

**V12 Retail Finance Limited**  
**Annual report and financial statements**  
**for the year ended 31 December 2017**

Registered Number 04585692



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# Strategic Report

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## **Principal activity and business review**

The principal activity of V12 Retail Finance Limited ("the Company") during the year was as a lending intermediary company, facilitating consumer credit applications and the provision of comprehensive loan servicing arrangements, for the ultimate parent company, Secure Trust Bank PLC.

The Company is well positioned to take advantage of new opportunities in its origination of consumer credit agreements and the loan servicing business. The continued demand for consumer credit in the UK has put the business in a good position to grow its future revenues and profits as part of the wider Secure Trust Bank group.

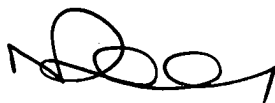
The Company has increased proportionately its overall income from new loan business that is passed to Secure Trust Bank PLC and this has been accompanied by loan book collection and management fees. The business has managed its costs which has increased profitability. Against this background the directors consider the Company's results to be satisfactory.

The directors consider that, consistent with the size and non-complex nature of the business, the key performance indicators are those that show the financial performance of the business as a whole.

## **Principal risks and uncertainties**

The principal risks and uncertainties of this business relate to the general retail spending environment and consumers' propensity to borrow. Online retail sales continue to grow beyond the overall retail market spend. V12 Retail Finance Limited's unique on-line offering and its access to funding from Secure Trust Bank will enable the business to manage these principal risks and uncertainties. The Company's overall approach to managing risk is described in Note 3.

By order of the Board



**N J Davies**  
Director

21 March 2018

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# Directors' report

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The directors present their report and the audited financial statements for the year ended 31 December 2017.

## Results for the year

The results for the year are shown in the Statement of Comprehensive Income on page 6. The Company generated a profit of £9,970,000 in the year (2016: £7,801,000) which was transferred to reserves. The directors recommended payment of an interim dividend of £13,892,000 (2016:£nil) during the year which was paid on 29 September 2017, however have not recommended payment of a further and final dividend for the year (2016:£nil).

## Directors

J M Bowers

N J Davies

P A Lynam

## Directors' interests

Of the directors holding office at 31 December 2017 Mr Lynam is a director of Secure Trust Bank PLC, the ultimate parent company. His interests in the share capital of that company are shown in Secure Trust Bank PLC's Directors' Report. During the year Mr Davies was awarded 3,292 share options in Secure Trust Bank PLC as a member of the 2017 Long term incentive plan share scheme and 1,364 share options as a member of the 2017 Sharesave scheme. Details of the scheme are shown in Secure Trust Bank PLC's 2017 annual report and accounts. No director had a beneficial interest in shares of the Company during the year.

## Third party indemnity provisions

The directors of the Company have an insurance policy in place to provide them with indemnity cover. This policy was in force during the year and also at the date of approval of the financial statements.

## Political donations

The Company made no political donations during the year (2016: nil).

## 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 Company's overall approach to managing internal control and financial reporting is described in Note 3.

## Going concern

In assessing the Company as a going concern, the directors have given consideration to the factors likely to affect its future performance and development, the Company's financial position and the principal risks and uncertainties facing the Company, including the Company's exposure to credit and liquidity risk and the mechanism for dealing with these risks. The directors are satisfied that the Company has adequate resources to continue to operate for the foreseeable future as a going concern. For this reason they continue to adopt the going concern basis in preparing these financial statements.

## Auditor

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

KPMG LLP was reappointed as auditor at the Annual General Meeting held in 2017. As detailed in the Secure Trust Bank PLC Audit Committee Report, following a thorough and competitive tender process the Board is recommending the appointment of Deloitte LLP as auditor at the 2018 Annual General Meeting.

By order of the Board

**N J Davies**

Director

21 March 2018



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# Directors' responsibility statement

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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 International Financial Reporting Standards as adopted by the European Union (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, relevant and reliable;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- assess the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

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 are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and 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.

