# Secure Trust Bank Plc

# Annual report and financial statements

# for the year ended 31 December 2007

Registered number 541132

# Secure Trust Bank Plc

## Annual report and financial statements for the year ended 31 December 2007

# Secure Trust Bank Plc

## Directors' and advisers

### Directors

H Angest (Chairman)
G A Jennison (Chief Executive)
N M Fielden
O P Woodley
A A Salmon
P N Sheriff
D G Anthony (non-executive)
R J J Wickham (non-executive)

### Secretary and registered office

J R Kaye FCIS
One Arleston Way
Solihull
B90 4LH

### Registered auditors

PricewaterhouseCoopers LLP
Cornwall Court
19 Cornwall Street
Birmingham
B3 2DT

### Bankers

Barclays Bank PLC
38 Hagley Road
Edgbaston
Birmingham
B16 8NY

# Directors' report
# for the year ended 31 December 2007

The directors present their report and the audited financial statements for the year ended 31 December 2007

**Principal activities**

The company is a banking institution which is authorised and regulated by the Financial Services Authority Its principal activity during the year continued to be the provision of home cash management, personal lending and banking services and other financial services products This entailed

- accepting standing instructions from clients to discharge on their behalf liabilities of a regular and recurring nature and collecting from the clients agreed weekly or monthly sums of money to provide and maintain the funds necessary to carry out this service

- banking services comprising current and deposit accounts and the provision of loans and overdrafts on a secured and unsecured basis to personal and business customers

- arranging and placing sickness, accident and redundancy insurance cover, general insurance, mortgages and other financial services products on behalf of established insurance companies

**Review of business**

The directors are satisfied with the performance of the company during the year and do not envisage any significant change in the principal activity in the ensuing year The results for the year are shown on page 8

| | **2007** | 2006 | Increase / (Decrease) |
|---|---|---|---|
| Operating income (£m) | **19.2** | 19 7 | (0 5) |
| Lending balances net of provisions (£m) | **16.6** | 24 4 | (7 8) |
| Expenses (£m) | **13.8** | 12 3 | 1 5 |
| Profit before tax (£m) | **3.8** | 2 6 | 1 2 |
| Customer numbers ('000) | **43** | 46 | (3) |

Despite the increasingly competitive environment and the continuing reduction in customer numbers, the Company delivered a reasonably robust operating income of £19 2 million and profits before tax of £3 8 million

The new management team completed a strategic review of the business in early 2007 and produced a strategy to arrest the decline and restore growth Key themes include a move towards participation in the market for debt management, reduced risk in unsecured lending outside of the OneBill account, arresting the decline in OneBill customer numbers and growing the mortgage broking business

# Directors' report
# for the year ended 31 December 2007 (continued)

**Review of business (continued)**

The business has historically traded under a number of different brands including OneBill, Secure Trust Bank, Secure Homes and Secure Direct leading to confusion within the customer base In 2007, the business was rebranded Moneyway with the core product being branded 'OneBill from Moneyway' The core 'OneBill' product was further strengthened with the addition of ancillary benefits including free ID Theft insurance and home emergency cover

The OneBill account has seen a fall in the number of closures of accounts in the year As a result of the rebranding in the middle of the year, the marketing activity in the first half was reduced resulting in a lower number of new customers in the first half A key component of growing the number of OneBill customers is through affinity arrangements and a number of arrangements are under discussion

The investment programme in 2007 delivered the enhanced proposition for OneBill, the brand relaunch and various new systems This resulted in an income statement expense of £0 8 million The focus for 2008 will be improving this division's profitability by aligning the cost base and processes with the current scale of the business

As a result of the changing landscape for unsecured personal lending in the UK, the Company reduced its appetite for new lending outside of the OneBill account in 2006 In June 2007, the Company formed a broking arrangement with EveryDay Loans which has seen the majority of new unsecured loans being written without financial risk to Secure Trust Bank The Company also made an agreement with Close Brothers to outsource the provision of premium finance funding These decisions have resulted in a significant reduction in unsecured lending balances during the year

In debt management, the business has re-entered this market through Moneyfreedom and recruited a new senior manager towards the end of the year Early indications are encouraging although the impact on the 2008 financials is likely to be marginal

**Prior year adjustment**

As part of the review of processes by the new management team an error in the recognition of income on unsecured loans was identified This required a £1 4m adjustment to the previously disclosed retained earnings at December 2006 This is detailed in note 9 to these financial statements

**Dividends and transfers to reserves**

The profit for the year after taxation amounted to £2,888,000 (2006 £1,783,000) Interim dividends of £1,840,000 (2006 £2,100,000) were declared and paid during the year The directors do not recommend the payment of a final dividend The balance of the profit for the year of £1,048,000 (2006 loss £317,000) has been transferred to reserves

**Charitable donations**

The Company supports 3 local charities, the Foundation for Conductive Education, St Mary's Hospice and SNAP (a children's charity)and made donations totalling £5,000 (2006 nil)

**Tangible fixed assets**

The movements in fixed assets during the year are set out in note 15 to the financial statements

# Directors' report
# for the year ended 31 December 2007 (continued)

### Directors

The dırectors who served durıng the year were as follows

| | |
|---|---|
| H Angest | (Chaırman) |
| G A Jennıson | |
| O P Woodley | (appoınted 2 January 2007) |
| N M Fıelden | (appoınted 2 January 2007) |
| D G Anthony | (appoınted 22 February 2007) |
| M A Fuller | (resıgned 31 January 2008) |
| K N F Deakın | (resıgned 5 February 2007) |
| D Pearson | (resıgned 5 February 2007) |
| PN Sherıff | |
| A A Salmon | |
| J Shıpley | (resıgned 30 Aprıl 2007) |
| R J J Wıckham | |

