

Secure Trust Bank Plc

Annual report and financial statements
for the year ended 31 December 2010

Registered number 541132

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Secure Trust Bank Plc

Annual report and financial statements for the year ended 31 December 2010

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Secure Trust Bank Plc

Directors and advisers

Directors

H Angest (Chairman)
P A Lynam (Chief Executive) (appointed 13/09/2010)
G A Jennison (resigned 10/05/2010)
N M Fielden
O P Woodley (resigned 01/11/2010)
D R Nield (appointed 20/05/2010)
A A Salmon
J R Cobb
A D Turrell (appointed 25/02/2010)
D M Proctor (appointed 25/11/2010)
D G Anthony (non-executive) (resigned 22/03/2010)
R J J Wickham (non-executive)

Secretary and registered office

J R Kaye FCIS
One Arleston Way
Solihull
B90 4LH

Secure Trust Bank Plc is incorporated in the United Kingdom

Independent auditors

KPMG Audit Plc
Chartered Accountants
One Snowhill
Snow Hill Queensway
Birmingham
B4 6GH

Bankers

Barclays Bank Plc
38 Hagley Road
Edgbaston
Birmingham
B16 8NY

Secure Trust Bank Plc

Directors' report for the year ended 31 December 2010

The directors present their report and the audited financial statements for the year ended 31 December 2010

Principal activities

The Company is a banking institution which is authorised and regulated by the Financial Services Authority. Its principal activity is retail banking the main features of which are

- A current accounts facility that is linked to a prepaid Mastercard
- The operation of a budgeting facility that provides customers with a bill paying facility which enables them to pay in constant periodic payments to meet their variable monthly commitments
- The provision of unsecured consumer loans, point of sale retail loans and motor hire purchase agreements
- The taking of retail deposits

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

The directors use the following key performance indicators to monitor the business,

	2010	2009	Increase / (decrease)
Operating income (£m)	24.0	21.7	2.3
Expenses (£m)	14.6	12.1	2.5
Profit before tax (£m)	7.2	7.4	(0.2)
Return on equity (%)	42.4	57.2	(14.8)
New loans originated (£m)	85.0	25.6	59.4
Lending balances net of provisions (£m)	84.3	51.0	33.3
Deposit balances (£m)	153.8	93.3	60.5
Deposit to loan ratio	1.8	1.8	0.0
Tier 1 capital to RWAs (%)	13.2	14.1	(0.9)
Average customer numbers ('000)	83	57	26

Despite the increasingly competitive environment the Company delivered a robust operating income of £24.0m and profits before tax of £7.2m

The business strategy remains to

- Maintain a balanced approach to risk for liquidity, capital and credit
- To grow organic lending in a way that balances risk and return
- To finance lending through retail deposits
- To grow the current account facility and make it the most functional product of its type in the market

Secure Trust Bank Plc

Directors' report for the year ended 31 December 2010 (continued)

The business continued to manage its balance sheet structure in a highly structured and prudent manner. It remains highly liquid as a consequence of the policy of ensuring that deposits balances exceed that of loans. The deposits exceed loans by a factor of 1.8 and the business also maintained a high level of capital with the Tier 1 capital being in excess of 10% of RWAs. These metrics are significantly higher than the market norm and these were maintained even during a year where lending balances grew by 65%. This financial prudence enables the business to remain highly resilient in time of economic turbulence and has provided significant growth opportunities while others withdraw from the market.

The business has grown lending in all three of its key product groups and the growth in new business volumes has not been at the expense of price or quality. The three product groups are:

- Unsecured consumer loans sold to existing customers and via a website aggregator
- Point of sale retail loans to niche markets such as music or cycle shops
- Motor hire purchase agreements to customers of mainstream dealerships

The business utilises highly automated underwriting systems which in addition to providing significant cost advantages eliminate discretionary credit decisions which enables it to ensure that performance is highly consistent. Differential pricing that reflects the credit risk of the underlying customer is standard. These systems have enabled the business to strongly control risk whilst retaining the speed of service needed to pick up awards from its retail partners and their flexibility was a major element in the successful tender for the cycle business.

The bad debt performance on all of the books has been in line with the expectations set in the pricing models but this continues to be tightly monitored. To further support this the business invested in a new collections system that is more suitable for the balance sheet size the business now operates.

The portfolios acquired in 2009 continue to perform in line with expectations, although they will contribute less to future years performance as balances have declined as the loans have been collected.

The rapid growth in lending has been entirely funded through retail deposits. These are attracted through the 'best buy' tables, however the business has not been actively seeking to raise additional deposits as it did this ahead of the lending growth. The retail deposits are in the form of notice accounts with the minimum notice period being 60 days but most balances are at 120 days. This provides a secure structure which again gives additional financial security to the business.

The growth in the current account volumes continue and has now outstripped the reduction in OneBill accounts. 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 number and sort code and to automatically transfer all of their direct debits and standing orders from their old account as part of this set up 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. A typical customer can earn more than their monthly fee from this scheme.

Costs in 2010 are higher than 2009 due to investment in new systems and processes that have been needed to support the now bigger business and to build in greater resilience and to eliminate single points of failure. Significant costs were incurred in developing the lending systems and associated scorecards, and implementing the Consumer Credit Directive and Irresponsible Lending guidelines. The development of the web capability to support the current account digital sign up process was also considerable and in January 2011 a new deposit servicing platform was implemented.

