V12 Retail Finance Limited
Annual report and financial statements for the year ended 31 December 2018

Registered Number 04585692

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Strategic Report

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 managed loan portfolio is held on the balance sheet of Secure Trust Bank PLC. References to the portfolio and associated revenue and impairments therefore relate to the financial statements of the parent company.

With respect to the managed loan portfolio, new gross lending volumes increased to £651.5 million (an increase of 25% on the previous year). This drove a further significant increase in lending assets, which during the year rose to £597.0 million (December 2017: £452.3 million). Market share increased from 5.6% in 2017 to 6.8% in 2018 (based on Finance & Leasing Association new business values within retail store and online credit).

Each of the three largest sub-markets for the business (sports and leisure, furniture and jewellery) have contributed to this growth, which as in previous years has been achieved through a combination of gaining increased market share and sector growth.

The revenue of the managed loan portfolio increased by 24% to £62.8 million (2017: £50.7 million). Impairment losses were well controlled at £19.3 million (2017: £13.8 million) and reflect accelerated provisioning under IRFS 9 aligned to a growing book.

Customer feedback, measured by FEEFO, provided the business with a score of 4.8 out of 5 for the year based on 400 reviews.

The Company plans further growth during 2019 with the focus on acquiring increased market share across its target markets.

To underpin the continued growth, the Company continues to invest in initiatives to further enhance its systems capabilities, to ensure that quality of service to both retailers and customers is maintained or improved. This includes the online account management service, which allows customers to view their statement online and make routine self-serve changes to their account such as change of payment date and settlement.

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. Revenue of the Company fell by 11% from £24,677,000 to £21,967,000, and profit before tax fell by 50% from £12,284,000 to £6,179,000, despite the managed loan portfolio increasing by 32% during the year. This is primarily due to a change in the method of charging Secure Trust Bank PLC for management services and sales commission on the managed loan portfolio, which took effect from 1 January 2018. The Statement of Comprehensive Income on page 8 shows the profitability of the Company.

Principal risks and uncertainties

The principal risks and uncertainties of this business relate to credit risk, liquidity risk, operational risk, conduct risk and regulatory risk. 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 4.

The Directors consider that the impact on the Company of risks relating to the United Kingdom's imminent withdrawal from the European Union are not significant.

Approved by the Board and signed on its behalf

N J Davies
Director

9 May 2019

Directors' report

The Directors present their report and the audited financial statements for the year ended 31 December 2018.

Results for the year

The results for the year are shown in the Statement of Comprehensive Income on page 8. The Company generated a profit of £5,005,000 in the year (2017: £9,970,000) which was transferred to reserves. The Directors do not recommended the payment of a dividend (2017: a dividend of £13,892,000 in respect of the year ended 31 December 2016 was paid during the year).

Directors serving during the year

J M Bowers   N J Davies   P A Lynam

Directors' interests

Of the Directors holding office at 31 December 2018 P A 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 the Directors' report of that company's 2018 annual report and accounts. During the year the Directors were awarded the following options over shares in Secure Trust Bank PLC:

N J Davies	1 January 2018 Number	Granted during the year Number	31 December 2018 Number
2017 Long term incentive plan share scheme	3,292	12,067	15,359
2017 Sharesave scheme	1,364	-	1,364
	4,656	**12,067**	**16,723**

J M Bowers	1 January 2018 Number	Granted during the year Number	31 December 2018 Number
2017 Long term incentive plan share scheme	3,292	3,934	7,226

Details of the scheme are shown in Secure Trust Bank PLC's 2018 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.

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 4.

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.

Directors' report

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.

Deloitte LLP was appointed as auditor at the Annual General Meeting held in 2018. Deloitte LLP, has expressed its willingness to accept reappointment. A resolution to reappoint Deloitte LLP will be proposed to the Board of Directors.

Approved by the Board and signed on its behalf

N J Davies
Director
9 May 2019

Statement of Directors' responsibilities

The Directors are responsible for preparing the Strategic Report, 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 and prudent
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information
- state whether they have been prepared in accordance with IFRSs as adopted by the EU
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the company's financial position and financial performance
- assess the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern
- 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.

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report and Directors' Report that complies with that law and those regulations.