### Directors' interests

All the dırectors holdıng office at 31 December 2007, except Mr Fıelden , Mr Woodley and Mr Anthony are dırectors of the ultımate parent company Arbuthnot Bankıng Group PLC and theır ınterests ın the share capıtal of group companıes and share optıons are shown ın the Dırectors' report of that company

No dırector had a benefıcıal ınterest ın any shares of the Company durıng the year

### Supplier payment policy

The company's supplıer payment polıcy ıs to make payment ın lıne wıth terms agreed wıth ındıvıdual supplıers, payments beıng effected on average wıthın 30 days of receıpt of ınvoıce

## Secure Trust Bank Plc

## Directors' report
## for the year ended 31 December 2007 (continued)

**Statement of directors' responsibilities**

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year Under that law the directors have elected to prepare financial statements in accordance with International Financial Reporting Standards and applicable law The financial statements are required by law to give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period

In preparing those financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and estimates that are reasonable and prudent,
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements on the going concern basis

The directors confirm that they have complied with the above requirements in preparing the financial statements

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 1985 They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

In accordance with Section 234 of the Companies Act, so far as each of the Directors' is aware, there is no relevant audit information of which the Company's auditors are unaware, and the directors have taken all the steps that ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information

**Auditors**

A resolution to reappoint PricewaterhouseCoopers LLP as auditors to the company will be proposed at the annual general meeting

By order of the board

J.R. Kaye

J R Kaye
Company secretary
12 March 2008

# Independent auditors' report to the members of Secure Trust Bank PLC

We have audited the financial statements of Secure Trust Bank PLC for the year ended 31 December 2007 which comprise the Income Statement, the Balance Sheet, the Cash Flow Statement, the Statement of Changes in Equity and the related notes These financial statements have been prepared under the accounting policies set out therein

**Respective responsibilities of directors and auditors**

The directors' responsibilities for preparing the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' Responsibilities

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland) This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements have been properly prepared in accordance with the Companies Act 1985 We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it

**Basis of audit opinion**

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements

## Independent auditors' report to the members of Secure Trust Bank PLC (continued)

**Opinion**

In our opinion

- the financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the company's affairs as at 31 December 2007 and of its profit and cash flows for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements

PricewaterhouseCoopers LLP

**PricewaterhouseCoopers LLP**
Chartered Accountants and Registered Auditors
Birmingham
12 March 2008

## Secure Trust Bank Plc

## Income statement
## for the year ended 31 December 2007

| | Note | 2007<br>£000 | 2006<br>Restated<br>£000 |
|---|---|---|---|
| Interest and similar income | | **4,347** | 4,766 |
| Interest expense and similar charges | | **(828)** | (950) |
| **Net interest income** | | **3,519** | 3,816 |
| Fee and commission income | | **15,663** | 16,083 |
| Fee and commission expense | | **0** | (193) |
| **Net fee and commission income** | | **15,663** | 15,890 |
| **Operating income** | | **19,182** | 19,706 |
| Impairment losses on loans and advances | 13 | **(1,532)** | (1,933) |
| Intercompany indebtedness forgiven | | **0** | (2,900) |
| Operating expenses | 5 | **(13,812)** | (12,306) |
| **Profit on ordinary activities before tax** | | **3,838** | 2,567 |
| Taxation | 7 | **(950)** | (784) |
| **Profit on ordinary activities after tax** | | **2,888** | 1,783 |

The company has no recognised gains and losses other than those included in the results above, therefore, no separate statement of recognised income & expenses has been presented

The notes on pages 12 to 37 are an integral part of these financial statements

# Secure Trust Bank Plc

## Balance sheet
## as at 31 December 2007

| | Note | 2007<br>£000 | 2006<br>Restated<br>£000 |
|---|---|---|---|
| **Assets** | | | |
| Cash | 10 | **56** | 13 |
| Loans and advances to banks and building societies | 11 | **20,694** | 5,756 |
| Loans and advances to customers | 12 | **16,624** | 24,367 |
| Other assets | 14 | **9,585** | 14,928 |
| Property, plant and equipment | 15 | **1,782** | 1,604 |
| Intangible assets | 16 | **402** | 384 |
| Deferred tax asset | 17 | **14** | 0 |
| Investments | 18 | **497** | 497 |
| **Total assets** | | **49,654** | 47,549 |
| **Liabilities** | | | |
| Customer accounts | 19 | **39,544** | 40,009 |
| Subordinated loan capital | 24 | **1,000** | 0 |
| Other liabilities | 20 | **2,708** | 2,183 |
| Deferred tax liabilities | 17 | **0** | 3 |
| **Total liabilities** | | **43,252** | 42,195 |
| **Equity** | | | |
| Share capital | 21 | **5,000** | 5,000 |
| Retained earnings | | **1,402** | 354 |
| **Capital and reserves attributable to the company's equity holders** | | **6,402** | 5,354 |
| **Total equity and liabilities** | | **49,654** | 47,549 |

The financial statements on pages 8 to 37 were approved by the Board of directors on 12 March 2008 and were signed on its behalf by

