# Secure Trust Bank PLC

## Interim Report for the six months ended 30 June 2013

A **pioneering** approach to simple, straightforward banking

# Secure Trust Bank PLC

**Personal lending** – fixed rate, fixed term products with payments received monthly. Loan terms are between 12 months and 60 months with advances varying from £500 to £15,000.

**Motor finance** – includes a multi-channel offering through motor dealers and brokers. Fixed rate, fixed term hire purchase agreements secured mainly against used cars with finance term periods ranging from 24 months to 60 months with a maximum loan size of £15,000.

**Retail finance** – includes lending solutions for store and online retailers and an "e"-tailer proposition distributed through partnership with Pay4Later. Unsecured, fixed rate and fixed term loans with payments received monthly. Loans vary in term from 3 months to 60 months and range from £250 to £15,000.

**Current account** – combines a current account with a prepaid card. The account charges a monthly fee and customers have the ability to earn rewards at participating retailers.

**Savings** – a combination of instant access accounts, notice deposits and deposit bonds with competitive interest rates.

Secure Trust Bank PLC ("the Company") is a longstanding established UK bank. Its core business is to provide banking services including a range of lending solutions and savings products. The Company's diversified lending portfolio focuses on unsecured personal loans, motor finance and retail finance. It also provides fee-based current accounts to customers who may not be adequately served by other banks. Its lending is entirely funded by customer deposits, with no exposure to wholesale funding, reflecting the Company's cautious approach to risk. In 2012 the Company became the first bank in the UK to be awarded the Customer Service Excellence Award and was also awarded a 4 star Fairbanking Mark for its current account.

The Company, which was incorporated in 1954, operates from its head office in Solihull, West Midlands, has been a subsidiary of Arbuthnot Latham & Co., Limited since 1976 and a subsidiary of Arbuthnot Banking Group PLC since 1985. The Company successfully listed on AIM in November 2011 and in December 2012 placed a further 1,481,482 shares on the market, raising gross proceeds of £20.0 million, which reduced the shareholding of Arbuthnot Banking Group PLC to 70.7%.

During June 2012 the Company acquired Everyday Loans Holdings Limited ("Everyday Loans") and its subsidiaries. Everyday Loans is a provider of unsecured loans operating through a national network of 28 branches where loans are advanced, serviced and collected. As at 31 December 2012 the Group, including Everyday Loans, had 434 employees.

During January 2013 the Company acquired the V12 Finance Group, a provider of retail finance, as well as the trade and assets of the Debt Managers group, which collects debts on behalf of a range of clients.

# Chairman's statement

Secure Trust Bank PLC has continued to make strong progress in the first half of 2013 and converted a number of the opportunities detailed at the time of the Placing in December last year.

The underlying profits of £10.3 million are £2.8 million or 37% higher than the underlying profits of £7.5m in the first half of 2012. Reported profit before tax for the period is £6.2 million which at face value is a decline on the prior year's £12.4 million. However shareholders will recall that the 2012 results included a one off fair value gain of £8.9 million which arose from the acquisition accounting required for the purchase of Everyday Loans.

We have continued to manage the bank's balance sheet on a prudent basis. Our funding and capital positions remain strong and our gross leverage ratio is very modest compared to the larger banks.

We concluded the acquisitions of V12 Finance Group ("V12") and Debt Managers in January. We see significant potential in both of these businesses and expect to see the benefits initially in V12 from 2014, noting that Debt Managers is a longer term investment, as indicated at the time of the announcement.

With a record number of people now in employment and some of the leading economic indicators turning positive there are grounds to be more optimistic. However the global economy faces many risks, especially in Bond markets, and the embryonic recovery could easily go into reverse in the event of a sudden and sizable external shock. With this in mind we are cautiously optimistic and expect to see continued growth in the business in the second half of 2013.

As a result of the first half performance the Board proposes to pay an interim dividend of 15p per share in respect of the six months ending 30 June 2013. This will be paid on 20 September 2013 to shareholders on the register as at 23 August 2013.