Secure Trust Bank Plc

Directors' report for the year ended 31 December 2010 (continued)

Dividends and transfers to reserves

The profit for the year after taxation amounted to £4,976k (2009 £5,178k) Dividends of £2,500k (2009 £2,500k) 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 £2,476k (2009 £2,678k) has been transferred to reserves

Charitable donations

The Company supports 3 local charities, the Foundation for Conductive Education, St Richard's Hospice and Queen Alexandra College and made donations totalling £4,830 (2009 £5,985)

Tangible fixed assets

The movements in tangible fixed assets during the year are set out in note 16 to the financial statements

Directors

The directors who served during the year and up to the date of signing these financial statements were as follows

H Angest (Chairman)
P A Lynam (Chief Executive) (appointed 13/09/2010)
G A Jennison (resigned 10/05/2010)
N M Fielden
O P Woodley (resigned 01/11/2010)
D R Nield (appointed 20/05/2010)
A A Salmon
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R J J Wickham (non-executive)

Directors' interests

All the directors holding office at 31 December 2010, except Mr Fielden and Mr Nield, are directors of the ultimate parent company Arbutnot Banking Group Plc and their interests in the share capital of group companies and share options are shown in the Directors' Report of that Company

No director had a beneficial interest in shares of the Company during the year

Employees

The Company gives due consideration to the employment of disabled persons and is an equal opportunities employer It also regularly provides employees with information on matters of concern to them, consults on decisions likely to affect their interests and encourages their involvement in the performance of the Company

Supplier payment policy

The Company's supplier payment policy is to make payment in line with terms agreed with individual suppliers, payments being effected on average within 30 days of receipt of invoice (2009 30 days)

Secure Trust Bank Plc

Directors' report for the year ended 31 December 2010 (continued)

Risk Management

The Company 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 non-operational risks inherent in the Company's business are credit, liquidity and market 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 managed through the Group Risk Committee.

Market risk arises in relation to movements in interest rates. The Group's treasury function operates on behalf of the Company and therefore it has no exposure to currency fluctuations.

Going Concern

After making appropriate enquiries which assessed strategy, profitability, funding and capital resources, the directors are satisfied that the Company has adequate resources to continue in operation for the foreseeable future. The financial statements are therefore prepared on the going concern basis.

Secure Trust Bank Plc

Directors' report for the year ended 31 December 2010 (continued)

Statement of directors' responsibilities in respect of the Directors' Report and the financial statements

The directors are responsible for preparing the Directors' 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 they have elected to prepare the financial statements in accordance with IFRSs as adopted by the EU and applicable law.

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

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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and 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 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

Statement of disclosure of information to auditors

So far as each of the directors are aware, there is no relevant audit information of which the Company's auditors are unaware and the directors have taken all the steps that they 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

In accordance with Section 489 of the Companies Act 2006, a resolution for the re-appointment of KPMG Audit Plc as auditors of the Company is to be proposed at the forthcoming Annual General Meeting.

By order of the board



N M Fielden

Director
16 March 2011

Independent auditor's report to the members of Secure Trust Bank Plc

We have audited the financial statements of Secure Trust Bank Plc for the year ended 31 December 2010 set out on pages 8 to 41. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU.

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

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 6, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's web-site at www.frc.org.uk/apb/scope/private.cfm

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2010 and of its profit for the year then ended,
- have been properly prepared in accordance with IFRSs as adopted by the EU, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit



Simon Clark (Senior Statutory Auditor)
for and on behalf of KPMG Audit Plc, Statutory Auditor

16 March 2011

Chartered Accountants

One Snowhill
Snow Hill Queensway
Birmingham
B4 6GH

Secure Trust Bank Plc

Statement of comprehensive income for the year ended 31 December 2010

	Note	2010 £000	2009 £000
Interest receivable and similar income		15,663	9,932
Interest expense and similar charges		(3,419)	(1,345)
Net interest income		12,244	8,587
Fee and commission income		11,750	13,119
Operating income		23,994	21,706
Group restructure - Intercompany balances		0	(693)
Group restructure - Investments		0	(426)
Impairment losses on loans and advances	14	(2,166)	(1,156)
Operating expenses	6	(14,631)	(12,072)
Profit before income tax		7,197	7,359
Income tax expense	8	(2,221)	(2,181)
Profit for the year		4,976	5,178
Profit attributable to:			
Equity holders of the Company		4,976	5,178
Total comprehensive income attributed to:			
Equity holders of the Company		4,976	5,178

The Company has no recognised gains and losses other than those included in the results above

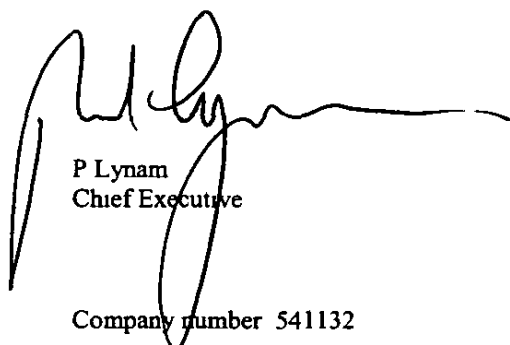
The notes on pages 12 to 41 are an integral part of these financial statements

Secure Trust Bank Plc

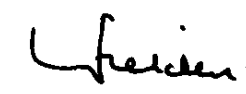
Statement of financial position as at 31 December 2010