G A Jennison
Director

N M Fielden
Director

## Secure Trust Bank Plc

## Statement of changes in equity for the year ended 31 December 2007

| | Share capital £000 | Retained earnings £000 | Total £000 |
|---|---|---|---|
| Balance at 1 January 2006 | 5,000 | 1,623 | 6,623 |
| Restatement of loans to customers | | (952) | (952) |
| Revised balance at 1 January 2006 | 5,000 | 671 | 5,671 |
| Revised profit on ordinary activities after tax for 2006 | | 1,783 | 1,783 |
| Dividends | | (2,100) | (2,100) |
| At 31 December 2006 | 5,000 | 354 | 5,354 |
| | | | |
| Balance at 1 January 2007 | 5,000 | 354 | 5,354 |
| Profit on ordinary activities after tax for 2007 | | 2,888 | 2,888 |
| Dividends | | (1,840) | (1,840) |
| At 31 December 2007 | 5,000 | 1,402 | 6,402 |

The prior year adjustment leading to the 'Restatement of loans to customers' and the 'Revised profit on ordinary activities after tax for 2006' is detailed in note 9

## Secure Trust Bank Plc

## Cash flow statement
## for the year ended 31 December 2007

| | Note | 2007 | 2006 |
|---|---|---|---|
| | | | Revised |
| | Note | £000 | £000 |
| **Cash flows from operating activities** | | | |
| Interest and similar income received | | **4,347** | 4,766 |
| Interest and similar charges paid | | **(828)** | (950) |
| Fees and commissions received | | **15,663** | 16,083 |
| (Write offs)/ recoveries on loans | | **(132)** | (193) |
| Cash payments to employees and suppliers | | **(13,223)** | (11,592) |
| Taxation paid | | **0** | (1,651) |
| Cash flows from operating profits before changes in operating assets and liabilities | | **5,827** | 6,463 |
| Changes in operating assets and liabilities | | | |
| - Net decrease / (increase) in loans and advances to customers | | **6,343** | (1,515) |
| - Net decrease/ (increase) in other assets | | **4,376** | 215 |
| - Net (decrease) / increase in amounts due to customers | | **(465)** | (4,432) |
| - Net increase / (decrease) in other liabilities | | **471** | 7 |
| **Net cash from operating activities** | | **16,552** | 738 |
| **Cash used in investing activities** | | | |
| Purchase of property, plant and equipment | | **(892)** | (518) |
| Purchase of computer software | | **(168)** | (65) |
| Subordinated loan capital raised | | **1,000** | |
| Proceeds from sale of property, plant and equipment | | **329** | 126 |
| **Net cash used in investing activities** | | **269** | (457) |
| **Cash used in financing activities** | | | |
| Dividend paid | 8 | **(1,840)** | (2,100) |
| **Net cash used in financing activities** | | **(1,840)** | (2,100) |
| **Net increase / (decrease) in cash and cash equivalents** | | **14,981** | (1,819) |
| Cash and cash equivalents at beginning of year | | **5,769** | 7,588 |
| **Cash and cash equivalents at end of year** | 23 | **20,750** | 5,769 |

# Notes to the financial statements for the year ended 31 December 2007

## 1 Principal accounting policies

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

**Basis of presentation**

The Company's financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU), IFRIC interpretations and the Companies Act 1985 applicable to Companies reporting under IFRS The financial statements have been prepared under the historical cost convention, available-for-sale financial assets, and financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss

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 Company's accounting policies The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 2

The 2006 comparatives have been restated as disclosed in note 9

Under Section s228(1) of the Companies Act 1985 the company is exempt from the requirement to prepare Group accounts and therefore consolidated accounts have not been prepared and thus the financial statements only present information about the company as an individual undertaking

**Standards, amendments and interpretations effective in 2007**

IFRS 7, 'Financial instruments Disclosures', and the complementary amendment to IAS 1, 'Presentation of financial statements – Capital disclosures', introduces new disclosures relating to financial instruments and does not have any impact on the classification and valuation of the Company's financial instruments, or the disclosures relating to taxation and trade and other payables

IFRIC 8, 'Scope of IFRS 2', requires consideration of transactions involving the issuance of equity instruments, where the identifiable consideration received is less than the fair value of the equity instruments issued in order to establish whether or not they fall within the scope of IFRS 2 This standard does not have any impact on the Company's financial statements

IFRIC 10, 'Interim financial reporting and impairment', prohibits the impairment losses recognised in an interim period on goodwill and investments in equity instruments and in financial assets carried at cost to be reversed at a subsequent balance sheet date This standard does not have any impact on the Company's financial statements

## 1 Principal accounting policies (continued)

**Standards, amendments and interpretations effective in 2007 but not relevant**

The following standards, amendments and interpretations to published standards are mandatory for accounting periods beginning on or after 1 January 2007 but they are not relevant to the Company's operations

- IFRS 4, 'Insurance contracts'
- IFRIC 7, 'Applying the restatement approach under IAS 29, Financial reporting in hyper-inflationary economies'
- IFRIC 9, 'Re-assessment of embedded derivatives'

**Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Company**

The following standards, amendments and interpretations to existing standards have been published and are mandatory for the Company's accounting periods beginning on or after 1 January 2008 or later periods, but the Company has not early adopted them

- IFRIC 11, 'IFRS 2 – Group and treasury share transactions' (effective from 1 March 2007) IFRIC 11 provides guidance on whether share-based transactions involving treasury shares or involving group entities (for example, options over a parent's shares) should be accounted for as equity-settled or cash-settled share-based payment transactions in the stand-alone accounts of the parent and group companies The Company will apply IFRIC 11 from 1 January 2008, but it is not expected to have any impact on the Company's accounts