Henry Angest
Chairman
17 July 2013

## Board of Directors

**Directors**

Henry Angest LLL, Hon.F.UHI
*Non-Executive Chairman*

Paul Lynam ACIB, AMCT, Fifs
*Chief Executive Officer*

Neeraj Kapur BEng, ACGI, FCA, CF, FCIBS
*Chief Financial Officer*

Andrew Salmon ACA
*Non-Executive Director*

Paul Marrow ACIB
*Independent Non-Executive Director*

Carol Sergeant BA, MBA, CBE
*Independent Non-Executive Director*

**Secretary**

Jeremy Kaye FCIS

# Chief Executive's statement

I am pleased to be able to report sustained strong progress across the Secure Trust Bank group. Many of the opportunities flagged to investors as reasons for the Placing last December reached fruition during the first half of 2013 including;

1. The acquisition of V12 Finance Group.
2. The acquisition of the business and trade of Debt Managers.
3. A new term loan referral contract with a well-known retail bank.
4. The opening of new Everyday Loans branches in Belfast and Ipswich.
5. The launch of a direct to market personal lending proposition.
6. The commencement of highly selective SME lending.

These, coupled with good organic growth, have fuelled a 37% increase in our underlying profitability. The business is building momentum which means that barring an economic slowdown we expect to see sustained growth in the business in the second half of 2013.

## Disciplined management of the balance sheet

The bank's capital and funding positions remain healthy.

Organic lending growth and the V12 and Debt Managers acquisitions have allowed us successfully to deploy capital resulting in our post profit certification Tier one ratio being 17.0% and total capital 17.3% as at 30 June 2013. Gross leverage remains a modest 7.6x (5.8x as at 31 December 2012), or 13%. Basel III requires banks to achieve a minimum 3% leverage ratio by 2018 albeit I note that the Bank of England and the Prudential Regulation Authority stated earlier this month that they would like to see UK banks achieving this requirement somewhat sooner.

We have now been accepted into the Funding for Lending Scheme (FLS). In anticipation of this and in line with previous guidance we carefully managed our loan to deposit ratio up towards 100%, standing at 95% as at 30 June 2013 from 75% at 31 December 2012. The FLS will be used from July and will provide surplus liquidity which we have previously funded exclusively through the more expensive route of additional customer deposits. This strategy will enable us to use FLS funding to accelerate our plans for SME lending and to write higher volumes of prime personal lending. I should flag that we do not intend to become reliant on wholesale funding during the period that FLS is available. Thereafter we would anticipate reverting to having a loan to deposit ratio somewhat less than 100%.
In overall funding terms our deposit balances plus equity held in the form of cash is 119% of our lending balances as at 30 June 2013, providing us with substantial liquidity reserves.

Market forces, heavily influenced by FLS, have served to reduce significantly both the competition for and the price of customer deposits. For example the best buy rate in June 2011 for 5 year fixed rate deposits was 5.1% AER. In June 2013 this rate had fallen to 2.9% AER. We continue to seek to minimise funding and interest rate risks by broadly match funding the medium term lending book with fixed term deposits.

## Lending activities

We have seen strong demand from a wide range of customers for our lending products. We have recently agreed a new personal loan referral contract with a significant retail bank. We should see the benefits of this new distribution channel in the second half results. The net lending growth in Everyday Loans is as expected. In the combined V12 / Retail Finance area we see considerable opportunity for growth from the second half of 2013 onwards.

Our lending activities continue to be robustly controlled and we have not compromised our acceptance criteria or lending standards simply to achieve net growth. This approach has, in part, contributed to impairments being at levels below our expectations when we originated the loans. As the overall portfolio matures we expect to see, and have priced for, higher impairment levels than we are currently experiencing.

Total lending balances, net of provisions have increased to £365.8 million as at 30 June 2013. This represents growth of 41% since 30 June 2012 (£260.3 million) and 23% growth over the 2012 year end position of £297.6 million.

Motor Finance balances have grown to £104.8 million from £78.0 million a year ago and £89.6 million as at 31 December 2012 representing 34% and 17% growth respectively.

Personal unsecured lending balances, excluding Everyday Loans, have grown to £72.7 million from £55.3 million a year ago and £68.2 million as at 31 December 2012 representing 31% and 7% growth respectively.

Everyday Loans lending balances have grown to £79.4 million from £70.9 million a year ago and £73.8 million as at 31 December 2012 representing 12% and 8% growth respectively.