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



**N J Davies**  
Director

21 March 2018

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# Independent auditor's report

to the members of V12 Retail Finance Limited

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## Opinion

We have audited the financial statements of V12 Retail Finance Limited ("the company") for the year ended 31 December 2017 which comprise the statement of comprehensive income, statement of financial position, statement of changes in equity, statement of changes in cash flows, and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

## Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

## Going concern

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

## Strategic report and directors' report

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

## Matters on which we are required to report by exception

Under the Companies Act 2006, we are required 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.

We have nothing to report in these respects.

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# Independent auditor's report

to the members of V12 Retail Finance Limited

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## **Directors' responsibilities**

As explained more fully in their statement set out on page 3, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

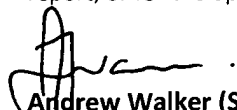
## **Auditor's responsibilities**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities).

## **The purpose of our audit work and to whom we owe our responsibilities**

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.



**Andrew Walker (Senior Statutory Auditor)**  
for and on behalf of KPMG LLP, Statutory Auditor

*Chartered Accountants*

*One Snowhill  
Snow Hill Queensway  
Birmingham  
B4 6GH*

21 March 2018

# Statement of comprehensive income

		Year ended 31 December 2017 £000	Year ended 31 December 2016 £000
	Note		
Revenue	5	24,677	18,400
Cost of sales		(1,875)	(1,251)
<b>Gross profit</b>		<b>22,802</b>	<b>17,149</b>
Operating expenses	6	(10,518)	(7,383)
<b>Profit before income tax</b>		<b>12,284</b>	<b>9,766</b>
Income tax expense	9	(2,314)	(1,965)
<b>Profit for the year</b>		<b>9,970</b>	<b>7,801</b>
<b>Total Comprehensive Income for the year</b>		<b>9,970</b>	<b>7,801</b>
<b>Profit attributable to:</b>			
Equity holders of the Company		9,970	7,801
<b>Total comprehensive income attributable to:</b>			
Equity holders of the Company		9,970	7,801

The Company's results are from continuing operations.

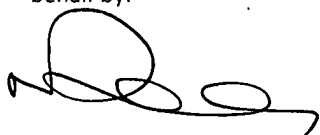
The notes on pages 10 to 20 are an integral part of these financial statements



# Statement of financial position

		At 31 December	
		2017	2016
	Note	£000	£000
<b>ASSETS</b>			
Cash and cash equivalents		89	-
Property, plant and equipment	12	849	637
Intangible assets	10	80	51
Investments	11	61	61
Deferred tax assets	15	54	30
Other assets	13	28,321	17,659
<b>Total assets</b>		<b>29,454</b>	<b>18,438</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Liabilities</b>			
Amounts owed to credit institutions		-	8
Current tax liabilities		1,059	892
Other liabilities	14	18,398	3,635
<b>Total liabilities</b>		<b>19,457</b>	<b>4,535</b>
<b>Equity attributable to owners of the parent</b>			
Share capital	16	-	-
Retained earnings		9,997	13,903
<b>Total equity</b>		<b>9,997</b>	<b>13,903</b>
<b>Total equity and liabilities</b>		<b>29,454</b>	<b>18,438</b>

The financial statements pages on 6 to 20 were approved by the Board of Directors on 21 March 2018 and were signed on its behalf by:



**N J Davies**  
Director

Company number: 04585692

*The notes on pages 10 to 20 are an integral part of these financial statements*

# Statement of changes in equity

	Note	Share capital £000	Retained earnings £000	Total £000
<b>Balance at 1 January 2016</b>		-	<b>6,102</b>	<b>6,102</b>
<b>Total comprehensive income for the year</b>				
Profit for the year ended 31 December 2016		-	7,801	7,801
<b>Total comprehensive income for the period</b>		-	<b>7,801</b>	<b>7,801</b>
<b>Transactions with owners, recorded directly in equity</b>				
<b>Distributions to owners</b>				
Dividends		-	-	-
Share Option revaluation		-	-	-
<b>Total contributions by and distributions to owners</b>		-	-	-
<b>Balance at 31 December 2016</b>		-	<b>13,903</b>	<b>13,903</b>
<b>Total comprehensive income for the period</b>				
Profit for the year ended 31 December 2017		-	9,970	9,970
<b>Total comprehensive income for the period</b>		-	<b>9,970</b>	<b>9,970</b>
<b>Transactions with owners, recorded directly in equity</b>				
<b>Distributions to owners</b>				
Dividends		-	(13,892)	(13,892)
Equity contribution	8	-	16	16
<b>Total contributions by and distributions to owners</b>		-	<b>(13,876)</b>	<b>(13,876)</b>
<b>Balance at 31 December 2017</b>		-	<b>9,997</b>	<b>9,997</b>