We confirm that to the best of our knowledge:

- The financial statements, prepared in accordance with IFRS as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company taken as a whole
- The Strategic report includes a fair review of the development and performance of the business and the position of the company taken as a whole, together with a description of the principal risks and uncertainties that it faces.

This responsibility statement was approved by the Board of Directors on 9 May 2019 and is signed on their behalf by:

N J Davies
Director

Independent auditor's report

to the members of V12 Retail Finance Limited

Opinion
In our opinion the financial statements of V12 Retail Finance Limited (the 'Company'):

- give a true and fair view of the state of the company's affairs as at 31 December 2018 and of its profit for the year then ended
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the statement of comprehensive income
- the statement of financial position
- the statement of changes in equity
- the statement of cash flows
- the related notes 1 to 20.

The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union.

Basis for opinion
We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern
We are required by ISAs (UK) to report in respect of the following matters where:

- the Directors' use of the going concern basis of accounting in preparation of the financial statements is not appropriate or
- the Directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of these matters.

Other information
The Directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in respect of these matters.

Independent auditor's report

to the members of V12 Retail Finance Limited

Responsibilities of Directors
As explained more fully in the Statement of Directors' responsibilities, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for 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 the Directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements
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 an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a 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 the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Report on other legal and regulatory requirements
Opinions on other matters prescribed by the Companies Act 2006
In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements
- the Strategic report and the Directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic report or the Directors' report.

Matters on which we are required to report by exception
Under the Companies Act 2006 we are required to report in respect of the following matters 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 respect of these matters.

Independent auditor's report

to the members of V12 Retail Finance Limited

Use of our report

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.

Neil Reed

Neil Reed, ACA (Senior Statutory Auditor)
for and on behalf of Deloitte LLP, Statutory Auditor
Birmingham, United Kingdom
9 May 2019

Statement of comprehensive income

	Note	Year ended 31 December 2018 £000	Year ended 31 December 2017 £000
Revenue	5	21,967	24,677
Cost of sales	6	(2,347)	(1,875)
Gross profit		**19,620**	**22,802**
Operating expenses	7	(13,441)	(10,518)
Profit before income tax		**6,179**	**12,284**
Income tax expense	10	(1,174)	(2,314)
Profit for the year		**5,005**	**9,970**
Total comprehensive income for the year		**5,005**	**9,970**
Profit attributable to:			
Equity holders of the Company		**5,005**	**9,970**
Total comprehensive income attributable to:			
Equity holders of the Company		**5,005**	**9,970**

The Company has no recognised gains and losses other than those included in the results above hence a Statement of Other Comprehensive Income has not been prepared.

The Company's results above are from continuing operations.

The notes on pages 12 to 23 are an integral part of these financial statements

Statement of financial position

	Note	At 31 December 2018 £000	2017 £000
ASSETS			
Cash and cash equivalents		47	89
Property, plant and equipment	13	757	849
Intangible assets	11	93	80
Investments	12	61	61
Deferred tax assets	16	190	54
Other assets	14	17,036	28,321
Total assets		**18,184**	**29,454**
EQUITY AND LIABILITIES			
Liabilities			
Current tax liabilities		448	1,059
Other liabilities	15	2,625	18,398
Total liabilities		**3,073**	**19,457**
Equity attributable to owners of the parent			
Share capital	17	-	-
Retained earnings		15,111	9,997
Total equity		**15,111**	**9,997**
Total equity and liabilities		**18,184**	**29,454**

The financial statements on pages 8 to 23 were approved by the Board of Directors on 9 May 2019 and were signed on its behalf by:

N J Davies
Director

Company number: 04585692

The notes on pages 12 to 23 are an integral part of these financial statements

Statement of changes in equity

	Note	Share capital £000	Retained earnings £000	Total £000
Balance at 1 January 2017		-	**13,903**	**13,903**
Total comprehensive income for the year				
Result for the year ended 31 December 2017		-	9,970	9,970
Total comprehensive income for the period		-	**9,970**	**9,970**
Transactions with owners, recorded directly in equity				
Distributions to owners				
Dividends		-	(13,892)	(13,892)
Equity contribution	9	-	16	16
Total contributions by and distributions to owners		-	**(13,876)**	**(13,876)**
Balance at 31 December 2017		-	**9,997**	**9,997**
Total comprehensive income for the period				
Result for the year ended 31 December 2018		-	5,005	5,005
Total comprehensive income for the period		-	**5,005**	**5,005**
Transactions with owners, recorded directly in equity				
Distributions to owners				
Dividends		-	-	-
Equity contribution	9	-	109	109
Total contributions by and distributions to owners		-	**109**	**109**
Balance at 31 December 2018		-	**15,111**	**15,111**