Retail Point of Sale balances have grown to £107.9 million from £52.3 million a year ago and £64.2 million as at 31 December 2012 representing 106% and 68% growth respectively. Excluding the assets arising from the V12 acquisition the Retail Finance loan balances grew by 47% over the last 12 months. Going forward our Retail Finance business will be reported inclusive of V12 reflecting the way we have integrated these activities.

## Fee based services

The OneBill service remains closed for new business. Customer numbers continue to reduce in line with management expectations and ended the period at 25,066.

The economics of providing a current account product have been negatively impacted by regulatory changes including Faster Payments and the forthcoming Faster Switching service. We have therefore moderated new business development activity whilst we take action to increase our financial returns. Nevertheless customer numbers are 12% higher than the same period in 2012.

## Update on acquisitions

It has been over 12 months since we completed the Everyday Loans Limited (ELL) acquisition and we continue to be pleased with the performance of the business. ELL provides finance to customers whose profiles mean they find it difficult to obtain credit from High Street lenders. Given the risk profile of these customers it is critically important that lending decisions are carefully considered and appropriately priced.

The branch staff incentive scheme remains heavily biased in favour of the safe repayment of loans which means the staff are focused on prudent rather than volume lending. This approach coupled with robust risk management techniques saw the ELL credit quality remaining stable during the first half of 2013.

We have continued to invest in ELL and in the first half of 2013 we opened new branches in Belfast and Ipswich. We plan to open further branches in Edinburgh and elsewhere in the second half of 2013. We are also investing in new products, at lower APRs, which we will launch later this year. We believe these will have strong appeal.

The integration of V12 Finance Group has progressed well. The combination of the existing Secure Trust and V12 Retail Finance portfolios means we are now the UK's largest provider of finance for cycles and musical equipment. We continue to enjoy excellent commercial relationships with the Association of Cycle Traders and the Arts Council England.

As indicated at the time of the announcement, we have identified cost synergies from the V12 acquisition that will be realised in the second half. These will, in part, be used to fund significant planned expansion in the Retail Finance sales team. We are extending our core competency of providing finance to assist customers with the funding of their leisure activities. In this respect we intend to launch into the Sports Season Ticket market in the second half of 2013 with the ambition of becoming a major provider during 2014. To support our plans in this area we have recruited a proven sales team who are highly experienced in this sector.

As I said at the time of the acquisition, Debt Managers (Services) Limited (DMS) is a long term strategic investment. We have now installed a highly experienced CEO who has recruited a proven CFO and COO. This new senior team will reinvigorate the business and I am confident of the prospects for DMS over time.

## Investing for the future

Our motor finance, retail finance and personal unsecured lending activities have driven the growth in profits in recent years. We see considerable on-going potential in these markets and our management teams are focused on realising these opportunities.

During the first half of 2013 we have had constructive engagement with the Prudential Regulation Authority, HM Treasury, the British Bankers Association, the Payments Council and the Business Banking team at the Department For Business Innovation and Skills about the need to remove barriers to growth and to provide greater support to 'challenger banks'. I am cautiously optimistic that action will be taken to begin the process of improving the competitive environment for small banks so they can provide more choice to consumers and SMEs. This gives us the confidence to invest in the next stage of our development. To this end we have commenced lending to SMEs on a targeted and selective basis. I see considerable opportunities here and will provide further updates in light of the progress we make with our plans in the coming months.

## Outlook

As we progress the opportunities before us, it is critical that we ensure management resource is appropriately focused on providing high quality customer service, controlling risks and generating sustainable returns for shareholders. The potential for action to address some of the current regulatory bias against smaller banks, coupled with the improvements we are making to broaden our distribution channels and strong organic demand for our products from a wide variety of customers are all encouraging factors. In addition we continue to explore a wide range of organic and external opportunities. Whilst the economy remains fragile and susceptible to sudden shocks, it does look like a gradual recovery is finally taking root. Therefore we look forward to the future with confidence.