	Note	2010 £000	2009 £000
Assets			
Current assets			
Cash and cash equivalents	10	13	4
Loans and advances to banks and building societies	11	42,577	39,334
Debt securities held to maturity	12	25,627	11,000
Loans and advances to customers	13	84,273	51,022
Other assets	15	22,096	11,583
Non-current assets			
Property, plant and equipment	16	1,051	1,630
Intangible assets	17	783	785
Investments	19	1	71
Deferred tax asset	18	70	0
Total assets		176,491	115,429
Liabilities			
Customer accounts	20	153,778	93,342
Subordinated loan capital	25	2,400	2,400
Other liabilities	21	6,113	7,954
Deferred tax liabilities	18	0	9
Total liabilities		162,291	103,705
Equity			
Share capital	22	5,000	5,000
Retained earnings		9,200	6,724
Capital and reserves attributable to the Company's equity holders		14,200	11,724
Total equity and liabilities		176,491	115,429

The financial statements on pages 8 to 41 were approved by the Board of Directors on 16 March 2011 and were signed on its behalf by



P Lynam
Chief Executive



N M Fielden
Director

Company number 541132

Secure Trust Bank Plc

Statement of changes in equity for the year ended 31 December 2010

	Share capital £000	Retained earnings £000	Total £000
Balance at 1 January 2009	5,000	4,046	9,046
Profit on ordinary activities after tax for 2009	0	5,178	5,178
Dividends	0	(2,500)	(2,500)
At 31 December 2009	5,000	6,724	11,724
Balance at 1 January 2010	5,000	6,724	11,724
Profit on ordinary activities after tax for 2010	0	4,976	4,976
Dividends	0	(2,500)	(2,500)
At 31 December 2010	5,000	9,200	14,200

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Statement of cash flows for the year ended 31 December 2010

	Note	2010 £000	2009 £000
Cash flows from operating activities			
Profit for the year		4,976	5,178
Income tax expense	8	2,221	2,181
Depreciation		703	473
Amortisation		179	155
Group restructure intercompany balances		0	693
Group restructure investment balances		0	426
Provisions against amounts due from customers		2,166	1,156
Cash flows from operating activities before changes in operating assets and liabilities		10,245	10,262
Changes in operating assets and liabilities:			
Net increase in trade receivables		(35,417)	(39,627)
Net increase in trade payables		60,436	57,514
Net increase in other assets		(10,513)	(1,216)
Net decrease in other liabilities		(2,421)	(1,510)
Income tax paid		(1,650)	(371)
Net cash inflow from operating activities		20,680	25,052
Cash flows from investing activities			
Purchase of tangible non-current assets		(124)	(152)
Purchase of intangible non-current assets		(177)	(650)
Net cash from investing activities		(301)	(802)
Cash flows from financing activities			
Subordinated loan inflows		0	1,400
Dividends paid	9	(2,500)	(2,500)
Net cash used in financing activities		(2,500)	(1,100)
Net increase in cash and cash equivalents		17,879	23,150
Cash and cash equivalents at beginning of year		50,338	27,188
Cash and cash equivalents at 31 December	24	68,217	50,338

Secure Trust Bank Plc

Notes to the financial statements for the year ended 31 December 2010

1 Principal accounting policies

1.1 Basis of presentation

The Company's financial statements have been prepared in accordance with IFRSs (as adopted and endorsed by the EU), IFRIC Interpretations and the Companies Act 2006 applicable to companies reporting under IFRS. They have been prepared under the historical cost convention.

The preparation of financial statements in conformity with IFRSs 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.

Under IAS 27 paragraph 10 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.

1.1a) Interpretations and amendments effective in 2010

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 statement of comprehensive income. 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 - early adopted) 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.

Secure Trust Bank Plc

Notes to the financial statements for the year ended 31 December 2010 (continued)

1 Principal accounting policies

1.1b) Standards, amendments and interpretations to existing standards (applicable to the Company) that are not yet effective and have not been early adopted by the Company

The following standards and amendments to existing standards have been published and are mandatory for the Company's accounting periods beginning on or after 1 January 2011 or later periods, but the Company has not early adopted them

IFRS 7 (Revised), 'Disclosures - Transfers of Financial Assets' (effective from 1 July 2011) The revised standard require additional disclosures for transfers of financial assets and where there are a disproportionate amount of transactions undertaken around the period end. The revised standard will not have any material impact on the Company's financial accounts *

IFRS 9 'Financial instruments' (effective from 1 January 2013) 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 expected to have a pervasive impact on the Company's financial statements, due to the nature of the Company's operations *

* *The revised IFRS 7 and IFRS 9 have not yet been endorsed by the EU*

1.2 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 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. 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.

1.3 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.

Secure Trust Bank Plc

Notes to the financial statements for the year ended 31 December 2010 (continued)

1 Principal accounting policies

1.4 Financial assets and financial liabilities

The Company classifies its financial assets and financial liabilities in the following categories: loans and receivables, held-to-maturity investments and 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 as well as the transaction costs that are directly attributable to its acquisition or issue.

(a) 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 are carried at amortised cost using the effective interest method.

(b) 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. Held to maturity investments are carried at amortised cost using the effective interest method.

(c) Other financial liabilities

Deposits are non-derivative financial liabilities with fixed or determinable payments. Deposits are recognised when cash is received from the depositors. Deposits are carried at amortised cost using the effective interest method.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Company has transferred substantially all risks and rewards of ownership. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Company is recognised as a separate asset or liability in the statement of financial position. In transactions in which the Company neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset and it retains control over the asset, the Company 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 Company derecognises a financial liability when its contractual obligations are discharged, cancelled or expire.

