during the year	(3,000)	(127,578)
Balance at 31 December	-	-
Interest income earned	5	103

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

	2011 £000	2010 £000
Secure Homes Services Limited - building rental paid	360	360
Arbuthnot Latham & Co. Ltd - recharge income of shared services	(136)	(220)
Arbuthnot Banking Group PLC - group recharges	1,781	960
	2,005	**1,100**

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

Group	2011 £000	2010 £000
Loans and advances to related companies	81,601	23,629
Amounts receivable from ultimate parent undertaking	4,745	8,147
Amounts receivable from related companies	50	3,232
Amounts payable to ultimate parent undertaking	-	(483)
Amounts payable to related companies	(1,305)	(3,705)
Subordinated loan from ultimate parent undertaking	(3,000)	(2,400)
	82,091	**28,420**

Company	2011 £000	2010 £000
Loans and advances to related companies	81,601	23,629
Amounts receivable from ultimate parent undertaking	4,745	8,147
Amounts receivable from related companies	50	1,585
Amounts receivable from subsidiary undertakings	16,537	9,845
Amounts payable to subsidiary undertakings	(101)	(178)
Amounts payable to related companies	(1,309)	(1,854)
Subordinated loan from ultimate parent undertaking	(3,000)	(2,400)
	98,523	**38,774**

Directors' remuneration

The directors' emoluments (including pension contributions and benefits in kind) for the year were as follows:

	2011 £000	2010 £000
Other emoluments	1,079	850
Compensation for loss of office	-	673
Pension contributions	104	58
	1,183	**1,581**

The emoluments of Mr Angest, Mr Salmon , Mr Cobb, Mr Turrell, Mr Proctor and Mr Wickham are paid by Arbuthnot Banking Group PLC and disclosed in the Arbuthnot Banking Group PLC consolidated financial statements.

The aggregate emoluments of the highest paid director are £685,728 for the period ended 31 December 2011 (2010: £643,000), including £35,000 (2010: £17,000) of contributions made to a money purchase scheme on their behalf and £nil (2010: £552,000) in compensation for loss of office. A further £121k was paid to another director in 2010 in compensation for loss of office.

No share options were exercised or were exercisable as at 31 December 2011 (2010: none).

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

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

The interests of any directors whom hold shares in the ultimate parent company are shown in the Directors Report of the ultimate parent company.

At the year end Mr Lynam and Mrs Sergeant both held 6,600 ordinary shares each in the Company. Subsequent to the year end Mr Marrow acquired 5,440 ordinary shares in the Company.

30. Operating segments

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

1) Personal unsecured lending – Unsecured consumer loans sold to existing customers via brokers and affinity partners.
2) Motor finance – Hire purchase agreements secured against the vehicle being financed.
3) Retail point of sale finance – Point of sale unsecured finance for in-store and online retailers.
4) Acquired portfolios – Portfolios of unsecured personal loans acquired from Citigroup and Liverpool Victoria.
5) One Bill – An account designed to aid customers with their household budgeting and payments process.

There were no transactions between the operating segments. 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.

Year ended 31 December 2011	Personal Lending £000	Motor Finance £000	Retail Finance £000	Acquired Portfolios £000	One Bill £000	Other £000	Group Total £000
Interest revenue	5,993	9,941	3,554	1,741	-	1,607	22,836
Net fee and commission income	-	-	-	-	9,332	1,901	11,233
Revenue from external customers	**5,993**	**9,941**	**3,554**	**1,741**	**9,332**	**3,508**	**34,069**
Impairment losses	2,089	2,253	260	(376)	(87)	462	4,601
Lending balances	43,601	63,376	42,608	2,480	2,316	204	154,585

Year ended 31 December 2010	Personal Lending £000	Motor Finance £000	Retail Finance £000	Acquired Portfolios £000	One Bill £000	Other £000	Group Total £000
Interest revenue	3,807	3,384	2,066	6,063	-	571	15,891
Net fee and commission income	-	-	-	-	10,567	1,183	11,750
Revenue from external customers	**3,807**	**3,384**	**2,066**	**6,063**	**10,567**	**1,754**	**27,641**
Impairment losses	761	642	294	-	382	89	2,168
Lending balances	22,407	31,270	21,640	10,723	3,010	432	89,482

The "Other" segment above includes segments below the quantitative threshold for separate disclosure and fulfils the requirement of IFRS8.28. All 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 Directors regard Arbuthnot Banking Group PLC, a Company registered in England and Wales, as the immediate and ultimate parent Company. Henry Angest, the Group Chairman and Chief Executive has a beneficial interest in 53.6% of the issued share capital of Arbuthnot Banking Group PLC and is regarded by the directors as the ultimate controlling entity. A copy of the consolidated financial statements of Arbuthnot Banking Group PLC may be obtained from the Secretary, Arbuthnot Banking Group PLC, One Arleston Way, Solihull, B90 4LH.

32. Events after the balance sheet date

There were no material post balance sheet events.

Five year summary

	2011	2010	2009	2008	2007
	£000	£000	£000	£000	£000
Profit for the year					
Interest and similar income	22,836	15,891	9,935	3,420	4,347
Interest expense and similar charges	(5,609)	(3,419)	(1,345)	(830)	(828)
Net interest income	**17,227**	**12,472**	**8,590**	**2,590**	**3,519**
Net fee and commission income	11,233	11,750	13,119	15,423	16,122
Operating income	**28,460**	**24,222**	**21,709**	**18,013**	**19,641**
Impairment losses on loans and advances	(4,601)	(2,168)	(1,173)	(533)	(1,532)
Other income	36	982	41	121	-
Exceptional costs *	-	-	(693)	-	-
Operating expenses *	(14,298)	(13,390)	(11,468)	(12,567)	(13,568)
Profit before income tax *	**9,597**	**9,646**	**8,416**	**5,034**	**4,541**

*** before IPO costs and Arbuthnot Banking Group recharges**

	2011	2010	2009	2008	2007
Earnings per share for profit attributable to the equity holders of the Group during the year					
(expressed in pence per share)					
- basic and diluted	39.6	50.0	46.4	28.0	26.8

	2011	2010	2009	2008	2007
Financial position					
Loans and advances to banks	139,498	42,577	39,334	12,882	20,694
Loans and advances to customers	154,585	89,482	51,440	12,551	16,624
Debt securities	-	25,627	11,000	14,293	-
Other assets	13,757	23,013	14,021	13,473	14,711
Total assets	**307,840**	**180,699**	**115,795**	**53,199**	**52,029**
Deposits from customers	272,063	153,778	93,342	35,828	39,544
Other liabilities	11,962	11,125	10,405	8,624	4,113
Total shareholders' equity	23,815	15,796	12,048	8,747	8,372
Total liabilities and shareholders' equity	**307,840**	**180,699**	**115,795**	**53,199**	**52,029**