SECURE TRUST BANKING GROUP PLC
Annual Report 2003

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CORPORATE PHILOSOPHY

SECURE TRUST BANKING GROUP HAS DELIVERED A LONG TRACK RECORD OF PROFITABILITY AGAINST THE BACKGROUND OF A CONTINUALLY CHANGING BUSINESS ENVIRONMENT. THE ABILITY OF THE GROUP TO ADAPT AND GROW HAS COME FROM MANAGING THE ACTIVITIES ON THE BASIS OF TWELVE CORE PRINCIPLES. THESE PRINCIPLES GOVERN THE BUSINESS IN MATTERS RANGING FROM KEY STRATEGIC ISSUES TO SMALLER DAY-TO-DAY OPERATIONAL ISSUES, BUT SHOULD BE APPLIED WITH COMMON SENSE.

'THE BUSINESS IS TO SERVE ITS SHAREHOLDERS, ITS CUSTOMERS AND ITS EMPLOYEES. THE BUSINESS SHALL BE INDEPENDENT, PROFITABLE AND WITH A CONTROLLED RISK PROFILE. TO ACHIEVE ITS GOALS THE BUSINESS REQUIRES DIVERSITY, A LONG-TERM VIEW, AND EMPOWERMENT OF MANAGEMENT. IT FURTHER REQUIRES TO BE CONDUCTED IN AN INNOVATIVE, FLEXIBLE AND ENTREPRENEURIAL MANNER, THE LATTER INCLUDING AN OPPORTUNISTIC AND CONTRARIAN ATTITUDE.'

THE APPLICATION OF THESE PRINCIPLES SHOULD ALLOW THE BUSINESS TO GROW IN A CONTROLLED MANNER, DELIVERING GOOD RETURNS TO SHAREHOLDERS WHILST PROVIDING A HIGH QUALITY SERVICE TO CUSTOMERS AND SECURING THE WELL-BEING OF ITS EMPLOYEES.

CHAIRMAN'S STATEMENT

Secure Trust Banking Group's results for 2003 were achieved against a background that remained challenging. Sentiment in investment markets was adversely affected in the early part of the year by international events, whilst generally weak economic conditions led the Bank of England to cut base rates to a 48 year low. The average base rate during 2003 was 3.68%, compared with an average of 4.0% in 2002, reducing the Group's interest earnings on free cash and at the same time depressing deposit margins.

Despite these factors total operating income for the year to 31 December 2003 rose to £42.7 million (2002: £35.8 million), reflecting in large part the acquisition of Arbuthnot Securities (formerly Old Mutual Securities) in January 2003. However, the difficult trading conditions which prevailed in the securities markets for much of the period meant that the Group's operating profit (before charging interest on the subordinated loan stock issued in late 2002) fell to £6.3 million (2002: £8.3 million). Profit before tax and exceptional items amounted to £5.8 million and, after exceptional charges of £1.3 million relating to reorganisation and redundancy costs in Arbuthnot Latham and Arbuthnot Securities together with the write-off of £0.6 million of goodwill arising from the professional expenses of the acquisition, profit before tax was £3.9 million (2002: £7.8 million).

During the first half of the year, part of the proceeds of the issue of subordinated loan stock was used to continue the share buy-back programme. Including the effects of these buy-backs earnings per share before exceptional items were 31.9p (2002: 42.0p).

I am pleased to report that the proposed final dividend, which will be paid on 28 May 2004, to shareholders on the register at 30 April 2004 is 20.5p, bringing the total dividend for the year to 31p (2002: 30p).

SECURE TRUST BANK

Operating income at Secure Trust Bank rose by 2% over the period, despite the negative impact of lower base rates. Total costs of the division, excluding bad debts, rose by 4.5%, reflecting continued investment in the business and the ever growing costs of regulatory compliance.

OPERATING INCOME FOR 2003 ROSE TO £42.7MILLION AND THE DIVIDEND IS INCREASED TO 31 PENCE

Operating profit of the division therefore fell by 4.5% to £7.1 million.