Amortised cost measurement

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

1.5 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.

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Notes to the financial statements for the year ended 31 December 2010 (continued)

1 Principal accounting policies

1.6 Impairment of financial assets

(a) Assets carried at amortised cost

On an ongoing basis the Company assesses whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group 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 group 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, 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.

(b) Renegotiated loans

Loans that are either subject to collective impairment assessment or individually significant and whose terms have been renegotiated are no longer considered to be past due but are treated as new loans.

1.7 Intangible assets

(a) Goodwill

Goodwill represents the excess of the cost of a loan book acquisition over the fair value of the Company's share of the net identifiable assets of the acquired loan book at the date of acquisition.

The goodwill on the Music loan book relates to relationships with suppliers. These are assessed as enduring relationships and therefore goodwill is deemed to have an infinite life.

Secure Trust Bank Plc

Notes to the financial statements for the year ended 31 December 2010 (continued)

1 Principal accounting policies

Goodwill is tested at least annually for impairment or when events or changes in economic circumstances indicate that impairment may have taken place and carried at fair value less accumulated impairment losses. Impairment losses are recognised in the statement of comprehensive income if the carrying amount exceeds the recoverable amounts. This will be released over the life of the book.

(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.

1.8 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 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.

Office 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.

1.9 Leases

Rentals made under operating leases are recognised in the statement of comprehensive income on a straight line basis over the term of the lease.

1.10 Cash and cash equivalents

For the purposes of the statement of cash flows, 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.

1.11 Employee benefits

(a) Post-retirement obligations

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.

Secure Trust Bank Plc

Notes to the financial statements for the year ended 31 December 2010 (continued)

1 Principal accounting policies

1.12 Income taxation

Current income tax which is payable on taxable profits is recognised as an expense in the period in which the profits arise. Income tax recoverable on tax allowable losses is recognised as an asset only to the extent that it is regarded as recoverable by offset against current or future taxable profits.

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.

1.13 Dividends

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

2 Critical accounting estimates and judgments 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 judgments 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 Company 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 1.6. 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 judgments on the financial position of the counterparty and the net realisable value of collateral, in determining the expected future cash flows.

Secure Trust Bank Plc

Notes to the financial statements for the year ended 31 December 2010 (continued)

2 Critical accounting estimates and judgments in applying accounting policies (continued)

Goodwill impairment

The accounting policy for goodwill is described in note 1.7 (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 cashflows were assessed at inception and are reviewed in line with business performance on a regular basis.

Income 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 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.

2.2 Judgements

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 statement of comprehensive income, 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 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.

Secure Trust Bank Plc

Notes to the financial statements for the year ended 31 December 2010 (continued)

3 Maturity analysis of assets and liabilities

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

	Due within one year	Due after more than one year	Total
At 31 December 2010	£000	£000	£000
Assets			
Cash and cash equivalents	13	0	13
Loans and advances to banks and building societies	42,577	0	42,577
Debt securities held to maturity	25,627	0	25,627
Loans and advances to customers	33,804	50,469	84,273
Other assets	22,096	0	22,096
Property, plant and equipment	0	1,051	1,051
Intangible assets	0	783	783
Investments	0	1	1
Deferred tax asset	0	70	70
Total assets	124,117	52,374	176,491
Liabilities			
Customer accounts	153,778	0	153,778
Subordinated loan capital	0	2,400	2,400
Other liabilities	6,113	0	6,113
Deferred tax liabilities	0	0	0
Total liabilities	159,891	2,400	162,291

Secure Trust Bank Plc

Notes to the financial statements for the year ended 31 December 2010 (continued)

The table below shows the maturity analysis of assets and liabilities as at 31 December 2009

	Due within one year	Due after more than one year	Total
At 31 December 2009	£000	£000	£000
Assets			
Cash and cash equivalents	4	0	4
Loans and advances to banks and building societies	39,334	0	39,334
Debt securities held to maturity	11,000	0	11,000
Loans and advances to customers	16,312	34,710	51,022
Other assets	11,583	0	11,583
Property, plant and equipment	0	1,630	1,630
Intangible assets	0	785	785
Investments	0	71	71
Total assets	78,233	37,196	115,429
Liabilities			
Customer accounts	93,342	0	93,342
Subordinated loan capital	0	2,400	2,400
Other liabilities	7,954	0	7,954
Deferred tax liabilities	9	0	9
Total liabilities	101,305	2,400	103,705

Secure Trust Bank Plc

Notes to the financial statements for the year ended 31 December 2010 (continued)

4 Financial risk management

Strategy

The directors and senior management of the Company 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 Company's business are credit and liquidity risk.

(a) 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 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 Company 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.

Secure Trust Bank Plc

Notes to the financial statements for the year ended 31 December 2010 (continued)

4 Financial risk management (continued)

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

	2010 £000	2009 £000
Credit risk exposures relating to on-statement of financial position assets		
Loans and advances to banks and building societies	42,577	39,334
Loans and advances to customers	84,273	51,022
Debt securities held to maturity	25,627	11,000
Amounts due from related companies	19,579	10,162
	172,056	111,518
Credit risk exposures relating to off- statement of financial position assets		
Financial guarantees	0	0
Loan commitments and other credit related liabilities	0	0
	0	0
Total exposure at 31 December	172,056	111,518

The above table represents the maximum credit risk exposure (net of impairment) to the Company at 31 December 2010 and 2009 without taking account of credit enhancements attached. For on-statement of financial position assets, the exposures are based on the net carrying amounts as reported in the statement of financial position.