The notes on pages 10 to 20 are an integral part of these financial statements

# Statement of cash flows

		Year ended 31 December 2017 £000	Year ended 31 December 2016 £000
	Note		
<b>Cash flows from operating activities</b>			
Profit for the year		9,970	7,801
Adjustments for:			
Income tax expense		2,314	1,965
Depreciation of property, plant and equipment	12	306	168
Amortisation of intangible fixed assets	10	33	71
Cash flows from operating profits before changes in operating assets and liabilities		12,623	10,005
Changes in operating assets and liabilities:			
- net increase in other assets		(12,817)	(10,042)
- net increase in other liabilities		14,763	555
<b>Net cash flow from operating activities</b>		<b>14,569</b>	<b>518</b>
Purchase of computer software	10	(62)	(34)
Purchase of property, plant and equipment	12	(518)	(518)
<b>Net cash used in investing activities</b>		<b>(580)</b>	<b>(552)</b>
Dividend paid		(13,892)	-
<b>Net cash used in financing activities</b>		<b>(13,892)</b>	<b>-</b>
<b>Net increase / (decrease) in cash and cash equivalents</b>		<b>97</b>	<b>(34)</b>
Cash and cash equivalents at start of period		(8)	26
<b>Cash and cash equivalents at 31 December</b>		<b>89</b>	<b>(8)</b>

The notes on pages 10 to 20 are an integral part of these financial statements

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# Notes to the financial statements

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## 1. Principal accounting policies

The principal accounting 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.

### 1.1 Reporting entity

V12 Retail Finance Limited is a company incorporated and domiciled in the United Kingdom. The registered address of the Company is One Arleston Way, Solihull, West Midlands, B90 4LH.

### 1.2 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. There are no areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements.

The directors have assessed, in the light of current and anticipated economic conditions, the Company's ability to continue as a going concern. The directors confirm they are satisfied that the Company has adequate resources to continue in business for the foreseeable future. For this reason, they continue to adopt the 'going concern' basis for preparing accounts.

The following International Financial Reporting Standards, which have been endorsed by the EU, have been issued but are not yet effective and have not been adopted early:

- IFRS 9 'Financial instruments' (effective for annual periods beginning after 1 January 2018). This is the IASB's replacement of IAS 39 'Financial Instruments: Recognition and Measurement'. Phase one of this standard deals with the classification and measurement of financial assets and represents a significant change from the existing requirements in IAS 39. The standard contains three primary measurement categories for financial assets: 'amortised cost', 'fair value through other comprehensive income' and 'fair value through profit or loss' and eliminates the existing categories of 'held to maturity', 'available for sale' and 'loans and receivables'. Phase two of the standard covers impairment, with a new expected loss impairment model that will require expected credit losses to be accounted for from when financial instruments are first recognised and lowers the threshold for the recognition of full lifetime expected losses. Phase three covers general hedge accounting and introduces a substantially reformed model for hedge accounting with enhanced disclosure about risk management activity. The new model aligns the accounting treatment with risk management activities. Management has carried out an assessment of the impact of IFRS 9 on future periods and is of the opinion that there will be no impact for the Company, other than some additional disclosure requirements, as a result of adopting IFRS 9.
- IFRS 15 'Revenue from contracts with customers' (effective for annual periods beginning after 1 January 2018). This standard replaces a number of existing standards and interpretations and applies to contracts with customers, but does not apply to insurance contracts, financial instruments or lease contracts, which are in the scope of other IFRSs. It also does not apply if two companies in the same line of business exchange non-monetary assets to facilitate sales to other parties. The standard specifies how and when an IFRS reporter will recognise revenue as well as requiring such entities to provide users of financial statements with more informative relevant disclosures. It introduces a new revenue recognition model that recognises revenue either at a point in time or over time. The model features a principles-based five-step model to be applied to all contracts with customers. This standard is unlikely to have a material impact on the Company.
- IFRS 16, 'Leases' (effective from 1 January 2019). The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract i.e. the customer ('lessee') and the supplier ('lessor'). IFRS 16 replaces the previous leasing standard, IAS 17 Leases, and related interpretations. IFRS 16