Net interest income grew by 2%, with the impact of lower base rates being more than offset by strong performances in some of the higher margin lending products offered by the bank. At the same time, fees and commissions also grew by 2%, driven by improved earnings from insurance products, notably the sickness, accident and redundancy scheme offered to the bank's customers. The SecureDirect business recorded a 2% growth in motor policies sold despite facing a tough competitive environment.

ARBUTHNOT LATHAM

The subdued state of equity markets in the early part of the year held back development of the Group's private banking activities and operating profits at Arbuthnot Latham fell by 14% to £0.9 million. Income from fund management, pensions and investments declined from the previous year but this was offset by improvements in the banking business, such that overall fees and commissions receivable were maintained at a similar level to 2002. The strength of the banking business was reflected in a growth of 9% in the loan book and 12% in customer deposits. Despite some pressure on deposit margins resulting from the lower base rates, the division's net interest income rose by 2%.

Following a cost-cutting programme in the first half of the year, we began to invest in the business again in the second half, as a result of which costs rose by 2% over the year as a whole.

We will be significantly developing the private banking business during 2004 by broadening the product offer and enhancing the team with a recruitment programme. We expect that this investment will start to show returns during 2004.

ARBUTHNOT SECURITIES

Following the acquisition of Old Mutual Securities in January 2003 and its rebranding as Arbuthnot Securities, a significant amount of resource has been devoted to integrating the business into the Group and building a team of high quality people to take it forward as markets begin to recover. This has

ARTBUTHNOT HOUSE LONDON

inevitably resulted in a growth in the cost base, which we firmly believe is the right stance to be taking at this point in the market cycle. Investment in personnel will continue in 2004. Whilst trading volumes and corporate deal flow were both subdued for much of last year, I am pleased to report that 2004 has started positively. Arbuthnot Securities sponsored the first IPO to start trading this year and acted on the first reverse takeover to complete in January and the first main market public takeover announced in 2004.

Under the terms of the acquisition agreement, the vendor of Old Mutual Securities agreed to contribute £1 million in respect of the operating losses (excluding exceptional items) of the securities business in 2003 and this is reflected in the Group's results. (See note 30).

PROPERTY

Following the purchase in August 2003 of freehold offices in Ropemaker Street, London, EC2, I am pleased to report that our London businesses have moved into this building successfully. We anticipate achieving operational benefits from this move as it brings all of our London businesses together into one location. We acquired the building for £15.7 million and have subsequently had it revalued, producing an uplift in value (on a vacant possession basis) of £1.9 million. After spending some £2 million on refurbishment, the directors estimate the value of the building with the benefit of our occupation to be approximately £24.5 million. These new offices provide good quality accommodation for our London operations on an extremely cost-effective basis.

REGULATION

The ever increasing burden of bureaucracy and regulation continues to affect our profits. The main culprit is creeping employment and related regulation which cost the Group over £0.5 million in 2003.

It is sad that after the disappearance of Rea Brothers five years ago, a further two smaller banks will give up their independence with the sale of Leopold Joseph and the proposed sale of Wintrust. Regulation is one of the key reasons given.

THE GROUP'S DIVERSIFIED EARNINGS BASE, HEALTHY BALANCE SHEET AND STRONG CASH FLOW UNDERPIN OUR FUTURE PROSPECTS

As I said in my statement last year, I believe the Higgs Report will do more harm than good. Nevertheless I congratulate Sir Derek on his Knighthood.

STAFF AND MANAGEMENT

I am pleased to have welcomed two new colleagues to the Board during 2003. John Reed joined the Group in April to run Arbuthnot Latham and David Lascelles became a non-executive director in June. I also welcome Atholl Turrell and Andrew Salmon who joined the Board in March this year. They all bring a wealth of experience to their roles and have already made positive contributions to our Board deliberations.