Paul Lynam
Chief Executive Officer
17 July 2013

# Consolidated statement of comprehensive income

| | Six months ended 30 June 2013 £million | Six months ended 30 June 2012 £million |
|---|---|---|
| Interest and similar income | 34.1 | 15.7 |
| Interest expense and similar charges | (6.6) | (4.2) |
| **Net interest income** | **27.5** | **11.5** |
| Fee and commission income | 11.1 | 6.4 |
| Fee and commission expense | (2.3) | (1.0) |
| **Net fee and commission income** | **8.8** | **5.4** |
| **Operating income** | **36.3** | **16.9** |
| Impairment losses on loans and advances | (7.6) | (3.1) |
| Gain from a bargain purchase | – | 8.9 |
| Operating expenses | (22.5) | (10.3) |
| **Profit before income tax** | **6.2** | **12.4** |
| Income tax expense | (1.4) | (0.7) |
| **Profit for the period** | **4.8** | **11.7** |
| **Other comprehensive income, net of income tax** | | |
| Revaluation reserve | | |
| – Amount transferred to profit and loss | (0.1) | – |
| **Other comprehensive income for the period, net of income tax** | **(0.1)** | **–** |
| **Total comprehensive income for the period** | **4.7** | **11.7** |
| **Profit attributable to:** | | |
| Equity holders of the Group | **4.8** | **11.7** |
| **Total comprehensive income attributable to:** | | |
| Equity holders of the Group | **4.7** | **11.7** |
| **Earnings per share for profit attributable to the equity shareholders of the Group during the period** (expressed in pence per share): | | |
| Basic and diluted earnings per share | 30.5 | 82.5 |

# Consolidated statement of financial position

| | At 30 June 2013 £million | At 30 June 2012 £million |
|---|---|---|
| **ASSETS** | | |
| Derivative financial instruments | – | 0.1 |
| Loans and advances to banks | 69.1 | 69.3 |
| Loans and advances to customers | 365.8 | 260.3 |
| Property, plant and equipment | 5.3 | 5.6 |
| Intangible assets | 10.6 | 5.7 |
| Deferred tax assets | 4.7 | 5.6 |
| Other assets | 8.9 | 6.6 |
| **Total assets** | **464.4** | **353.2** |
| **LIABILITIES AND EQUITY** | | |
| **Liabilities** | | |
| Deposits from banks | 0.1 | – |
| Deposits from customers | 386.7 | 297.9 |
| Debt securities in issue | – | 5.0 |
| Current tax liabilities | 0.6 | 0.2 |
| Deferred tax liabilities | 1.9 | 3.0 |
| Other liabilities | 21.1 | 12.2 |
| **Total liabilities** | **410.4** | **318.3** |
| **Equity attributable to owners of the parent** | | |
| Share capital | 6.3 | 5.7 |
| Share premium | 28.2 | 9.5 |
| Retained earnings | 19.7 | 19.9 |
| Cash flow hedging reserve | (0.4) | (0.3) |
| Revaluation reserve | 0.2 | 0.1 |
| **Total equity** | **54.0** | **34.9** |
| **Total liabilities and equity** | **464.4** | **353.2** |

# Consolidated statement of changes in equity

| | Share capital £million | Share premium £million | Revaluation reserve £million | Cash flow hedging reserve £million | Retained earnings £million | Total £million |
|---|---|---|---|---|---|---|
| **Balance at 1 January 2013** | **6.3** | **28.2** | **0.1** | **(0.4)** | **21.7** | **55.9** |
| Total comprehensive income for the period | | | | | | |
| Profit for the six months ended 30 June 2013 | – | – | – | – | 4.8 | 4.8 |
| **Other comprehensive income, net of income tax** | | | | | | |
| Revaluation reserve | | | | | | |
| – Amount transferred to profit and loss | – | – | 0.1 | – | (0.1) | – |
| **Total other comprehensive income** | **–** | **–** | **0.1** | **–** | **(0.1)** | **–** |
| **Total comprehensive income for the period** | **–** | **–** | **0.1** | **–** | **4.7** | **4.8** |
| **Transactions with owners, recorded directly in equity** | | | | | | |
| **Contributions by and distributions to owners** | | | | | | |
| Dividends | – | – | – | – | (6.7) | (6.7) |
| **Total contributions by and distributions to owners** | **–** | **–** | **–** | **–** | **(6.7)** | **(6.7)** |
| **Balance at 30 June 2013** | **6.3** | **28.2** | **0.2** | **(0.4)** | **19.7** | **54.0** |