- IAS 23 (Amendment), 'Borrowing costs' (effective from 1 January 2009) The amendment to the standard is still subject to endorsement by the European Union It requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset The option of immediately expensing those borrowing costs will be removed The Company will apply IAS 23 (Amended) from 1 January 2009, subject to endorsement by the EU but is currently not applicable to the Company as there are no qualifying assets

- IFRS 8, 'Operating segments' (effective from 1 January 2009) The standard is still subject to endorsement by the European Union IFRS 8 replaces IAS 14 and aligns segment reporting with the requirements of the US standard SFAS 131, 'Disclosures about segments of an enterprise and related information' The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes The Company will apply IFRS 8 from 1 January 2009, subject to endorsement by the EU The expected impact is still being assessed in detail by management but it appears likely that the reportable segments will remain unchanged As goodwill is allocated to groups of cash-generating units based on segment level, the change will also require management to reallocate goodwill to the newly identified operating segments Management does not anticipate that this will result in any material impairment to the goodwill balance

# Notes to the financial statements for the year ended 31 December 2007 (continued)

## 1 Principal accounting policies (continued)

**Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Company (continued)**

- IFRIC 14, 'IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction' (effective from 1 January 2008) IFRIC 14 provides guidance on assessing the limit in IAS 19 on the amount of the surplus that can be recognised It also explains how the pension asset or liability may be affected by a statutory contractual minimum funding requirement The Company will apply IFRIC 14 from 1 January 2008, but it is not expected to have any impact on the Company's accounts

- IFRIC 12, 'Service concession arrangements' (effective from 1 January 2008) IFRIC 12 applies to contractual arrangements whereby a private sector operator participates in the development, financing, operation and maintenance of infrastructure for public IFRIC 12 is not relevant to the Company's operations because it does not provide services for public sector services

- IFRIC 13, 'Customer loyalty programmes' (effective from 1 July 2008) IFRIC 13 clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multiple-element and the consideration receivable from the customer is allocated between the components of the arrangement using fair values IFRIC 13 is not relevant to Company's operations because it does not operate any loyalty programmes

**Interest income and expense**

Interest income and expense are recognised in the income statement for all instruments measured at amortised cost using the effective interest method The company only recognises interest income on loans that make a payment in the accounting period

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period The effective interest rate is the rate that exactly 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 Company takes into account all contractual terms of the financial instrument but does not consider future credit losses

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

**Fee and commission income**

Fees and commissions are generally recognised on an accrual basis when the service has been provided Loan commitment fees are deferred and recognised as an adjustment to the effective interest rate on the loan

# Notes to the financial statements for the year ended 31 December 2007 (continued)

## 1 Principal accounting policies (continued)

**Financial assets**

The Company classifies its financial assets in the following categories financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale financial assets Management determines the classification of its investments at initial recognition

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

This category comprises financial assets held for trading Purchases and sales of financial assets at fair value through profit or loss are recognised on trade-date — the date on which the Company commits to purchase or sell the asset Financial assets at fair value through profit or loss and available-for-sale financial assets are subsequently carried at fair value The Company held no such assets during the two financial years ended 31 December 2007

(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 Company provides money, goods or services directly to a debtor with no intention of trading the receivable Loans are recognised when cash is advanced to the borrowers Loans and receivables and held-to-maturity investments 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 Company's management has the positive intention and ability to hold to maturity

(d) Available-for-sale

Available-for-sale investments are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices The Company held no such assets during the two financial years ended 31 December 2007

Loans are recognised when cash is advanced to the borrowers

**Offsetting financial instruments**

Financial assets and liabilities are offset and the net amount reported in the balance sheet 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

# Notes to the financial statements for the year ended 31 December 2007 (continued)

## 1 Principal accounting policies (continued)

**Impairment of financial assets**

On an ongoing basis the Company assesses whether there is objective evidence that a financial asset or Company of financial assets is impaired A financial asset or a Company of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or Company of financial assets that can be reliably estimated

The criteria that the Company 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,
- Initiation of bankruptcy proceedings,
- Deterioration in the value of collateral,
- Deterioration of the borrower's competitive position,

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 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 income statement 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 income statement

**Intangible assets**

(a) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Company's share of the net identifiable assets of the acquired subsidiary at the date of acquisition Goodwill on acquisitions of subsidiaries is included in 'intangible assets' Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold

(b) Computer software

Acquired computer software licenses 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 (five years)

Costs associated with developing or maintaining computer software programs are recognised as an expense as incurred

# Notes to the financial statements for the year ended 31 December 2007 (continued)

## 1 Principal accounting policies (continued)

### Property, plant and equipment

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 on other assets is calculated using the straight-in-line method to allocate their cost to their residual values over their estimated useful lives, applying the following annual rates

| | |
|---|---|
| Office equipment | 5% to 15% |
| Computer equipment | 20% to 33% |
| Motor vehicles | 25% |

Gains and losses on disposals are determined by comparing proceeds with carrying amount These are included in the income statement

### Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including cash, loans and advances to banks and building societies and short-term highly liquid debt securities

### Post-retirement benefits

The Company 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 Company 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

### Deferred tax

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 balance sheet 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

### Operating leases

Operating lease rentals are charge to profit and loss account on a straight basis over course of the lease

### Share capital

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

## 2 Critical accounting estimates and judgements in applying accounting policies

The Company 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

### a) Impairment losses on loans and advances

The Company 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 income statement, the Company 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 Company, or national or local economic conditions that correlate with defaults on assets in the Company Management uses estimates based on historical loss experience for assets with 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