As in previous years, our staff have continued to work with skill and diligence, often having to demonstrate perseverance and commitment in difficult markets. We are indebted to them for their contribution to the Group and, on behalf of the Board, I give them all my thanks.

OUTLOOK

Although interest rates now seem to be on a modestly upward trend and equity markets are stronger than they were during much of last year, both of which should benefit the Group, the overall environment remains extremely competitive. Consumer credit volumes are expected to slow during the next twelve months and gaining new customers for Secure Trust Bank will be a challenge. Whilst the Board welcomes the more positive tone to equity markets, our generally optimistic view of the short-term future must be tempered with some caution. At the same time we will continue to invest in the development of each of the Group's businesses and despite spending being tightly focused, costs are expected to rise in the short term.

Looking further ahead, I believe that the composition of the Group puts us in a strong position to develop successfully, based on the three pillars of a diversified earnings base, a healthy balance sheet and strong cash flow. The Board therefore views our medium term prospects with confidence.

Henry Angest, Chairman

31 March 2004

STABILITY — SECURE TRUST BANK IS A MARKET LEADER WITH A LONG RECORD OF PROFITABILITY AND STRONG CASH GENERATION

SECURE TRUST BANK

SECURE TRUST BANK WAS FOUNDED IN BIRMINGHAM 50 YEARS AGO AND IS NOW A WELL-ESTABLISHED BUSINESS, SERVING CUSTOMERS PREDOMINANTLY IN THE WEST MIDLANDS AND THE NORTH OF ENGLAND.

The core product of Secure Trust Bank is the Household Cash Management account, which is marketed under the Secure Homes brand and enables customers to smooth the payment of their regular household costs evenly through fixed weekly or monthly payments.

Secure Homes
The appeal of the Secure Homes account is wide-ranging: the peace of mind afforded by carefully managed household finances attracts families with high financial commitments, whilst the convenience of easy bill payments appeals equally to customers at all stages of life. For added security, customers are able to insure their regular payments to Secure Homes in the event of sickness, accident or redundancy.

SecureDirect
The Group's retail insurance business, SecureDirect, offers motor and household insurance to customers operating from a number of high street branches as well as via the telephone.

Secure Trust Bank
Secure Trust Bank provides a range of banking services including personal loans, current and savings accounts and financial advice. Combining these services with the Household Cash Management account provides added convenience for customers in managing their financial affairs.

STRENGTH — WITH ITS LONG HISTORY IN BANKING, ARBUTHNOT LATHAM IS TODAY REGARDED AS A HIGH QUALITY PRIVATE BANK

ARBUTHNOT LATHAM

THE ARBUTHNOT NAME HAS BEEN SYNONYMOUS WITH BANKING IN THE CITY OF LONDON FOR 170 YEARS.

Arbuthnot Latham provides a high quality and personalised banking and wealth management service, aimed at attracting successful private and business clients, including entrepreneurs and high earning professionals.

Arbuthnot Latham & Co. offers a full banking service, including current accounts, deposit accounts, loans, overdrafts and foreign trade services. Each client deals with a dedicated personal relationship manager who ensures that the bank has a thorough understanding of the client's financial circumstances, needs and aspirations. This relationship is key to the bank's ability to provide an individual service.

Arbuthnot Fund Managers offers discretionary fund management for individuals, trusts, pension funds and charities, developing tailored investment strategies to ensure that each client's specific investment objectives are met.

Arbuthnot Commercial Finance
Invoice factoring is offered by Arbuthnot Commercial Finance to assist small and medium sized businesses with access to funding in the early stages of growth.

Arbuthnot Pensions & Investments
Financial planning and investment advice are offered through Arbuthnot Pensions & Investments, where the approach is to build long-term relationships and bespoke financial strategies that are sufficiently flexible to accommodate changing requirements during a client's lifetime. Pensions form an increasingly important part of many clients' overall wealth.

Arbuthnot Pension Trustees offers a personalised approach by providing specialist skills in bespoke products such as Self-Administered and Self-Invested pensions.