| | Share capital £million | Share premium £million | Revaluation reserve £million | Cash flow hedging reserve £million | Retained earnings £million | Total £million |
|---|---|---|---|---|---|---|
| **Balance at 1 January 2012** | **5.7** | **9.5** | **0.1** | **(0.3)** | **8.8** | **23.8** |
| Total comprehensive income for the period | | | | | | |
| Profit for the six months ended 30 June 2012 | – | – | – | – | 11.7 | 11.7 |
| **Total comprehensive income for the period** | **–** | **–** | **–** | **–** | **11.7** | **11.7** |
| **Transactions with owners, recorded directly in equity** | | | | | | |
| **Contributions by and distributions to owners** | | | | | | |
| Dividends | – | – | – | – | (0.6) | (0.6) |
| **Total contributions by and distributions to owners** | **–** | **–** | **–** | **–** | **(0.6)** | **(0.6)** |
| **Balance at 30 June 2012** | **5.7** | **9.5** | **0.1** | **(0.3)** | **19.9** | **34.9** |

# Consolidated statement of cash flows

| | Six months ended 30 June 2013 £million | Six months ended 30 June 2012 £million |
|---|---|---|
| **Cash flows from operating activities** | | |
| Profit for the six months | 4.8 | 11.7 |
| Adjustments for: | | |
| Income tax expense | 1.4 | 0.7 |
| Depreciation | 0.3 | 0.1 |
| Amortisation | 1.2 | 0.3 |
| Gain from a bargain purchase | – | (8.9) |
| Provisions against amounts due from customers | 7.6 | 3.1 |
| Cash flows from operating profits before changes in operating assets and liabilities | 15.3 | 7.0 |
| Changes in operating assets and liabilities: | | |
| – net decrease/(increase) in loans and advances to banks | 51.3 | (12.0) |
| – net increase in loans and advances to customers | (43.1) | (37.5) |
| – net (increase)/decrease in other assets | (1.3) | 3.9 |
| – net increase in amounts due to banks | 0.1 | – |
| – net (decrease)/increase in amounts due to customers | (12.2) | 25.8 |
| – net increase in other liabilities | 0.4 | 0.5 |
| Income tax paid | (1.2) | (0.2) |
| **Net cash inflow/(outflow) from operating activities** | **9.3** | **(12.5)** |
| **Cash flows from investing activities** | | |
| Borrowings repaid on acquisition of subsidiary undertakings | (36.9) | (71.6) |
| Cash acquired on purchase of subsidiary undertakings | 1.6 | 1.0 |
| Purchase of subsidiary undertakings | (3.9) | – |
| Purchase of property, plant and equipment | (0.1) | (0.3) |
| Purchase of computer software | (0.2) | (0.1) |
| Proceeds from sale of computer software | 2.0 | – |
| **Net cash outflow from investing activities** | **(37.5)** | **(71.0)** |
| **Cash flows from financing activities** | | |
| Increase in subordinated loan | – | 2.0 |
| Dividends paid | (6.7) | (0.6) |
| **Net cash used in financing activities** | **(6.7)** | **1.4** |
| **Net decrease in cash and cash equivalents** | **(34.9)** | **(82.1)** |
| Cash and cash equivalents at 1 January | 94.0 | 119.5 |
| **Cash and cash equivalents at 30 June** | **59.1** | **37.4** |

# Notes to the consolidated financial statements

## 1. Operating segments

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

1) Personal lending – Unsecured consumer loans sold to customers via brokers and affinity partners.
2) Motor finance – Hire purchase agreements secured against the vehicle being financed.
3) Retail finance – Point of sale retail unsecured finance for in-store and online retailers.
4) OneBill – An account designed to aid customers with their household budgeting and payments process.