### b) Taxation

Significant estimates are required in determining the provision for taxation There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business The Company 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

## 3 Financial risk management

### (i) Strategy in using financial instruments

By their nature, the Company's activities are principally related to the use of financial instruments The Directors and senior management have formally adopted a Company 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 on an ongoing basis by means of procedures such as physical controls, credit and other authorisation limits and segregation of duties The management 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 well-established 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

# Notes to the financial statements
# for the year ended 31 December 2007 (continued)

## 3 Financial risk management (continued)

### (ii) Credit risk

The Company 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 balance sheet date Significant changes in the economy could result in losses that are different from those provided for at the balance sheet date Management therefore carefully manages its exposures to credit risk as they consider this to be the most significant risk to the business

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

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit With respect to credit risk on commitments to extend credit, the Company is potentially exposed to loss in an amount equal to the total unused commitments However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards

| | **2007** | 2006 |
|---|---|---|
| | **£000** | £000 |
| **Credit risk exposures relating to on-balance sheet assets are:** | | |
| Loans and advances to banks | **20,694** | 5,756 |
| Loans and advances to customers | **16,624** | 24,367 |
| | **37,318** | 30,123 |
| **Credit risk exposures relating to off-balance sheet assets are:** | | |
| Financial guarantees | **757** | 0 |
| Loan commitments and other credit related liabilities | **615** | 649 |
| | **1,372** | 649 |
| **Total exposure at 31 December** | **38,690** | 30,772 |

# Secure Trust Bank Plc

## Notes to the financial statements
## for the year ended 31 December 2007 (continued)

### 3 Financial risk management (continued)

#### (iii) Market risk

Market risks arise from open positions in interest rate and currency products, all of which are exposed to general and specific market movements The company is not exposed to such market risks

#### (iv) Currency risks

The Company has no exposures in foreign currencies

#### (v) Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates The Company takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise

#### (vi) Liquidity risk

The Company is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan draw-downs and guarantees The Company does not maintain cash resources to meet all of these needs, as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty The Board sets limits on the minimum proportion of maturing funds available to meet such calls and on the minimum level of inter-bank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand

The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Company 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 Company and its exposure to changes in interest rates and exchange rates

# Notes to the financial statements for the year ended 31 December 2007 (continued)

## 3 Financial risk management (continued)

### (vi) Lıquıdıty rısk (continued)

The table below analyses the Company's assets and lıabılıtıes ınto relevant maturıng groupıngs based on the remaınıng penod at balance sheet date to the contractual maturıty date

**Liquidity rısk at 31 December 2007**

| | Not more than 3 months | More than 3 months but less than 1 year | More than 1 year but less than 5 years | More than 5 years | Total |
|---|---|---|---|---|---|
| Cash | 56 | 0 | 0 | 0 | **56** |
| Loans and advances to banks | 19,694 | 1,000 | 0 | 0 | **20,694** |
| Loans and advances to customers | 4,043 | 4,364 | 4,759 | 3,458 | **16,624** |
| Other assets | 8,746 | 579 | 72 | 2,883 | **12,280** |
| **Total assets** | 32,539 | 5,943 | 4,831 | 6,341 | **49,654** |
| Customer accounts | 6,787 | 32,636 | 121 | 0 | **39,544** |
| Other lıabılıtıes | 2,708 | 0 | 0 | 1,000 | **3,708** |
| **Total liabılıties** | 9,495 | 32,636 | 121 | 1,000 | **43,252** |
| Net lıquıdıty gap | 23,044 | (26,693) | 4,710 | 5,341 | **6,402** |
| **At 31 December 2006 (restated)** | | | | | |
| Total assets | 24,021 | 7,780 | 11,107 | 4,641 | **47,549** |
| Total lıabılıtıes | 15,176 | 27,019 | 0 | 0 | **42,195** |
| Net lıquıdıty gap | 8,845 | (19,239) | 11,107 | 4,641 | **5,354** |

### (vii) Faır values of financial assets and liabılities

The carryıng amounts of those assets and lıabılıtıes not presented on the Company's balance sheet at faır value are not matenally dıfferent from theır faır values

# Notes to the financial statements for the year ended 31 December 2007 (continued)

## 4 Capital management

The Company's capital management policy is focused on optimising shareholder value There is a clear focus on delivering organic growth and capital resources are sufficient to support planned levels of growth The Board constantly reviews the capital position

Capital adequacy and the use of regulatory capital are monitored daily by the Company's management, employing techniques based on the guidelines developed by the Basel Committee and the European Community Directives, as implemented by the Financial Services Authority (the Authority), for supervisory purposes

For the year ended 31 December 2007, under Prudential Source Book for Banks, the Authority requires each bank or banking Company to maintain a ratio of total regulatory capital to the risk weighted asset above the minimum amount set by the Authority From 1 January 2008, the Capital Requirement Directive (CRD) that implements Basel II takes effect The Company agreed its Individual Capital Guidance ("ICG") with the Authority under the new regime in December 2007 and has moved to the new regime as of 1 January 2008

The Company's regulatory capital is divided into two tiers

- Tier 1 comprises mainly shareholders' funds, minority interest, after deducting goodwill and other intangible assets

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

- Total capital is reduced by deducting investments in subsidiaries that are not consolidated for regulatory purposes

Risk weighted assets are determined according to a broad categorisation of the nature of each asset or exposure and counterparty

The table below summarises the composition of regulatory capital and the ratios of the Company for the years ended 31 December During those two years, the individual entities within the Company and the Company complied with all of the externally imposed capital requirements to which they are subject The capital requirements for Secure Trust Bank are managed on a solo consolidated basis The other companies included in the consolidation for regulated purposes are