Arbuthnot Insurance Brokers
Insurance advice is provided through Arbuthnot Insurance Brokers, specialising in general insurance broking for commercial or industrial risks, owner-managed businesses and high net worth clients, including a full risk assessment and insurance advisory service.

— ARBUTHNOT SECURITIES IS WELL PLACED
TO WIN NEW CLIENTS AND BUILD ITS MARKET SHARE

ARBUTHNOT SECURITIES

ARBUTHNOT SECURITIES HAS A FIRM COMMITMENT TO DELIVER A FIRST-CLASS SERVICE TO THE UK SMALL AND MID-CAP CORPORATE MARKET.

These corporates are at the heart of the UK economy, and Arbuthnot Securities provides dedicated corporate finance as well as specialist broking services to such companies and to those that invest in them.

Corporate Finance

The corporate finance team specialises in providing financing and advisory solutions to quoted and unquoted companies and their owners across the UK. Companies are advised on their strategic and financing needs at all stages of their development, from early stage and private equity fund-raisings to stock market quotations, from mergers and acquisitions to public-to-private transactions and demergers.

Corporate Broking

Corporate broking provides assistance with the management of the relationships between the corporate client and their major institutional shareholders. The team is responsible for initial public offering and secondary fund-raisings and is there to provide constant advice and guidance to corporate clients on how to comply with an ever-increasing regulatory environment.

Research

Research provides the ability to achieve and communicate a clear understanding of companies, securities and the environment in which they operate across a broad range of sectors.

Sales and Sales Trading

The London-based sales team maintains relationships with all the significant institutional owners of equities in the UK, plus key international investors. The team acts as the prime contact with fund managers, ensuring that at all times they are aware of Arbuthnot's views and opinions. The sales trading team provides a specialist sales and dealing service to institutional clients.

Market Making

Focused on our corporate clients and stocks of particular interest to the research analysts, the market making team provides liquidity to facilitate the execution of client business, as well as trading with other banks and brokers in the market.

OPERATING AND FINANCIAL REVIEW

The aim of Secure Trust Banking Group is to attract and retain customers by offering them a combination of individual attention and consistently high standards of service. By building on the resulting customer relationships, the Group seeks to maximise revenues through providing a full range of financial services to customers in its three chosen niche markets of personal financial services (Secure Trust Bank), private banking (Arbuthnot Latham) and, since January 2003, investment banking (Arbuthnot Securities). The Group's revenues are thus derived from a combination of net interest income from its lending, deposit-taking and money market activities; fees for services provided to customers and clients; commissions earned on the sale of financial instruments and products; and equity market-making profits.

During 2003 the external environment faced by the Group continued to be mixed. Whilst the consumer and property sectors were both strong, equity markets were volatile and the wide-scale problems with many investment products and pensions have been well documented. Average base rates over the year were 3.68% against 4% for 2002. Against this background, and reflecting the acquisition of Arbuthnot Securities, Operating Income grew by 19% to £42.7 million whilst profit before tax and exceptional items fell to £5.8 million.

REVIEW OF RESULTS

Lower interest rates have never been beneficial for the Group and the fall in average rates, stemming from further base rate cuts during the year, led to reduced earnings on free capital and squeezed deposit margins. Net interest income therefore declined by 3% to £8.2 million despite higher levels of both lending and deposits. Fees and commissions now account for over 80% of the Group's total operating income and these rose by 26% to £34.5 million, partly reflecting the acquisition of Arbuthnot Securities.

Operating expenses, excluding exceptional items and bad debts, increased by 35%. The bad debt charge was £0.9 million (2002: £0.9 million). The exceptional items within administrative expenses of £1.3 million represent reorganisation and redundancy costs within Arbuthnot Latham and Arbuthnot Securities.

The Group continued its share buy-back programme during 2003 and acquired further shares for cancellation at a total cost of £2 million. These share repurchases have been earnings-enhancing, leading to earnings per share (before exceptional items) of 31.9 pence (2002: 42.0 pence).