The notes on pages 12 to 23 are an integral part of these financial statements

Statement of cash flows

	Note	Year ended 31 December 2018 £000	Year ended 31 December 2017 £000
Cash flows from operating activities			
Profit for the year		5,005	9,970
Adjustments for:			
Income tax expense		1,174	2,314
Depreciation of property, plant and equipment	13	373	306
Amortisation of intangible assets	11	48	33
Cash flows from operating profits before changes in operating assets and liabilities		6,600	12,623
Changes in operating assets and liabilities:			
- net decrease / (increase) in other assets		9,473	(12,817)
- net (decrease) / increase in other liabilities		(15,773)	14,763
Net cash flow from operating activities		**300**	**14,569**
Purchase of computer software	11	(61)	(62)
Purchase of property, plant and equipment	13	(281)	(518)
Net cash used in investing activities		**(342)**	**(580)**
Dividend paid		-	(13,892)
Net cash used in financing activities		**-**	**(13,892)**
Net (decrease) / increase in cash and cash equivalents		(42)	97
Cash and cash equivalents at start of period		89	(8)
Cash and cash equivalents at 31 December		**47**	**89**

The notes on pages 12 to 23 are an integral part of these financial statements

Notes to the financial statements

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 private company limited by shares and incorporated and domiciled in England and Wales 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. Areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, as set out in note 2.

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.

1.3 IFRS 16 Leases

IFRS 16 'Leases' has been issued, and endorsed by the EU, but is not yet effective. It is effective for annual periods beginning on or after 1 January 2019, and has not been adopted early.

The new 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'). It replaces the previous leases standard, IAS 17 'Leases', and related interpretations.

IFRS 16 uses a new single model that applies to all leases, thus eliminating the classification of leases as either operating leases or finance leases for a lessee. Applying that model, on commencement of a lease, the lessee recognises a liability to make lease payments ('the lease liability'), an asset representing the right to use the underlying asset during the lease term ('the right-of-use asset'), and depreciation of right-of-use assets is shown separately from interest on lease liabilities in the Income statement.

The lease liability is initially measured based on the net present value of the lease payments to be made over the remaining lease term, using the lessee's incremental borrowing rate as the discount rate. After commencement of the lease, the lease liability is measured on an amortised cost basis, with interest being calculated on an effective interest rate basis on the remaining balance of the liability, and lease payments reducing the lease liability when paid.

The right-of-use asset is initially measured at cost, being the amount of the initial measurement of the lease liability, adjusted for any prepaid rentals less any lease incentives plus any initial direct costs incurred by the lessee and dismantling or restoration costs. Subsequently, the right-of-use asset is amortised on a straight-line basis over the remaining term of the lease.

Transition choices

The Company has elected to recognise the cumulative effect of implementing IFRS 16 as an adjustment to the opening balance of retained earnings at 1 January 2019. Accordingly, prior year comparatives shall not be restated. As a practical expedient, the Company will apply the new standard only to contracts that had previously been identified as leases. Therefore, the new standard will not be applied to contracts that had not previously been identified as leases.

The Company has also elected not to apply IFRS 16 to the following:

- Short term leases of 12 months or less.
- Leases for which the underlying asset is of low value.

This has resulted in the new standard only being applicable to the Company's property lease and motor vehicle leases.

The Company has chosen to measure the initial right of use asset for property leases at its carrying amount as if the standard has been applied since the commencement date, but discounted using the incremental borrowing rate as at 1 January 2019. The initial right of use asset for all other leases is measured at an amount equal to the lease liability.

The IFRS 16 implementation project is substantially complete, and based on assessments undertaken to date, the estimated adjustments (net of tax) arising from the adoption of IFRS 16 on 1 January 2019 are expected to be an increase in assets and liabilities of approximately £600,000 to £800,000, and there will be no material impact on shareholders' equity at 1 January 2019. Additionally, it is not expected that implementation of IFRS 16 will have any material impact on profit before tax for the year ended 31 December 2019.