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# Notes to the financial statements

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eliminates the classification of leases as either operating leases or finance leases for a lessee. Instead all leases are treated in a similar way to finance leases applying IAS 17. Leases are 'capitalised' by recognising the present value of the lease payments and showing them either as lease assets (right-of-use assets) or together with property, plant and equipment. If lease payments are made over time, a company also recognises a financial liability representing its obligation to make future lease payments. The most significant effect of the new requirements in IFRS 16 will be an increase in lease assets and financial liabilities. Accordingly, for companies with material off balance sheet leases, there will be a change to key financial metrics derived from the company's assets and liabilities (for example, leverage ratios). This standard is not expected to have a material impact on the Company.

## 1.3 Revenue

Revenue income and fees charged for the provision of services are recognised on an accruals basis and included in the statement of comprehensive income when the service has been provided.

## 1.4 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.

## 1.5 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.

## 1.6 Property plant and equipment

Tangible fixed assets are initially recorded at cost, which represents the purchase cost plus any incidental costs of acquisition. Depreciation is provided on all tangible fixed assets, at rates calculated to write off the cost, less estimated residual value, of each asset evenly over its expected useful life, as follows:

Fixtures, fittings and office equipment	3 to 5 years
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The carrying values of tangible fixed assets are reviewed for impairment when events or changes in circumstances indicate the carrying values may not be recoverable.

## 1.7 Intangible assets

### Brand

The company has capitalised third party costs incurred in the design and production of the rebranding undertaken in 2011 and 2012. The brand has an estimated useful life of 5 years and is being written off on a straight line basis.

### 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 over their expected useful lives, which are between three and five years.

## 1.8 Investments

Fixed asset investments are initially recorded at cost, which represents the purchase price plus any incidental costs of acquisition. The carrying value of these investments is reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

# Notes to the financial statements

## 1.9 Operating leases

Rentals paid under operating leases are charged to the profit and loss account on a straight line basis over the lease term.

## 1.10 Post retirement obligations

The Company operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the Company in an independently administered fund. The amount charged to the profit and loss account represents the contributions payable to the scheme in respect of the accounting period.

## 2. Prior Year Adjustment

Following a review by Management during the year the accounting treatment being applied to the Company's Investment assets was identified as being incorrect. The Investment assets in question are Debentures, which were previously being amortised over a period of thirty years from purchase. The review identified that the amortisation treatment was not in accordance with the accounting policy as stated in Note 1.8. These assets should be recognised at cost of acquisition and be periodically assessed for any impairment of the carrying value. As a consequence of the prior period errors, a prior year adjustment has been made to restate the comparative amounts for the prior period presented herein, and the impact of this on the financial statements is as follows:

### Statement of comprehensive income

Amortisation of investment assets is not permitted, and therefore has been reversed, the impact of which is a reduction in value of Operating expenses recognised as follows:

	2016 as originally stated £000	2016 as restated £000
Operating expenses	(7,384)	(7,383)
<b>Total assets</b>	<b>(7,384)</b>	<b>(7,383)</b>

### Statement of financial position

As the Investment is now carried at acquisition cost and amortisation has been reversed the impact of the prior year adjustment on the Statement of financial position is as follows:

	2016 as originally stated £000	2016 as restated £000
Investments	50	61
<b>Total assets</b>	<b>50</b>	<b>61</b>