PERSONAL FINANCIAL SERVICES

The operations of the personal financial services division encompass household cash management, personal lending and banking and retail insurance services. A detailed description of each of these activities is set out on page 7 of this Annual Report.

The division's principal source of income is the fees and commissions it earns from the provision of services to customers. It also earns an interest margin on its lending and deposit-taking activities. Operating profits of the division fell by 4% to £7.1 million.

SECURE HOMES

The major emphases in the household cash management business during 2003 were on improving customer care and increasing margins. Customer numbers for the household cash management service at the year end were 52,000.

In addition to charging a fee for providing the household cash management service, Secure Homes earns commission from the sale to its customers of ancillary financial products, the most significant of which is sickness, accident and redundancy insurance. Earnings from sales of insurance products improved in 2003 due to several successful sales initiatives. As a result, the total fee and commission income derived from providing household cash management services increased by 3%.

SECURE TRUST BANK

Outstanding personal loan balances in Secure Trust Bank at the year end increased by 3%. There are some 11,000 borrowers, most of whom are also customers of the household cash management service, and the average life of a loan is 28 months. The number of customers with cheque accounts is approximately 1,200. Arrears patterns on personal lending remain very satisfactory and the bad debt charge in Secure Trust Bank was acceptable at £0.8 million (2002: £0.7 million). Provisions against personal lending (excluding provisions against loans that are more than 12 months in arrears, which are provided against in full) at 31 December 2003 represented 4.2% of outstanding advances (also excluding those over 12 months in arrears) (2002: 4.3%).

SECUREDIRECT

SecureDirect's motor insurance consultancy business experienced a decrease in average premiums during the year of 1% and motor policy volumes increased by 2%. Tight cost control led to a rise in operating profits of 50%.

PRIVATE BANKING

The companies forming the private banking division work together closely to provide business and private clients with access to a wide range of services encompassing most of their financial requirements. Profits before goodwill amortisation fell to £0.9 million (2002: £1.1 million). The impact both of lower interest rates on net interest income and stock market volatility on fees and commissions were particularly pronounced in this division.

ARBUTHNOT LATHAM & CO.

Arbuthnot Latham's relationship-based approach to banking has continued to attract new clients. Business volumes were buoyant, with total assets increasing by 21%, loans by 9% and customer deposits by 12%. Despite this growth, the bank's net interest income only grew by 3% due to lower deposit margins and reduced earnings on free capital. Fees and commissions earned by the bank rose by 22%, reflecting positive performances in both property lending and corporate advisory services.

ARBUTHNOT LATHAM & CO. SUMMARISED BALANCE SHEET

		2003 £m	2002 £m
ASSETS:	Advances	73.8	67.5
	Liquid assets	92.8	84.1
	Other assets	29.2	9.5
		195.8	161.1
LIABILITIES:	Customer deposits	156.0	139.6
	Other liabilities	14.3	1.5
	Total liabilities	170.3	141.1
	Capital resources	25.5	20.0
		195.8	161.1

ARBUTHNOT FUND MANAGERS

Arbuthnot Fund Managers is a portfolio manager looking after investments for private clients, trusts, charities and pension schemes. Market conditions were testing during 2003 and income declined by 9%. The ongoing cost-cutting programme led to a reduction in overheads of 21% such that the overall performance improved on the prior year.

PENSIONS, FINANCIAL PLANNING AND INSURANCE BROKING

Arbuthnot Pensions & Investments and Arbuthnot Pension Trustees also faced a difficult market, with fee and commission income falling by 11%. Again, costs have been reduced in response.

During 2003 Arbuthnot Insurance Brokers continued to gain new clients. However, the business did not experience the level of increases in commercial insurance premiums seen in the previous year such that operating income declined by 3%.

ARBUTHNOT COMMERCIAL FINANCE

Arbuthnot Commercial Finance again experienced very competitive market conditions in 2003 and operating income declined by 14%. In response, costs were reduced by 17% contributing to an improvement in overall profitability.