Lessor accounting remains unchanged from IAS 17.

1.4 Financial instruments

IFRS 9 'Financial instruments', effective for period beginning 1 January 2018, has replaced IAS 39 'Financial Instruments: Recognition and Measurement'. Adoption of the standard has resulted in new accounting policies for the classification and measurement of financial instruments and the impairment of financial assets which are presented below.

Financial assets and liabilities are measured at amortised cost. 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.

The implementation of IFRS 9 did not have a material impact on shareholders' equity at 1 January 2018 or profit before tax for the year ended 31 December 2018.

1.5 Revenue

The Company's revenue all relates to the managed loan portfolio held on the balance sheet of Secure Trust Bank PLC, the Company's ultimate parent undertaking, and is all paid for by Secure Trust Bank PLC.

The Company provides the following three services:

- Loan management services: The performance obligation is satisfied in accordance with the intercompany agreement when amounts due from borrowers are collected by the Company.
- Subsidy and third party commission setup fees: The performance obligation is satisfied on loan origination as each loan is contracted with customer on behalf of STB PLC.
- Sales commission: The performance obligation is satisfied on loan origination as each loan is contracted with customer on behalf of STB PLC.

The above-mentioned fee income is disaggregated in accordance with IFRS15, Para 114 and are recognised as 'over time" revenue.

The fee income for above revenue streams is calculated on an arm's length basis, using industry benchmarks. Loan management services are charged on a cost plus basis, and sales commission is charged on percentage commission basis.

Notes to the financial statements

1.6 Cost of sales
Cost of sales comprises credit card and payment platform fees, credit scoring and affordability checks, identity checks and electronic payment processing fees and is recognised on an accruals basis when the service has been received.

1.7 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.

1.8 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.

1.9 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*

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.

1.10 Intangible assets
Software
Acquired computer software licences which meet the IAS 38 recognition criteria 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.

1.11 Investments
Fixed asset investments are initially measured at amortised 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.

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

1.13 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.

Notes to the financial statements

1.14 Share option schemes
Share options have been granted under the Secure Trust Bank PLC 2017 Sharesave Plan and the 2017 Long Term Incentive Plan to certain employees of the 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.

1.15 Equity instruments
Equity instruments issued by the Company are recorded at the proceeds received, net of direct issuance costs. Any amounts received over nominal value are recorded in the share premium account, net of direct issuance costs.

2. Critical accounting judgements and key sources of estimation uncertainty

There are no critical accounting judgements and key sources of estimation uncertainty that have any impact on either the financial result for the year or the Statement of financial position as at 31 December 2018.

3. Maturity analysis of assets and liabilities

The table below shows the undiscounted maturity analysis of the Company's financial assets and liabilities as at 31 December 2018:

At 31 December 2018	Due within one year £000	Due after more than one year £000	Total £000
ASSETS			
Cash and cash equivalents	47	-	47
Trade receivables	15		15
Amounts due from related companies	16,010	-	16,010
Total assets	**16,072**	-	**16,072**
LIABILITIES			
Trade payables	877	-	877
Total liabilities	**877**	-	**877**

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

At 31 December 2017	Due within one year £000	Due after more than one year £000	Total £000
ASSETS			
Cash and cash equivalents	89	-	89
Trade receivables	20		20
Amounts due from related companies	27,629	-	27,629
Total assets	**27,738**	-	**27,738**
LIABILITIES			
Trade payables	722	-	722
Amounts due to related companies	15,966		15,966
Total liabilities	**16,688**	-	**16,688**

The Company has not included investments for both 2017 and 2018 maturity analysis due to its long term nature. See Note 12 for more details.

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. Operational Risk is the risk that the Group may be exposed to direct or indirect loss arising from inadequate or failed internal processes, personnel and succession, technology/ infrastructure, or from external factors.

The scope of operational risk is broad and includes business process, business continuity, third party, financial crime, change, human resources, information security and IT risk, including cyber risk. The Company has adopted an Operational Risk Policy and Framework designed in accordance with the 'Principles for the Sound Management of Operational Risk' issued by the Basel Committee on Banking Supervision.

The approach ensures appropriate governance is in place to provide adequate and effective oversight of the Company's operational risk. The governance framework includes the Secure Trust Bank PLC's Board Risk Committee and Group Operational Risk Committee.