- Secure Estate Agency Limited

- Secure Homes Services Limited

- Secure Travel Limited

- Secure Trust Financial Services Limited

## Notes to the financial statements for the year ended 31 December 2007 (continued)

### 4 Capital management (continued)

**Regulatory capital and key ratios**

| | 2007 | 2006 |
|---|---|---|
| | £000 | £000 |
| Tier 1 | **5,732** | 7,237 |
| Tier2 | **2,158** | 1,207 |
| Deductions | **(390)** | (1,860) |
| **Total Capital** | **7,500** | 6,584 |
| **Risk weighted assets** | **33,527** | 43,736 |
| **Risk asset ratio** | **22.4%** | 15 1% |

## 5 Operating expenses

| | 2007 | 2006 |
|---|---|---|
| | **£000** | £000 |
| Staff costs, including directors | | |
| Wages and salaries | **5,925** | 4,755 |
| Social security costs | **601** | 680 |
| Other pension costs (note 25) | **254** | 431 |
| Amortisation of software (note 16) | **150** | 187 |
| Depreciation (note 15) | **385** | 521 |
| Loss/(profit) on disposals of property, plant and equipment | **0** | 6 |
| Moneyway investment activities | **799** | 0 |
| Charitable donations | **5** | 0 |
| Auditors fees | **141** | 134 |
| Taxation fees payable to auditors | **43** | 31 |
| Other advisory fees payable to auditors | **0** | 0 |
| Operating lease rentals | **505** | 445 |
| Other administrative expenses | **5,004** | 5,116 |
| **Total operating expenses** | **13,812** | 12,306 |

## 6 Average number of employees

| | 2007 | 2006 |
|---|---|---|
| | **£'000** | £'000 |
| Administration | **244** | 233 |

# Notes to the financial statements for the year ended 31 December 2007 (continued)

## 7 Taxation expense

| | 2007 | 2006 |
|---|---|---|
| | £000 | £000 |
| United Kingdom corporation tax at 30% (2006 30%) | | |
| Current | **1,082** | 794 |
| Deferred | **76** | (48) |
| Current prior year (over)/under provision | **(120)** | (29) |
| Deferred prior year under/(over) provision | **(88)** | 67 |
| **Taxation expense** | **950** | 784 |

| | | |
|---|---|---|
| **Tax reconciliation** | | |
| Profit before tax | **3,838** | 2,567 |
| Tax at 30% (2006 30%) | **1,151** | 770 |
| Capital allowances in excess of depreciation | **0** | (24) |
| Short term timing differences | **7** | 0 |
| Prior period adjustments | **(208)** | 38 |
| **Tax charge for the year** | **950** | 784 |

During the year, as a result of the change in UK Corporation Tax rates which will be effective from 1 April 2008, deferred tax balances have been remeasured Deferred tax relating to temporary differences which are expected to reverse prior to 1 April 2008 is measured at 30% and deferred tax relating to temporary differences expected to reverse after 1 April 2008 is measured at the tax rate of 28% as these are the tax rates that will apply on reversal

Current taxation includes an amount of £689,000 (2006 Nil) in respect of group relief receivable

## 8 Dividends

| | 2007 | 2006 |
|---|---|---|
| | £000 | £000 |
| Interim paid | **1,840** | 2,100 |

The dividend per share was 36 8 pence (2006 42 0 pence per share)

# Notes to the financial statements for the year ended 31 December 2007 (continued)

## 9 Prior Year Adjustment

As a result of an error relating to income recognition on Loans and Advances to Customers the opening balances as at 1 January 2006 have been restated The impact of this restatement on the Balance Sheet is detailed below

| | Loans and Advances to Customers £000 | Current Tax Asset / (Liability) £000 | Retained Earnings £000 |
|---|---|---|---|
| As disclosed at 31 December 2005 | 41,996 | (382) | 1,623 |
| Adjustment to 2005 and prior periods | (1,360) | 408 | (952) |
| **Restated balance at 31 December 2005** | **40,636** | **26** | **671** |
| As disclosed at 31 December 2006 | 39,161 | 295 | 1,794 |
| Inter company loans now disclosed in other assets | (12,737) | 0 | 0 |
| Cumulative adjustment to 2006 | (2,057) | 617 | (1,440) |
| **Restated balance at 31 December 2006** | **24,367** | **912** | **354** |
| **Summary of adjustments** | | | |
| Adjustment to 2005 and prior periods | (1,360) | 408 | (952) |
| Adjustment in 2006 | (697) | 209 | (488) |
| **Total adjustment** | **(2,057)** | **617** | **(1,440)** |

The impact of the income recognition error on Loans and Advances to Customers upon the 2006 Income Statement is detailed below

| | Disclosed 31/12/2006 £000 | Adjustment £000 | Restated 31/12/2006 £000 |
|---|---|---|---|
| Interest and similar income | 5,463 | (697) | 4,766 |
| Profit on ordinary activities before tax | 3,264 | (697) | 2,567 |
| Taxation | (993) | 209 | (784) |
| Profit on ordinary activities after tax | 2,271 | (488) | 1,783 |

## 10 Cash

| | 2007 £000 | 2006 £000 |
|---|---|---|
| Cash in hand included in cash and cash equivalents (Note 23) | **56** | 13 |

## 11 Loans and advances to banks and building societies

| | 2007 £000 | 2006 £000 |
|---|---|---|
| Placements with other banks and building societies included in cash and cash equivalents (note 23) | **20,694** | 5,756 |