The quality of the assets which are neither past due or impaired is monitored closely, with detailed credit scoring being carried out. The carrying value of assets which would be impaired if they had not been negotiated is also assessed.

(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 Company has no exposures in foreign currencies.

Interest rate risk

Interest rate risk is the potential adverse impact on the Company's future cash flows from changes in interest rates and arises from the differing interest rate risk characteristics of the Company's assets and liabilities. In particular, fixed rate products expose the Company 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 company 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 Company monitors the interest rate mismatch on a daily basis in conjunction with liquidity and capital.

Secure Trust Bank Plc

Notes to the financial statements for the year ended 31 December 2010 (continued)

4 Financial risk management (continued)

Interest rate sensitivity gap

The following table summarises the repricing periods for the assets and liabilities in the Company's non trading book. Items are allocated to time bands by reference to the earlier of the next contractual interest rate and the maturity date.

	Within 3 months	Over 3 months but within 6 months £000	Over 6 months but within 1 year £000	Over 1 year but within 5 years £000	More than 5 years £000	Non interest bearing £000	Total £000
Assets							
Cash and cash equivalents	0	0	0	0	0	13	13
Loans and advances to banks and building societies	36,590	5,987	0	0	0	0	42,577
Debt securities held to maturity	15,589	5,028	5,010	0	0	0	25,627
Loans and advances to customers	11,834	10,075	13,442	47,737	0	1,185	84,273
Other assets	0	0	0	0	0	24,001	24,001
	64,013	21,090	18,452	47,737	0	25,199	176,491
Liabilities							
Customer accounts	153,778	0	0	0	0	0	153,778
Other liabilities	0	0	0	0	0	8,513	8,513
Total equity	0	0	0	0	0	14,200	14,200
	153,778	0	0	0	0	22,713	176,491
Interest rate sensitivity gap	(89,765)	21,090	18,452	47,737	0	2,486	
Cumulative gap	(89,765)	(68,675)	(50,223)	(2,486)	(2,486)	0	

(c) Liquidity risk

The new Liquidity regime came into force on the 1st of 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 Company prepared and approved their Individual Liquidity Assessment (ILA). The liquidity buffers required by the ILA have all been put in place and maintained since. Liquidity resources outside of the buffer are made up of certificates of deposit. The Company also maintains long-term committed bank facilities.

Secure Trust Bank Plc

Notes to the financial statements for the year ended 31 December 2010 (continued)

4 Financial risk management (continued)

The Company is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits and loan draw-downs. 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.

The tables on pages 25 and 26 analyse the Company's assets and liabilities into relevant maturity groupings based on the remaining period at the statement of financial position date to the contractual maturity date.

Secure Trust Bank Plc

Notes to the financial statements for the year ended 31 December 2010 (continued)

4 Financial risk management (continued)

Liquidity Risk at 31 December 2010

	Within 3 months £000	Over 3 months but within 1 year £000	Over 1 year but within 5 years £000	More than 5 years £000	Non cash items £000	Total £000
At 31 December 2010						
Cash and cash equivalents	13	0	0	0	0	13
Loans and advances to banks and building societies	36,590	5,987	0	0	0	42,577
Debt securities held to maturity	15,589	5,028	5,010	0	0	25,627
Loans and advances to customers	12,435	24,713	54,922	0	(7,797)	84,273
Other non cash assets	1,367	20,799	0	1	1,834	24,001
Total assets	65,994	56,527	59,932	1	(5,963)	176,491
Customer accounts	74,472	79,306	0	0	0	153,778
Other non cash liabilities inc Total Equity	2,792	3,321	2,400	0	14,200	22,713
Total liabilities	77,264	82,627	2,400	0	14,200	176,491
Net liquidity gap	(11,270)	(26,100)	57,532	1	(20,163)	0
At 31 December 2009						
Cash and cash equivalents	4	0	0	0	0	4
Loans and advances to banks and building societies	46,334	4,000	0	0	0	50,334
Loans and advances to customers	7,491	8,821	40,523	0	(5,813)	51,022
Other non cash assets	392	11,191	0	71	2,415	14,069
Total assets	54,221	24,012	40,523	71	(3,398)	115,429
Customer accounts	67,366	25,976	0	0	0	93,342
Other non cash liabilities inc Total Equity	1,497	6,466	2,400	0	11,724	22,087
Total liabilities	68,863	32,442	2,400	0	11,724	115,429
Net liquidity gap	(14,642)	(8,430)	38,123	71	(15,122)	0

Secure Trust Bank Plc

Notes to the financial statements for the year ended 31 December 2010 (continued)

4 Financial risk management (continued)

Fair values of financial assets and liabilities

The tables below sets out the carrying amounts and fair values of the Company's financial assets and financial liabilities

Liquidity risk at 31 December 2010

At 31 December 2010	Designated at fair value £000	Held-to- maturity £000	Loans and receivables £000	Available- for-sale £000	Other amortised cost £000	Total carrying amount £000	Fair value £000
Cash and cash equivalents	0	0	13	0	0	13	13
Loans and advances to banks and building societies	0	0	42,577	0	0	42,577	42,577
Debt securities held to maturity	0	25,627	0	0	0	25,627	25,627
Loans and advances to customers	0	0	84,273	0	0	84,273	84,273
	0	25,627	126,863	0	0	152,490	152,490
Customer accounts	0	0	0	0	153,778	153,778	153,778
	0	0	0	0	153,778	153,778	153,778