The Company has a defined set of qualitative and quantitative operational risk appetite measures. Quantitative measures cover operational losses, complaints, key operational risks, systems availability and information security. The appetite measures are reported and monitored on a monthly basis.

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 business activities or behaviour from staff. The Company takes a principles based approach, which covers both regulated and unregulated activities.

Notes to the financial statements

(e) Regulatory risk
Regulatory risk is the risk that the Company fails to be compliant with all relevant regulatory requirements. This could occur if the Company failed to interpret, implement and embed processes and systems to address regulatory requirements, emerging risks, key focus areas and initiatives or deal properly with new laws and regulations. The Company seeks to manage regulatory risks through the Group-wide risk management framework in place within the parent company. The parent company Group Compliance and Regulatory Risk Committee is responsible for reviewing and monitoring regulatory changes, and ensuring that appropriate actions are taken, and also reviewing and approving the compliance risk management framework.

5. Revenue

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

	2018 £000	2017 £000
Loan management services	14,930	-
Sales commission	6,520	-
Subsidy and third party commission setup fees	517	-
Sales commission	-	8,373
Software-as-a-service fees	-	6,023
Loan book management and servicing fees	-	10,281
Total revenue	**21,967**	**24,677**

All of the revenue originates in the United Kingdom. Loan management services and sales commission relate to services provided to Secure Trust Bank PLC in respect of the managed loan portfolio.

During the year, the basis of the fees and commission charged by the Company was changed therefore the two years are not directly comparable.

6. Cost of sales

	2018 £000	2017 £000
Credit card and payment platform fees	370	266
Credit scoring and affordability checks	1,422	1,009
Identity checks	223	130
Electronic payment processing fees	332	470
Total cost of sales	**2,347**	**1,875**

Notes to the financial statements

7. Operating expenses

Operating expenses comprise:	2018 £000	2017 £000
Staff costs, including directors:		
Wages and salaries	7,558	6,272
Social security costs	846	607
Pension costs	462	344
Share Option Cost (Note 9)	109	16
Depreciation of property, plant and equipment (Note 13)	373	306
Amortisation of intangible assets (Note 11)	48	33
Operating lease rentals - land and buildings	191	211
Operating lease rentals - plant and machinery	175	95
Other administrative expenses	3,679	2,634
Total operating expenses	**13,441**	**10,518**

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 £43,000 (2017: £32,000).

The audit fees for the current year were £18,000 (2017: £45,000).

In 2017 and 2018, 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:

	2018 £'000	2017 £'000
Emoluments	526	479
Company contributions to money purchase pension schemes	14	11
Total Directors' emoluments	**540**	**490**
Highest paid Director:		
Emoluments	526	479
Company contributions to money purchase pension schemes	14	11
Total emoluments	**540**	**490**
Number of Directors in money purchase pension schemes	1	1

8. Average number of employees

	2018	2017
Directors	3	3
Sales	27	19
Operations and customer services	138	129
Administration and Information technology	49	29
Total	**217**	**180**

9. 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.

10. Income tax expense

	2018 £000	2017 £000
Current taxation		
Corporation tax charge - current year	1,242	2,389
Corporation tax charge / (credit) - adjustments in respect of prior years	68	(51)
	1,310	**2,338**
Deferred taxation		
Deferred tax charge - current year	(65)	(21)
Deferred tax charge - adjustments in respect of prior years	(71)	(3)
	(136)	(24)
Income tax expense	**1,174**	**2,314**

	2018 £000	2017 £000
Tax reconciliation		
Profit before tax	6,179	12,284
Tax at 19.00% (2017: 19.25%)	1,174	2,365
Permanent differences	3	2
Tax rate change	-	1
Prior period adjustments	(3)	(54)
Income tax expense for the year	**1,174**	**2,314**

The Government substantively enacted a reduction in the main rate of UK corporation tax from 20% to 19% (effective from 1 April 2017) and a further reduction to 17% (effective 1 April 2020).