The table below presents an analysis of loans and advances to banks by rating agency designation as at 31 December, based on Moody's long term ratings

| | 2007 £000 | 2006 £000 |
|---|---|---|
| Aaa | **0** | 0 |
| Aa1 | **5,690** | 5,756 |
| Aa2 | **9,000** | 0 |
| Aa3 | **3,000** | 0 |
| A1 | **1,004** | 0 |
| A2 | **2,000** | 0 |
| A3 | **0** | 0 |
| | **20,694** | 5,756 |

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

## 12 Loans and advances to customers

| | **2007** | 2006 |
|---|---|---|
| | **£000** | £000 |
| Gross loans and advances | **21,439** | 30,658 |
| Less allowances for losses on loans and advances | **(4,815)** | (6,291) |
| | **16,624** | 24,367 |

Loans and advances to customers can be further summarised as follows

| | **2007** | 2006 |
|---|---|---|
| | **£000** | £000 |
| Neither past due nor impaired | **15,513** | 22,159 |
| Past due but not impaired | **1,173** | 1,516 |
| Impaired | **4,753** | 6,983 |
| Gross | **21,439** | 30,658 |
| Less allowance for impairment | **(4,815)** | (6,291) |
| Net | **16,624** | 24,367 |

None of these loan balances have had renegotiated payment terms

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 £225k (2006 £241k) of the loans are secured (upon residential property) and these are neither past due nor impaired

Gross amounts of loans and advances to customers that were past due but not impaired were as follows

| | **2007** | 2006 |
|---|---|---|
| | **£000** | £000 |
| Past due up to 30 days | **811** | 1,088 |
| Past due 30 - 60 days | **193** | 235 |
| Past due 60 - 90 days | **169** | 193 |
| Total | **1,173** | 1,516 |

## 13 Impairment losses on loans & advances

| | **2007** | 2006 |
|---|---|---|
| | **£000** | £000 |
| At 1 January | **6,291** | 4,951 |
| Provision movement charged to profits | **1,532** | 1,933 |
| Adjustment for disposals of debt | **(2,876)** | |
| Amounts written off | **(632)** | (608) |
| Recoveries | **500** | 15 |
| | **4,815** | 6,291 |

## 14 Other assets

| | **2007** | 2006 |
|---|---|---|
| | **£000** | £000 |
| Current tax asset | **639** | 912 |
| Prepayments and accrued income | **701** | 1,279 |
| Amounts due from related companies | **8,245** | 12,737 |
| | **9,585** | 14,928 |

In previous years the amounts due from related companies was disclosed under note 12 Loans and advances to customers

## 15 Property, plant and equipment

| | Computer and other equipment | Motor vehicles | Total |
|---|---|---|---|
| | £000 | £000 | £000 |
| Cost at 1 January 2006 | 6,212 | 701 | 6,913 |
| Accumulated depreciation | (4,848) | (326) | (5,174) |
| Net book amount at 1 January 2006 | 1,364 | 375 | 1,739 |
| Opening net book amount at 1 January 2006 | 1,364 | 375 | 1,739 |
| Additions | 244 | 248 | 492 |
| Group transfer | 0 | 26 | 26 |
| Disposals | (14) | (118) | (132) |
| Depreciation charge | (356) | (165) | (521) |
| Closing net book amount at 31 December 2006 | 1,238 | 366 | 1,604 |
| Cost | 6,430 | 686 | 7,116 |
| Accumulated depreciation | (5,192) | (320) | (5,512) |
| Net book amount at 31 December 2006 | 1,238 | 366 | 1,604 |
| Opening net book amount at 1 January 2007 | 1,238 | 366 | 1,604 |
| Additions | 892 | 0 | 892 |
| Group transfer | 0 | 0 | 0 |
| Disposals | (5) | (324) | (329) |
| Depreciation charge | (343) | (42) | (385) |
| Closing net book amount at 31 December 2007 | 1,782 | 0 | 1,782 |
| Cost | 7,317 | 0 | 7,317 |
| Accumulated depreciation | (5,535) | 0 | (5,535) |
| Net book amount at 31 December 2007 | 1,782 | 0 | 1,782 |

# Notes to the financial statements for the year ended 31 December 2007 (continued)

## 16 Intangible assets

| | £000 |
|---|---|
| **Computer software** | |
| At 31 December 2006 | |
| Cost | 1,227 |
| Accumulated depreciation | (843) |
| Net book amount | 384 |
| At 31 December 2007 | |
| Opening net book amount | 384 |
| Additions | 168 |
| Amortisation charge | (150) |
| **Closing net book amount** | **402** |
| At 31 December 2007 | |
| Cost | 1,395 |
| Accumulated depreciation | (993) |
| **Net book amount** | **402** |

## 17 Deferred taxation

| | 2007 | 2006 |
|---|---|---|
| | £000 | £000 |
| The deferred tax asset / (liability) comprises | | |
| Capital allowances | **14** | (3) |
| | | |
| At 1 January | **(3)** | 16 |
| Profit and loss account debit / (credit) | **17** | (19) |
| **At 31 December** | **14** | (3) |

# Notes to the financial statements for the year ended 31 December 2007 (continued)

## 18 Shares in subsidiary undertakings

| | Shares at cost | Impairment provision £000 | Net book value £000 |
|---|---|---|---|
| At 1 January 2007 and 31 December 2007 | 1,513 | (1,016) | 497 |