At 31 December 2009	Designated at fair value £000	Held-to- maturity £000	Loans and receivables £000	Available- for-sale £000	Other amortised cost £000	Total carrying amount £000	Fair value £000
Cash and cash equivalents	0	0	4	0	0	4	4
Loans and advances to banks and building societies	0	0	39,334	0	0	39,334	39,334
Debt securities held to maturity	0	11,000	0	0	0	11,000	11,000
Loans and advances to customers	0	0	51,022	0	0	51,022	51,022
	0	11,000	90,360	0	0	101,360	101,360
Customer accounts	0	0	0	0	93,342	93,342	93,342
	0	0	0	0	93,342	93,342	93,342

Secure Trust Bank Plc

Notes to the financial statements for the year ended 31 December 2010 (continued)

4 Financial risk management (continued)

Fair values of financial assets and liabilities

The carrying amounts of those assets and liabilities not presented on the Company's statement of financial position at fair value are not materially different from their fair values

5 Capital management

The Company's capital management policy is focused on optimising shareholder value. There is a clear focus on growth both organically and through acquisition of loan books, 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 Company 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 Company 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 I plus" approach to determine the level of capital the Company needs to hold. This method takes the Pillar I capital formula calculations (standardised approach for credit, market and operational risk) as a starting point, and then considers whether each of the calculations deliver a sufficient capital sum adequately to cover Managements' 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, as per the Individual Capital Guidance (ICG) issued by the FSA.

The Company's regulatory capital is divided into two tiers:

- Tier 1 comprises mainly shareholders' funds 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 Company:

	2010	2009
	£000	£000
Tier 1		
Share capital	5,000	5,000
Retained earnings - (pre dividend)	11,700	9,225
Intangible assets	(783)	(785)
Dividend paid	(2,500)	(2,500)
Investment	(1)	(71)
Total tier 1 capital	13,416	10,869
Tier 2		
Revaluation reserve	0	(9)
Subordinated loan	2,400	2,400
Total tier 2 capital	2,400	2,391
Total capital after deductions	15,816	13,260

Secure Trust Bank Plc

Notes to the financial statements for the year ended 31 December 2010 (continued)

5 Capital management (continued)

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 Company has available. The FSA's last review of the Company's ICAAP was last conducted in December 2007 and the regulatory capital requirements for the Company has subsequently been agreed, as part of the ICG issued by the FSA. 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 Company maintains an extra internal buffer and capital ratios are reviewed on a monthly basis to ensure that external requirements are adhered to. The Company has complied with all of the externally imposed capital requirements to which they are subject.

6 Operating expenses

	Note	2010 £000	2009 £000
Staff costs, including directors			
Wages and salaries		6,359	6,113
Social security costs		665	515
Other pension costs		202	206
Amortisation	17	179	155
Depreciation	16	703	473
Charitable donations		5	6
Operating lease rentals		455	521
Other administrative expenses		6,063	4,083
Total operating expenses		14,631	12,072

Auditors' remuneration

2010 £000	2009 £000
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Amounts receivable by the auditors and their associates in respect of

Audit of these financial statements and subsidiaries	85	95
Other services relating to taxation	75	5
All other services	5	0

7 Average number of employees

	2010	2009
Administration	201	208

The figures above include the directors of the Company

Secure Trust Bank Plc

Notes to the financial statements for the year ended 31 December 2010 (continued)

8 Income tax expense

	2010	2009
	£000	£000
United Kingdom corporation tax at 28% (2009 28%)		
Current	2,065	2,089
Deferred	(97)	(23)
Current - prior year over provision	235	85
Deferred - prior year over provision	18	30
Income tax expense	2,221	2,181

Tax reconciliation

The tax assessed for the year is not at the standard rate of corporation tax in the UK of 28% (2009 28%)

Profit before tax	7,197	7,359
Tax at 28% (2009 28%)	2,015	2,061
Non taxable income	(50)	5
Reduction in tax rate on deferred tax balances	3	0
Prior period adjustments	253	115
Tax charge for the year	2,221	2,181

The Emergency Budget on 22 June 2010 announced that the UK corporation tax rate will reduce from 28% to 24% over a period of 4 years from 2011. The first reduction in the UK corporation tax rate from 28% to 27% was substantively enacted on 20 July 2010 and will be effective from 1 April 2011. This will reduce the company's future current tax charge accordingly. As such, the deferred tax balances outstanding at the balance sheet date are stated at 27%. It has not yet been possible to quantify the full anticipated effect of the announced further 3% rate reduction, although this will further reduce the company's future current tax charge and reduce the company's deferred tax assets accordingly.

9 Dividends

	2010	2009
	£000	£000
Interim paid	2,500	2,500

The dividend per share was 50.0 pence (2009 50.0 pence per share)

Secure Trust Bank Plc

Notes to the financial statements for the year ended 31 December 2010 (continued)

10 Cash and cash equivalents

	2010 £000	2009 £000
Cash at bank and in hand included in cash and cash equivalents (note 24)	13	4

11 Loans and advances to banks and building societies

	2010 £000	2009 £000
Placements with other banks and building societies included in cash and cash equivalents (note 24)	42,577	39,334

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

	2010 £000	2009 £000
Aaa	16,457	0
Aa3	2,491	6,000
No rating (group Company)	23,629	33,334
	42,577	39,334

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

Secure Trust Bank Plc

Notes to the financial statements for the year ended 31 December 2010 (continued)

12 Debt securities held to maturity

Debt securities represent certificates of deposit. The Company's intention is to hold them to maturity and, therefore, they are stated in the statement of financial position at amortised cost.