INVESTMENT BANKING

On 14 January 2003, the Group completed the acquisition of Old Mutual Securities. The business was rebranded as Arbuthnot Securities on 27 January 2003.

The initial consideration for the acquisition was £4 million (equal to net assets at completion) and was satisfied by the issue to the vendor, Old Mutual group, of subordinated loan notes of Secure Trust Banking Group PLC, redeemable on 31 December 2009 and bearing interest at 3 per cent over six month LIBOR. The vendor agreed to underwrite trading losses made by the business in 2003 (excluding any exceptional redundancy costs incurred), up to a maximum of £1 million (see note 30).

Further consideration of up to £8 million may become payable dependent upon the future profitability of Arbuthnot Securities. The total purchase price will be equal to 4.5 times the average annual pre-tax profits of the business over the three years to 31 December 2005, subject to a cap of £12 million. The deferred consideration will thus be equal to the total purchase price minus the initial consideration paid at completion. In the event that the deferred consideration exceeds £6 million, the excess will be satisfied by the issue of a further tranche of 7-year subordinated loan notes. Otherwise, the deferred consideration will be payable in cash.

The activities of Arbuthnot Securities encompass corporate finance and institutional stockbroking, with an emphasis on serving small and mid-cap UK quoted companies and those that invest in them. Its stockbroking business includes equities research, institutional sales, sales trading and market-making.

Market conditions for corporate finance and institutional stockbroking were difficult for much of 2003 and a loss was therefore incurred by Arbuthnot Securities. However, considerable progress has been made in recruiting a number of high calibre people in all areas of the business and the early signs in 2004 are encouraging.

PROPERTY

In August 2003 the Group purchased freehold offices in Ropemaker Street, London, EC2 for £15.7 million. They have subsequently been revalued, producing an uplift in value (on a vacant possession basis) of some £1.9 million. This revaluation surplus has been incorporated into the accounts. Following the expenditure of some £2 million on fit-out costs, the directors now estimate the value with the benefit of the Group's occupation to be some £24.5 million. These new offices provide good quality accommodation for our London operations on an extremely cost-effective basis.

RISK MANAGEMENT

The Group regards the monitoring and controlling of risks as a fundamental part of the management process. Consequently, senior management are involved in the development of risk management policies and in monitoring their application.

The principal non-operational risks inherent in the Group's business are credit, liquidity and market risks. Credit risk is managed through the Credit Committees of Secure Trust Bank and Arbuthnot Latham & Co. Of the total gross loan book of £114.0 million at 31 December 2003, some £32.2 million represents largely unsecured loans to customers of Secure Trust Bank and £81.9 million represents the commercial lending portfolio, most of which is well secured against cash, property, factored debts or other assets. A provision of £3.8 million (3.3% of total outstandings) is carried against the loan book.

In relation to market risk, the Group's treasury function operates solely to provide a service to clients and does not take significant unmatched positions in any markets for its own account. Hence, the Group's exposure to adverse movements in interest and currency rates is limited to the interest earnings on its free cash and interest rate repricing mismatches as described in note 39.

Following the acquisition of Arbuthnot Securities, the Group has become involved for the first time in market-making in UK equities. The nature of this activity is that of sales facilitation rather than proprietary trading and the book is therefore modest in relation to the Group's overall financial resources (total positions outstanding at 31 December 2003 being only some £1.6 million). The market-making book is subject to Group-approved limits, both in aggregate and in relation to individual stocks. Outstanding positions are monitored against these limits daily.

A conservative approach is also taken to managing the liquidity profile and capital of the Group. Both of the banking subsidiaries operate with liquidity margins and risk asset ratios in excess of the minimum levels set by the regulators.