Management review these segments by looking at the income, size and growth rate of the loan books, impairments and customer numbers. Except for these items no costs or balance sheet items are allocated to the segments.

| Six months ended 30 June 2013 | Personal Lending £million | Motor Finance £million | Retail Finance £million | OneBill £million | Other £million | Group Total £million |
|---|---|---|---|---|---|---|
| Interest revenue | 17.4 | 10.0 | 6.6 | – | 0.1 | 34.1 |
| Fee and commission income | 2.5 | – | – | 4.0 | 4.6 | 11.1 |
| **Revenue from external customers** | **19.9** | **10.0** | **6.6** | **4.0** | **4.7** | **45.2** |
| Impairment losses | 4.9 | 1.9 | 0.8 | – | – | 7.6 |
| Lending balances | 152.1 | 104.8 | 107.9 | 0.3 | 0.7 | 365.8 |

| Six months ended 30 June 2012 | Personal Lending £million | Motor Finance £million | Retail Finance £million | OneBill £million | Other £million | Group Total £million |
|---|---|---|---|---|---|---|
| Interest revenue | 5.1 | 7.6 | 2.6 | – | 0.4 | 15.7 |
| Fee and commission income | – | – | – | 4.2 | 2.2 | 6.4 |
| **Revenue from external customers** | **5.1** | **7.6** | **2.6** | **4.2** | **2.6** | **22.1** |
| Impairment losses | 1.3 | 1.1 | 0.3 | – | 0.4 | 3.1 |
| Lending balances | 126.2 | 78.0 | 52.3 | 1.8 | 2.0 | 260.3 |

The "Other" segment above includes segments below the quantitative threshold for separate disclosure and fulfils the requirement of IFRS 8.28 by reconciling operating segments to the amounts reported in the financial statements.

As interest, fee and commission and operating expenses are not aligned to operating segments for day-to-day management of the business and cannot be allocated on a reliable basis, profit by operating segment has not been disclosed.

All the Group's operations are conducted wholly within the United Kingdom and geographical information is therefore not presented.

## 2. Earnings per ordinary share

### Basic and diluted

Earnings per ordinary share are calculated by dividing the profit attributable to equity shareholders of the Group of £4,780,000 (2012: £11,692,000) by the weighted average number of ordinary shares in issue during the period 15,648,149 (2012: 14,166,667).

## 3. Loans and advances to banks

Included within loans and advances to banks are amounts placed with Arbuthnot Latham & Co., Limited, a related company, of £4.4 million (31 December 2012: £24.9 million; 30 June 2012: £26.4 million).

## 4. Acquisition of V12 Finance Group Limited

On 2 January 2013 the Company acquired 100% of the ordinary share capital of V12 Finance Group Limited, which along with its wholly owned subsidiaries V12 Retail Finance Limited and V12 Personal Finance Limited provide retail loans, typically for 12 months on an unsecured basis to consumers who are predominantly classified as prime borrowers. The cash consideration for the companies of £3.5 million was paid on completion. The acquisition is complementary to the Group's existing retail finance proposition and the V12 management team will continue in the business.

As part of the acquisition the Company provided funding such that the V12 Finance Group could redeem £7.0 million of subordinated debt and repay existing bank finance amounting to £28.1 million.

The acquisition of V12 Finance Group Limited is accounted for in accordance with IFRS 3 'Business Combinations', which requires the recognition of the identifiable assets acquired and liabilities assumed at their acquisition date fair values. As part of this process, it is also necessary to identify and recognise certain assets and liabilities which are not included on the acquiree's balance sheet, for example intangible assets. The exercise to fair value the balance sheet is inherently subjective and required management to make a number of assumptions and estimates.

The following unaudited assets were acquired as part of the acquisition of the V12 Finance Group Limited and its wholly owned subsidiary entities:

| | Acquired assets / liabilities £million | Fair value adjustments £million | Recognised values on acquisition £million |
|---|---|---|---|
| Cash at bank | 0.2 | – | 0.2 |
| Loans and advances to customers | 32.7 | – | 32.7 |
| Property, plant and equipment | 0.1 | – | 0.1 |
| Intangible assets | 0.1 | 5.4 | 5.5 |
| Deferred tax assets | 0.3 | – | 0.3 |
| Prepayments and accrued income | 0.5 | – | 0.5 |
| Other assets | 0.1 | – | 0.1 |
| **Total assets** | **34.0** | **5.4** | **39.4** |
| Loans and debt securities | 35.1 | – | 35.1 |
| Deferred tax liabilities | – | 1.3 | 1.3 |
| Accruals and deferred income | 0.1 | – | 0.1 |
| Other liabilities | 0.1 | – | 0.1 |
| **Total liabilities** | **35.3** | **1.3** | **36.6** |
| **Net identifiable (liabilities)/assets** | **(1.3)** | **4.1** | **2.8** |
| Consideration | | | 3.5 |
| **Goodwill arising on acquisition** | | | **0.7** |