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

	Note	2010 £000	2009 £000
At 1 January		11,000	14,293
Additions		150,790	48,097
Redemptions		(136,163)	(51,390)
At 31 December	24	25,627	11,000

The table below presents an analysis of debt securities by rating agency designation at 31 December, based on Moody's long term ratings:

	2010 £000	2009 £000
Aa2	5,000	0
Aa3	20,627	11,000
At 31 December	25,627	11,000

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

13 Loans and advances to customers

	2010 £000	2009 £000
Gross loans and advances	92,070	56,817
Less allowances for losses on loans and advances	(7,797)	(5,795)
	84,273	51,022

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

Secure Trust Bank Plc

Notes to the financial statements for the year ended 31 December 2010 (continued)

13 Loans and advances to customers (continued)

Loans and advances to customers can be further summarised as follows

	2010 £000	2009 £000
Neither past due nor impaired	74,814	45,491
Past due but not impaired	5,632	5,326
Impaired	11,624	6,000
Gross	92,070	56,817
Less allowance for impairment	(7,797)	(5,795)
Net	84,273	51,022

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 £204k (2009: £212k) 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:

	2010 £000	2009 £000
Past due up to 30 days	3,762	3,943
Past due 30 - 60 days	1,400	800
Past due 60 - 90 days	470	583
Total	5,632	5,326

Secure Trust Bank Plc

Notes to the financial statements for the year ended 31 December 2010 (continued)

14 Allowances for impairment of loans and advances

	2010	2009
	£000	£000
At 1 January	5,795	4,438
Provision movement charged to profits	2,166	1,156
Recoveries	0	201
Amounts written off	(164)	0
At 31 December	7,797	5,795

15 Other assets

	2010	2009
	£000	£000
Prepayments and accrued income	1,367	393
Amounts due from related companies	19,579	10,162
Other assets	1,150	1,028
	22,096	11,583

Secure Trust Bank Plc

Notes to the financial statements for the year ended 31 December 2010 (continued)

16 Plant and equipment

	Computer and office equipment
	£000
Cost or valuation	
At 1 January 2009	7,861
Additions	153
At 31 December 2009	8,014
Additions	124
At 31 December 2010	8,138
Accumulated depreciation	
At 1 January 2009	(5,911)
Depreciation charge	(473)
At 31 December 2009	(6,384)
Depreciation charge	(703)
At 31 December 2010	(7,087)
Net book amount	
At 31 December 2009	1,630
At 31 December 2010	1,051

Secure Trust Bank Plc

Notes to the financial statements for the year ended 31 December 2010 (continued)

17 Intangible assets

Goodwill	2010	2009
	£000	£000
Opening net book amount	309	0
Additions	0	309
Accumulated amortisation	0	0
Closing net book amount	309	309

Computer Software	2010	2009
	£000	£000
Cost		
At 1 January	1,755	1,414
Additions	177	341
At 31 December	1,932	1,755
Accumulated amortisation		
At 1 January	(1,279)	(1,124)
Amortisation charge	(179)	(155)
At 31 December	(1,458)	(1,279)
Net book amount		
At 31 December	474	476

Total intangible assets	2010	2009
	£000	£000
Goodwill	309	309
Computer software	474	476
Net book amount at 31 December	783	785

Secure Trust Bank Plc

Notes to the financial statements for the year ended 31 December 2010 (continued)

18 Deferred taxation

	2010 £000	2009 £000
The deferred tax asset/(liability) comprises		
Depreciation in excess of capital allowances	28	(63)
Pension	6	6
Specific provisions	36	48
Total	70	(9)
At 1 January	(9)	(2)
Income statement credit/(charge)	79	(7)
At 31 December	70	(9)

19 Shares in subsidiary undertakings

	Shares at cost £000	Impairment provision £000	Net book value £000
31 December 2009	1,513	(1,442)	71
Net book value at 1 January 2010			71
Write off investment			(70)
Net book value at 31 December 2010			1

The investment written off was with A&G

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
STB Leasing Limited	100%	Leasing
Secure Trust Financial Services Limited	100%	Dormant

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 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.

Secure Trust Bank Plc

Notes to the financial statements for the year ended 31 December 2010 (continued)

20 Due to customers

	2010	2009
	£000	£000
Retail customers		
- current / demand accounts	27,514	26,418
- term deposits	126,264	66,924
	153,778	93,342

21 Other liabilities

	2010	2009
	£000	£000
Trade creditors	32	45
Amounts due to related companies	2,032	4,474
Corporation tax	1,289	1,417
Accruals and deferred income	2,760	2,018
	6,113	7,954

FSCS Levy

The Financial Services Compensation Scheme provides compensation to customers of financial institutions in the event that an institution is unable, or is likely to be unable, to pay claims against it. During 2008, a number of institutions failed, including Bradford & Bingley plc, Heritable Bank plc, Kaupthing Singer & Friedlander Limited, Landsbanki 'Icesave', and London Scottish Bank plc. In order to meet its obligations to the depositors of these institutions, the FSCS has borrowed £19.7 billion from HM Treasury, which is on an interest only basis until September 2011.