FINANCES

Shareholders' funds were £23.5 million at the year end (2002: £24.9 million) after share buy-backs during 2003 costing £2 million and a surplus arising on the revaluation of the property in Ropemaker Street of £1.9 million. Total assets rose from £220.9 million to £256.8 million. During the year, the Group's total liquid resources (cash, advances to banks and building societies and certificates of deposit) increased by £6.1 million to £103.1 million. The major cash outflows during the year were in respect of an increase in customer advances of £6.3 million, acquisitions of £4.7 million, the repurchase of shares of £2 million and net capital expenditure of £19.6 million. Financing of these outflows came from an increase in customer and bank deposits of £29.8 million, the issue of subordinated loan notes 2009 of £4.0 million, cash acquired with Arbuthnot Securities of £4.7 million and an operating cash inflow, after taxation and dividends, of £0.2 million. Bank borrowings of Secure Trust Banking Group PLC at 31 December 2003 amounted to £3.0 million.

GROUP DIRECTORS & SECRETARY

DIRECTORS

Henry Angest
Chairman and Chief Executive of the Group and Chairman of Secure Trust Bank PLC. He is also Chairman of Arbuthnot Latham & Co., Limited, Arbuthnot Securities Limited and other Group companies. He is Chairman of the Banking Committee of the London Investment Banking Association, a member of the Board of the Institute of Directors, and a member of the Court of the Guild of International Bankers.

Keith Deakin
Joined Secure Trust Bank in 1973 and with over 17 years of overall responsibility for the IT function was appointed IT director in June 1992. In 1999 he assumed overall responsibility for IT development in all companies in the Group. He became joint managing director of Secure Trust Bank PLC in January 2001 and was appointed a director of Secure Trust Banking Group PLC on 1 January 2003.

David Lascelles
Independent non-executive director appointed on 1 June 2003. He is Co-Director and Joint Founder of the Centre for the Study of Financial Innovation. He lectures at the ISMA Centre at Reading University on investment banking and writes for the international press. He previously held senior positions with the Financial Times.

Stephen Lockley
Group Finance Director since 1994 and Chief Executive of Arbuthnot Securities Limited since 2003. He was Chief Executive of Arbuthnot Latham & Co., Limited from 1995 to 2003. He is a Chartered Accountant and was previously a director of Charterhouse Bank Limited. A member of the Council of the British Bankers Association.

Derek Pearson
Joined Secure Trust Bank in 1975 and after a variety of posts was appointed to its board in June 1992 as marketing director. In January 2001 he became joint managing director of Secure Trust Bank PLC and was appointed a director of Secure Trust Banking Group PLC on 1 January 2003.

John Reed
Appointed a director on 1 June 2003. Chief Executive of Arbuthnot Latham & Co Limited since April 2003. He was previously Group Chief Operating Officer of SG Hambros Bank & Trust Limited, prior to which he was a director of Hambros Bank Limited, having started his career with Midland Bank plc.

Andrew Salmon
Appointed a director on 8 March 2004. He joined the Company in 1997 and is head of business development. He qualified as a Chartered Accountant with Peat Marwick (now KPMG) and was previously a director of Hambros Bank Limited.

Atholl Turrell
Non-executive director appointed on 1 March 2004. He was formerly Head of Corporate Stockbroking at Schroder Salomon Smith Barney (now Citigroup), prior to which he held senior investment banking positions at Deutsche Bank, Merrill Lynch and Charterhouse. He is Vice-Chairman of Arbuthnot Securities and is a non-executive director of Biotrace International plc.

Colin Wakelin
Independent non-executive director since 1999. He was formerly Chief Executive and Deputy Chairman of Investec Bank (UK) Limited. He is also an independent non-executive director of Arbuthnot Latham & Co., Limited.

Robert Wickham
Senior independent non-executive director. He was formerly on the Management Board of Bank of Scotland. He is also an independent non-executive director of Secure Trust Bank PLC, Arbuthnot Latham & Co., Limited, Rutland Trust Plc and Georgica PLC.