# Notes to the consolidated financial statements
Continued

## 5. Acquisition of Debt Managers

On 15 January 2013 Debt Managers (Services) Limited ("DMS"), a wholly owned subsidiary of Secure Trust Bank PLC, acquired certain trade and assets from Debt Managers Holdings Ltd, Debt Managers (AB) Limited and Debt Managers Limited (together "Debt Managers"). Debt Managers collects debt on behalf of a range of clients including banks and utility companies.

Key benefits of this acquisition to the Company include:

- Broadening the income base of the Company without the requirement for large amounts of capital;
- The acquisition of a scalable collections platform through which the Company intends to channel its delinquent debt; and
- The acquisition of the latest call centre and collections technology, including market leading dialler capability, IVR technology and payment websites.

DMS acquired Debt Managers for an initial cash payment of £0.4 million paid on completion of the transaction. In addition deferred consideration of up to £0.3 million in cash is payable by the Company one year after completion subject in part to the business achieving certain income criteria. It is the opinion of the management of DMS that only £0.1 million of this deferred consideration is likely to be paid out.

The acquired assets included a software platform jointly developed with a third party. Upon completion the rights to this software were sold to that third party for consideration of £2 million. DMS then proceeded to lease back the internal rights to use this software. On completion the Company provided DMS with £2.2 million of funding to clear an outstanding overdraft of £1.8 million and to fund the working capital requirements of DMS.

| | Acquired assets / liabilities £million | Fair value adjustments £million | Recognised values on acquisition £million |
|---|---|---|---|
| Clients cash at bank | 1.4 | – | 1.4 |
| Trade debtors | 0.7 | – | 0.7 |
| Property, plant and equipment | 0.1 | – | 0.1 |
| Intangible assets | 1.2 | 0.8 | 2.0 |
| Prepayments and accrued income | 0.2 | – | 0.2 |
| Other assets | 0.1 | – | 0.1 |
| **Total assets** | **3.7** | **0.8** | **4.5** |
| Bank overdraft | 1.8 | – | 1.8 |
| Client account | 1.3 | – | 1.3 |
| Trade creditors | 0.5 | – | 0.5 |
| Deferred tax liabilities | – | 0.2 | 0.2 |
| Accruals and deferred income | 0.2 | – | 0.2 |
| **Total liabilities** | **3.8** | **0.2** | **4.0** |
| **Net identifiable (liabilities)/assets** | **(0.1)** | **0.6** | **0.5** |
| Consideration | | | 0.5 |
| **Goodwill arising on acquisition** | | | – |

## 6. Basis of reporting

The interim financial statements have been prepared on the basis of accounting policies set out in the Group's 2012 Annual Report and Accounts as amended by standards and interpretations effective during 2013. The statements were approved by the Board of Directors on 17 July 2013 and are unaudited. The interim financial statements will be posted to shareholders and copies may be obtained from The Company Secretary, Secure Trust Bank PLC, One Arleston Way, Solihull, West Midlands, B90 4LH.

# Corporate contacts & advisers

## Secretary & Registered Office

J R Kaye FCIS
One Arleston Way
Solihull
West Midlands
B90 4LH
T 0121 693 9100
F 0121 693 9124

## Advisers

### Independent Auditor:

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

### Principal Banker:

Barclays Bank PLC
38 Hagley Road
Edgbaston
Birmingham
B16 8NY

### Stockbroker:

Canaccord Genuity Limited
88 Wood Street
London
EC2V 7QR

### Nominated Adviser:

Canaccord Genuity Limited
41 Lothbury
London
EC2R 7AE

### Registrar:

Capita Registrars Limited
The Registry
34 Beckenham Road
Beckenham
Kent
BR3 4TU

Secure Trust Bank PLC
One Arleston Way
Shirley
Solihull
West Midlands
B90 4LH

T 0121 693 9100
www.securetrustbank.com

Registration No. 00541132