### Statement of changes in equity

As the amortisation charges previously recognised have been reversed this results in an increase in Retained earnings as follows:

	2016 as originally stated £000	2016 as restated £000	2015 as originally stated £000	2015 as restated £000
Retained earnings	13,892	13,903	6,092	6,102
<b>Total assets</b>	<b>13,892</b>	<b>13,903</b>	<b>6,092</b>	<b>6,102</b>

# Notes to the financial statements

## 3. Maturity analysis of assets and liabilities

The table below shows the maturity analysis of the Company's financial assets and liabilities as at 31 December 2017:

	Due within one year £000	Due after more than one year £000	Total £000
<b>At 31 December 2017</b>			
<b>ASSETS</b>			
Cash and cash equivalents	89	-	89
Other assets	27,649	-	27,649
<b>Total assets</b>	<b>27,738</b>		<b>27,738</b>
<b>LIABILITIES</b>			
Other liabilities	16,688	-	16,688
<b>Total liabilities</b>	<b>16,688</b>	-	<b>16,688</b>

The table below shows the maturity analysis of the Company's financial assets and liabilities as at 31 December 2016:

	Due within one year £000	Due after more than one year £000	Total £000
<b>At 31 December 2016</b>			
<b>ASSETS</b>			
Other assets	17,205	-	17,205
<b>Total assets</b>	<b>17,205</b>	-	<b>17,205</b>
<b>LIABILITIES</b>			
Amounts owed to credit institutions	8	-	8
Other liabilities	2,541	-	2,541
<b>Total liabilities</b>	<b>2,549</b>	-	<b>2,549</b>

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# Notes to the financial statements

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## 4. Financial risk management

### *Strategy*

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.

The principal non-operational risk inherent in the Company's business is that related to liquidity risk. There is limited exposure to credit risk and conduct risk, but no exposure to market risk.

### *(a) Credit risk*

The Company takes on limited 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.

### *(b) Liquidity risk*

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due, or can only do so at excessive cost. The Company's liquidity policy is to maintain sufficient liquid resources to cover cash flow imbalances and fluctuations and to enable the Company to meet its financial obligations as they fall due.

### *(c) Operational risk*

The Company's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Company's reputation with overall cost effectiveness and to avoid control procedures that restrict initiatives and creativity.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to the senior management within the Company.

### *(d) Conduct risk*

Conduct risk reflects the potential for customers (and the business) to suffer financial loss or other detriment through the actions and decisions made by the business and its staff. We define conduct risk as the risk that the Company's services, and the way they are delivered, result in poor outcomes for customers or markets in which we operate, or harm to the Company. This could be as a direct result of poor or inappropriate execution of our business activities or behaviour from our staff. The Company takes a principles based approach, which covers both regulated and unregulated activities.

## 5. Revenue

Revenue represents fee income during the period, an analysis of which is below:

	2017	2016
	£000	£000
Commission and service fee income	8,373	6,793
Software application processing fees	6,023	4,561
Loan book management and servicing fees	10,281	7,046
<b>Total revenue</b>	<b>24,677</b>	<b>18,400</b>

All of the revenue originates in the United Kingdom.



# Notes to the financial statements

## 6. Operating expenses

	2017	2016
	£000	£000
Operating expenses comprise:		
Staff costs, including directors:		
Wages and salaries	6,272	4,046
Social security costs	607	417
Pension costs	344	169
Share Option Cost	16	-
Depreciation of property, plant and equipment (Note 12)	306	168
Amortisation of intangible assets (Note 10)	33	71
Operating lease rentals - land and buildings	211	144
Operating lease rentals - plant and machinery	95	86
Loss on disposal of property, plant and equipment	-	3
Other administrative expenses	2,634	2,279
<b>Total operating expenses</b>	<b>10,518</b>	<b>7,383</b>

The Company operates a defined contribution pension scheme. The pension cost charge for the year represents contributions payable by the Company to the scheme. There were outstanding contributions at the end of the current financial year of £32,000 (2016: £10,000).