Notes to the financial statements

11. Intangible assets

	Brand	Computer software	Total
	£'000	£'000	£'000
Cost or valuation			
At 1 January 2017	**22**	**370**	**392**
Additions	-	62	62
At 31 December 2017	**22**	**432**	**454**
Additions	-	61	61
At 31 December 2018	**22**	**493**	**515**
Accumulated amortisation			
At 1 January 2017	**(22)**	**(319)**	**(341)**
Amortisation charge	-	(33)	(33)
At 31 December 2017	**(22)**	**(352)**	**(374)**
Amortisation charge	-	(48)	(48)
At 31 December 2018	**(22)**	**(400)**	**(422)**
Net book amount			
At 31 December 2017	-	**80**	**80**
At 31 December 2018	-	**93**	**93**

12. Investments

Other investments	Cost £'000
At 31 December 2017 and at 31 December 2018	**61**

The other investments relate to sport debentures, which were originally acquired as part of a previous business acquisition. They are non-interest bearing and are repayable in 2081.

Notes to the financial statements

13. Property, plant and equipment

	Computer and other equipment £000
Cost or valuation	
At 1 January 2017	**1,081**
Additions	518
At 31 December 2017	**1,599**
Additions	281
At 31 December 2018	**1,880**
Accumulated depreciation	
At 1 January 2017	(444)
Depreciation charge	(306)
At 31 December 2017	**(750)**
Depreciation charge	(373)
At 31 December 2018	**(1,123)**
Net book amount	
At 31 December 2017	**849**
At 31 December 2018	**757**

14. Other assets

	2018 £000	2017 £000
Trade receivables	15	20
Amounts due from related companies	16,010	27,629
Prepayments and accrued income	1,011	672
	17,036	**28,321**

Amounts due from related companies
Amounts due from related companies do not bear any interest, 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.

15. Other liabilities

	2018	2017
	£000	£000
Trade payables	877	722
Amounts due to related companies	-	15,966
Accruals and deferred income	1,748	1,710
	2,625	**18,398**

Amounts due to related companies
Amounts due to related companies do not bear any interest, 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.

16. Deferred tax

The deferred tax assets comprise:

	2018	2017
	£000	£000
Accelerated capital allowances and other short-term timing differences	190	54
Deferred tax assets	**190**	**54**

At start of period	54	30
Deferred tax charge	65	21
Prior year adjustment	71	3
Tax rate change	-	-
Deferred tax assets at 31 December	**190**	**54**

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.

17. Share capital

	Number of ordinary shares	Share capital
		£000
At 1 January and at 31 December 2018	**100**	-

The total number of ordinary shares in issue at 31 December 2018 and 31 December 2017 was 100 with a par value of £1 per share (2017: £1 per share). All issued shares are fully paid.

18. Financial commitments

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

	2018		2017	
	Land and Buildings	Other	Land and Buildings	Other
	£'000	£'000	£'000	£'000
Operating leases which expire:				
Within 1 year	127	117	127	60
Between 2 years and 5 years	284	128	411	60
Over 5 years	-	36	-	-
	411	**281**	**538**	**120**

There is one lease under land and buildings (2017: 1). Other leases include vehicles and computer equipment.

19. 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:

	2018	2017
	£000	£000
V12 Finance Group Limited		
Dividends paid	-	**13,892**
Secure Trust Bank PLC		
Loan management services	14,930	-
Sales commission	6,520	-
Commissions and service fees for loans	-	7,978
Software service charge	-	5,992
Loan book management and servicing fees	-	10,281
	21,450	**24,251**

During the year, the basis of the fees and commission charged by the Company was changed therefore the two years are not directly comparable.

Amounts due from the ultimate parent company, Secure Trust Bank PLC, are included in Note 14.

Amounts due to the immediate parent company, V12 Finance Group Limited, are included in Note 15.

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 (2017: £106,000 plus VAT). There was no balance outstanding at 31 December 2018 or 31 December 2017.

20. 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 Arleston 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 Arleston Way, Solihull, West Midlands, B90 4LH.

Corporate contacts & advisers

Secretary & Registered Office

G Healy-Thomas
One Arleston Way
Solihull
West Midlands
B90 4LH
T 0121 693 9100
F 0121 693 9124

Independent Auditor

Deloitte LLP
Statutory Auditor
4 Brindley Place
Birmingham
United Kingdom
B1 2HZ

Principal Bankers

Barclays Bank PLC
38 Hagley Road
Edgbaston
Birmingham
B16 8NY

National Westminster Bank PLC
City of London Office
1 Princess Street
London
EC2R 8PA