Share 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

The principal undertakings of Secure Trust Bank PLC are

| Subsidiary Name | Interest % | Nature of business |
|---|---|---|
| Secure Estate Agency Limited | 100% | Estate agency |
| Secure Homes Services Limited | 100% | Property rental |
| Secure Travel Limited | 100% | Dormant |
| Secure Trust Financial Services Limited | 100% | Dormant |

(i) All the above subsidiary undertakings are registered in England and Wales and operate within the United Kingdom

(ii) All the above subsidiary undertakings have an accounting reference date of 31 December

(iii) The interests of Secure Trust Bank PLC comprise £1 ordinary shares only

## 19 Due to customers

| | 2007 £000 | 2006 £000 |
|---|---|---|
| Retail customers | | |
| - current / demand accounts | 6,136 | 6,322 |
| - term deposits | 33,408 | 33,687 |
| | 39,544 | 40,009 |

# Notes to the financial statements for the year ended 31 December 2007 (continued)

## 20 Other liabilities

| | **2007** | 2006 |
|---|---|---|
| | **£000** | £000 |
| Trade creditors | **138** | 84 |
| Amounts due to related companies | **1,483** | 512 |
| Accruals and deferred income | **1,087** | 1,587 |
| | **2,708** | 2,183 |

In previous years the amounts due to related companies was disclosed under note 19 Due to customers

## 21 Share capital

| | **Number of shares** | **Ordinary shares** |
|---|---|---|
| | | **£000** |
| **Authorised** | | |
| At 31 December 2006 and 31 December 2007 | 5,000,000 | 5,000 |
| **Allocated, called up and fully paid** | | |
| At 31 December 2006 and 31 December 2007 | 5,000,000 | 5,000 |

# Notes to the financial statements for the year ended 31 December 2007 (continued)

## 22 Contingent liabilities and commitments

a) Capital commitments

At 31 December 2007, the Company had capital commitments of £0 (2006 £50,000)

b) Credit commitments

The contractual amounts of the Company's off-balance sheet financial instruments that commit it to extend credit to customers are as follows

| | 2007 | 2006 |
|---|---|---|
| | £000 | £000 |
| Guarantees and other contingent liabilities | | |
| - Guarantees on Premium Finance loans | 757 | 0 |
| Commitments to extend credit | | |
| - Original term to maturity of one year or less | 615 | 649 |
| | 1,372 | 649 |

c) Operating lease commitments

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

| | 2007 | | 2006 | |
|---|---|---|---|---|
| | Land & buildings | Other | Land & buildings | Other |
| | £000 | £000 | £000 | £000 |
| Within 1 year | 56 | 18 | 87 | 0 |
| Between 1 year and 5 years | 209 | 199 | 166 | 0 |
| Over 5 years | 61 | 0 | 18 | 0 |
| | 326 | 217 | 271 | 0 |

# Notes to the financial statements
# for the year ended 31 December 2007 (continued)

## 23 Cash and cash equivalents

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

| | **2007** | 2006 |
|---|---|---|
| | £000 | £000 |
| Cash and balances with central banks (Note 10) | **56** | 13 |
| Loans and advances to banks and building societies (Note 11) | **20,694** | 5,756 |
| | **20,750** | 5,769 |

## 24 Related party transactions

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 The volumes of related-party transactions, outstanding balances at the year end, and relating expense and income for the year are as follows

| | **Directors** | |
|---|---|---|
| | **2007** | 2006 |
| | **£000** | £000 |
| **Loans** | | |
| Loans outstanding at 1 January | **416** | 416 |
| Loans issued during the year | **0** | 0 |
| Loan repayments during the year | **0** | 0 |
| Loans outstanding at 31 December | **416** | 416 |
| | | |
| Interest income earned | **44** | 36 |

No provisions have been recognised in respect of loans given to related parties (2006 nil)

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

# Notes to the financial statements for the year ended 31 December 2007 (continued)

## 24 Related party transactions (continued)

Dunng the year the company made the followmg transactions with other companies in the Arbuthnot Banking Group

| | 2007 | 2006 |
|---|---|---|
| | **£000** | £000 |
| Secure Homes Services Limited - building rental paid | **360** | 360 |
| OBC Insurance Consultants Limited - sales commission paid | **206** | 0 |
| Arbuthnot Banking Group plc - recharge of shared services | **60** | 45 |
| | **626** | 405 |

### Subordinated loan

As a consequence of the revised regulatory framework being introduced under Basel II the Company raised £1million by way of a subordinated loan from the parent Arbuthnot Banking Group plc in December 2007 This is due to be repaid in 2014 and attracts interest at the rate of LIBOR plus 1 5%

### Directors' remuneration

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

| | 2007 | 2006 |
|---|---|---|
| | **£000** | £000 |
| Fees | **16** | 0 |
| Other emoluments | **1,015** | 599 |
| | **1,031** | 599 |

The emoluments of Mr Angest, Mr Salmon, Mr Sheriff and Mr Wickham are paid by Arbuthnot Banking Group PLC, which makes no recharges to the Company for their services

# Notes to the financial statements for the year ended 31 December 2007 (continued)

## 25 Pension costs

The pnncipal pension scheme operated by the Company is a defined contnbution scheme The assets of the scheme are held independently in a separate trustee administered fund The pension cost charge represents contnbutions paid and payable dunng the year by the Company to the scheme The total charge for pension costs is shown in note 5

## 26 Ultimate parent company

The directors regard Arbuthnot Banking Group PLC, a company registered in England and Wales, as the ultimate parent company Henry Angest, the Group Chairman and CEO has a beneficial interest in 52 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