The audit fees for the current year were £45,000 (2016: £43,000).

In 2016 and 2017, of the directors, Mr Davies was remunerated by the Company. Mr Bowers and Mr Lynam were remunerated by the Company's ultimate parent company, Secure Trust Bank PLC, which made no recharges to the Company for their services. The directors' emoluments were as follows:

	2017	2016
	£'000	£'000
Emoluments	479	391
Company contributions to money purchase pension schemes	11	11
<b>Total directors' emoluments</b>	<b>490</b>	<b>402</b>
Highest paid director:		
Emoluments	479	391
Company contributions to money purchase pension schemes	11	11
<b>Total emoluments</b>	<b>490</b>	<b>402</b>
Number of directors in money purchase pension schemes	1	1

# Notes to the financial statements

## 7. Average number of employees

	2017	2016
Directors	3	3
Sales	19	17
Operations and customer services	129	76
Administration and Information technology	29	20
<b>Total</b>	<b>180</b>	<b>116</b>

## 8. Share Option Schemes

2017 Long term incentive plan and 2017 Sharesave plan

On 3 May 2017, Secure Trust Bank Group established two new share options schemes entitling employees to purchase shares in Secure Trust Bank Plc. Certain employees of the Company participate in these schemes which are administered by Secure Trust Bank plc, the ultimate parent company.

Accordingly, the fair value of the services received, in relation to the schemes, is recognised in the income statement of the Company, along with the equity contribution from the parent increasing retained profit.

## 9. Income tax expense

	2017 £000	2016 £000
Current taxation		
Corporation tax charge - current year	2,389	1,971
Corporation tax charge - adjustments in respect of prior years	(51)	7
	<b>2,338</b>	<b>1,978</b>
Deferred taxation		
Deferred tax charge - current year	(21)	(13)
Deferred tax charge - adjustments in respect of prior years	(3)	-
	<b>(24)</b>	<b>(13)</b>
<b>Income tax expense</b>	<b>2,314</b>	<b>1,965</b>
Tax reconciliation		
Profit before tax	12,284	9,766
Tax at 19.25% (2016: 20%)	2,365	1,953
Permanent differences	2	4
Tax rate change	1	1
Prior period adjustments	(54)	7
<b>Income tax expense for the year</b>	<b>2,314</b>	<b>1,965</b>

On 2 July 2013 the Government substantively enacted a reduction in the main rate of UK corporation tax from 21% to 20% with effect from 1 April 2015. Further reductions to 19% (effective from 1 April 2017) and to 17% (effective 1 April 2020) have been enacted. This will reduce the Company's future current tax charge accordingly.

# Notes to the financial statements

## 10. Intangible assets

	Brand £'000	Computer Software £'000	Total £'000
Cost or valuation			
At 1 January 2016	22	336	358
Additions	-	34	34
At 31 December 2016	22	370	392
Additions	-	62	62
At 31 December 2017	22	432	454
Accumulated amortisation			
At 1 January 2016	(19)	(251)	(270)
Amortisation charge	(3)	(68)	(71)
At 31 December 2016	(22)	(319)	(341)
Amortisation charge	-	(33)	(33)
At 31 December 2017	(22)	(352)	(374)
Net book amount			
At 31 December 2016	-	51	51
At 31 December 2017	-	80	80

## 11. Investments

Other investments	Cost £'000
At 1 January 2016	51
Amortisation adjustment	10
At 31 December 2016 restated	61
Fair value adjustments	-
At 31 December 2017	61

The other investments relate to debentures. In prior years these were being amortised over a period of thirty years from purchase, however following an accounting policy review there has been a change of accounting treatment and the assets recognised at cost of acquisition. The impact of this prior year adjustment on the financial statements can be found in note 2.