These borrowings are anticipated to be repaid wholly or substantially from the realisation of the assets of the above named institutions. The FSCS raises annual levies from the banking industry to meet its management expenses and compensation costs. Individual institutions make payments based on their level of market participation (in the case of deposits, the proportion that their protected deposits represent of total market protected deposits) at 31st December each year. If an institution is a market participant on this date it is obligated to pay a levy. Secure Trust Bank Plc was a market participant at 31st December 2008, 2009 and 2010. The Company has accrued £99,000 for its share of levies that will be raised by the FSCS including the interest on the loan from HM Treasury in respect of the levy years to 31st March 2011. The accrual includes the director's estimates for the interest FSCS will pay on the loan and estimates of the Company's market participation in the relevant periods. Interest will continue to accrue on the HM Treasury loan to the FSCS until September 2011 and will form part of future FSCS management expenses levies. If the assets of the failed institutions are insufficient to repay the HM Treasury loan in 2011, the FSCS will agree a schedule of repayments with HM Treasury, which will be recouped from the industry in the form of additional levies. At the date of these financial statements, it is not possible to estimate the quantum and timing of additional levies on the industry, the level of the Company's market participation or other factors that may affect the amounts or timing of amounts that may ultimately become payable, nor the effect that such levies may have upon operating results in any particular financial period.

Secure Trust Bank Plc

Notes to the financial statements for the year ended 31 December 2010 (continued)

22 Share capital

	Number of shares	Ordinary shares £000
Authorised		
At 1 January 2010 and 31 December 2010 at £1 per share	5,000,000	5,000
Allocated, called up and fully paid		
At 1 January 2010 and 31 December 2010 at £1 per share	5,000,000	5,000

23 Contingent liabilities and commitments

a) Capital commitments

At 31 December 2010, the Company had no capital commitments (2009 £nil)

b) Credit commitments

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

	2010 £000	2009 £000
Guarantees and other contingent liabilities		
- Guarantees on Premium Finance loans	0	0
Commitments to extend credit		
- Original term to maturity of one year or less	0	0
	0	0

c) Operating lease commitments

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

	2010		2009	
	Land & Buildings	Other	Land & Buildings	Other
Within 1 year	29	32	63	79
Between 1 year and 5 years	15	9	41	26
Over 5 years	0	0	0	0
	44	41	104	105

The leases under Land and Buildings are 4 branches with the other leases being motor vehicles

Secure Trust Bank Plc

Notes to the financial statements for the year ended 31 December 2010 (continued)

24 Cash and cash equivalents

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

	Note	2010 £000	2009 £000
Cash at bank and in hand	10	13	4
Loans and advances to banks and building societies	11	42,577	39,334
Debt securities held to maturity	12	25,627	11,000
		68,217	50,338

25 Related party transactions

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

	Directors	
	2010 £000	2009 £000
Loans		
Loans outstanding at 1 January	219	434
Interest capitalised	10	0
Loan repayments during the year	0	0
Loan reclassification	0	(215)
Loans outstanding at 31 December	229	219
Interest income earned	5	5

The reclassification relates to a loan from a director who ceased to be employed by the bank

No provisions have been recognised in respect of loans given to related parties (2009: £nil)

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

Secure Trust Bank Plc

Notes to the financial statements for the year ended 31 December 2010 (continued)

25 Related party transactions (continued)

	2010	2009
	£000	£000
Deposits held with Group Companies		
Deposits outstanding at 1 January	7,500	6,500
Deposits issued during the year	120,078	15,500
Deposit repayments during the year	(127,578)	(14,500)
Balances outstanding at 31 December	0	7,500
Interest income earned	103	100

During the year the Company undertook the following transactions with other companies in the Arbuthnot Banking Group

	2010	2009
	£000	£000
Secure Homes Services Limited - building rental paid	360	360
Arbuthnot Banking Group plc - recharge of shared services	220	106
Balances outstanding at 31 December	580	466

Amounts receivable from and payable to related companies are included in notes 15 and 21

Subordinated loan

As a consequence of the revised regulatory framework being introduced under Basel II, the Company raised £1,000k by way of a subordinated loan from the parent Arbuthnot Banking Group plc in December 2007. This is due to be repaid in 2016 and attracts interest at the rate of LIBOR plus 1.5%

A further loan of £1,400k was taken out in 2009 under the same terms as above

Secure Trust Bank Plc

Notes to the financial statements for the year ended 31 December 2010 (continued)

25 Related party transactions (continued)

Directors' remuneration

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

	2010	2009
	£000	£000
Other emoluments	850	775
Compensation for loss of office	673	0
Pension contributions	58	75
	1,581	850

The emoluments of Messrs Angest, Salmon, Cobb, Turrell, Proctor and Wickham are paid by Arbuthnot Banking Group Plc, which makes no recharges to the Company for their services

The aggregate emoluments of the highest paid director are £643k (2009 £407k), including £17k (2009 £50k) of contributions made to a money purchase scheme on their behalf and £552k in compensation for loss of office. A further £121k was paid to another director in compensation for loss of office

No directors have a beneficial interest in any shares of the Company and therefore exercised no share options (2009. none). The interests of any directors whom hold shares in the ultimate parent Company are shown in the Directors Report of that Company

26 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 CEO has a beneficial interest in 52.8% 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