# Notes to the financial statements

## 12. Property, plant and equipment

	Computer and other equipment £000
Cost or valuation	
At 1 January 2016	618
Additions	518
Disposals	(55)
At 31 December 2016	1,081
Additions	518
Disposals	-
At 31 December 2017	1,599
Accumulated depreciation	
At 1 January 2016	(331)
Depreciation charge	(168)
Disposals	55
At 31 December 2016	(444)
Depreciation charge	(306)
Disposals	-
At 31 December 2017	(750)
Net book amount	
At 31 December 2016	637
At 31 December 2017	849

## 13. Other assets

	2017 £000	2016 £000
Trade receivables	20	14
Amounts due from related companies	27,629	17,191
Prepayments and accrued income	672	454
	<b>28,321</b>	<b>17,659</b>

### Amounts due from related companies

Amounts due from related companies have no fixed date for repayment and are therefore technically repayable on demand. They are accounted for as financial assets, measured at amortised cost and the fair value is not considered to be significantly different from the carrying value.

# Notes to the financial statements

## 14. Other liabilities

	2017	2016
	£000	£000
Trade payables	722	467
Amounts due to related companies	15,966	2,074
Accruals and deferred income	1,710	1,094
	<b>18,398</b>	<b>3,635</b>

### Amounts due to related companies

Amounts due to related companies have no fixed date for repayment and are therefore technically repayable on demand. They are accounted for as financial liabilities, measured at amortised cost and the fair value is not considered to be significantly different from the carrying value.

## 15. Deferred tax

The deferred tax assets comprise:

	2017	2016
	£000	£000
Accelerated capital allowances and other short-term timing differences	54	30
Deferred tax assets	<b>54</b>	<b>30</b>
At start of period	30	17
Deferred tax charge	21	14
Prior year adjustment	3	-
Tax rate change	-	(1)
Deferred tax assets at 31 December	<b>54</b>	<b>30</b>

Deferred tax has been calculated based on the enacted rates to the extent that the related temporary or timing differences are expected to reverse in the future periods.

## 16. Share capital

	Number of ordinary shares	Ordinary shares
		£000
At 1 January and at 31 December 2017	100	-

The total number of ordinary shares in issue at 31 December 2017 and 31 December 2016 was 100 with a par value of £1 per share (2016: £1 per share). All issued shares are fully paid.

# Notes to the financial statements

## 17. Financial commitments

At the year end the Company had the following commitments for the following year under non-cancellable operating leases :

	2017		2016	
	Land and Buildings	Other	Land and Buildings	Other
	£'000	£'000	£'000	£'000
Operating leases which expire:				
Within 1 year	127	60	127	59
Between 2 years and 5 years	411	60	509	27
Over 5 years	-	-	29	-
	<b>538</b>	<b>120</b>	<b>665</b>	<b>86</b>

There is one lease under land and buildings (2016: 1). Other leases include vehicles and computer hardware.

## 18. Related party transactions

During the year the Company undertook the following transactions with other companies in the group headed by the ultimate parent company, Secure Trust Bank PLC:

	2017	2016
	£000	£000
V12 Finance Group Limited		
Dividends paid	13,892	-
Secure Trust Bank PLC		
Commissions and service fees for loans	7,978	6,577
Software service charges	5,992	4,549
Loan book management and servicing fees	10,281	7,046

Amounts due from the ultimate parent company, Secure Trust Bank PLC, are included in Note 13.

Amounts due to the immediate parent company, V12 Finance Group Limited, are included in Note 14.

Directors' self-invested personal pension funds

Landlord for office property

The Company leases 2 units of its office premises from a group of four self-invested personal pension funds, which includes two funds belonging to a director and former director. The lease expires in 2022 and has an annual rental of £106,000 plus VAT (2016: £106,000 plus VAT). There was no balance outstanding at 31 December 2017 or 31 December 2016.

## 19. Immediate and ultimate parent company

The ultimate parent company is Secure Trust Bank PLC. A copy of the financial statements of Secure Trust Bank PLC may be obtained from Secure Trust Bank PLC, One Arlestone Way, Solihull, West Midlands, B90 4LH.

The immediate parent company is V12 Finance Group Limited. A copy of the financial statements of this company may be obtained from its registered office, One Arlestone Way, Solihull, West Midlands, B90 4LH.

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# Corporate contacts & advisers

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