SECRETARY

Jeremy Robin Kaye FCIS

PRINCIPAL SUBSIDIARIES' DIRECTORS

SECURE TRUST BANK PLC

Henry Angest, Chairman

Keith Deakin, Joint Managing Director

Derek Pearson, Joint Managing Director

John Shipley, Finance

Stephen Lockley, Group

Andrew Salmon, Group

John Butcher, Non-executive

Robert Wickham, Non-executive

ARBUTHNOT LATHAM & CO., LTD

Henry Angest, Chairman

John Reed, Chief Executive

Allan James, Banking

Peter Keech, Executive

Stephen Lockley, Vice Chairman

Wayne Mathews, Finance

Clive Moore, Risk Management

Brian Rout, Executive

Andrew Whitton, Executive

Brian Collis, Non-executive

Colin Wakelin, Non-executive

Robert Wickham, Non-executive

ARBUTHNOT SECURITIES LIMITED

Henry Angest, Chairman

Stephen Lockley, Chief Executive

Rosamund Blomfield-Smith, Corporate Finance

Paul Havranek, Head of Research

Noel Medici, Deputy Chief Executive

Michael Pauk, Head of Risk

Nicholas Redfern, Head of Sales

James Steel, Head of Corporate Finance

Atholl Turrell, Non-executive Vice Chairman

ADDITIONAL NON-EXECUTIVE BIOGRAPHIES

John Butcher

National Chairman of the Institute of Directors (1997–2001) and previously MP for Coventry SW (1979–1997) and Parliamentary Under Secretary of State at the Department of Trade and Industry and the Department of Education and Science. He was Chairman of Texas Instruments Limited from 1990 to 1997 and is currently non-executive Chairman of Pertemps Group. He is also a non-executive director of a number of digital media companies.

Brian Collis

He joined Arbuthnot Latham & Co., Limited in 1994 and was risk management director until he retired from executive duties in June 2001. He previously spent 34 years with Midland Bank plc, during which he held several senior positions. He is also a non-executive director of Wintrust plc.

DIRECTORS' REPORT

The directors submit their annual report and the audited consolidated financial statements for the year ended 31 December 2003.

PRINCIPAL ACTIVITIES AND REVIEW

The principal activities of the Group are banking and financial services. This report should be read in conjunction with the Chairman's Statement and the Operating and Financial Review which contain comments on the Group's performance.

RESULTS AND DIVIDENDS

The results for the year are shown on page 29. The loss for the year of £1.4 million has been deducted from reserves.

The directors recommend the payment of a final dividend of 20.5 pence on the ordinary shares which, together with the interim dividend of 10.5 pence paid on 31 October 2003, represents a total dividend for the year of 31 pence. The final dividend, if approved by members at the Annual General Meeting, will be paid on 28 May 2004 to shareholders on the register at close of business on 30 April 2004.

FIXED ASSETS

Following authority granted by an Extraordinary General Meeting held on 28 August 2003, the Company completed the purchase of freehold property in Ropemaker Street, London for a consideration of £15.7 million. After expenditure on fitting out the building for its own occupation, the property has been revalued, creating a revaluation surplus of £1.9 million.

SHARE CAPITAL

On 16 January and 18 March 2003 the Company repurchased 110,000 and 340,000 ordinary shares at 410 pence and 440 pence respectively in accordance with the authority given by shareholders on 16 May 2002.

At the Annual General Meeting shareholders will be asked to approve an Ordinary Resolution to renew for five years the authority granted in 1999 to allot shares to an aggregate nominal amount of £40,000. The directors have no present intention of allotting shares and will not do so if the result is to effect a change in control of the Company without first submitting a Resolution for approval by shareholders.

Shareholders will also be asked to approve two Special Resolutions; the authority granted by each of them will expire at the conclusion of the Annual General Meeting in 2005.

The first continues the authority of the directors to issue shares in nominal value equal to 5% of the existing share capital for cash, otherwise than to existing shareholders pro rata to their holdings. Except as stated herein, the directors have no present intention of issuing any shares and will not issue shares which would effectively change the control of the Company without the prior approval of shareholders in General Meeting.

The second renews the authority of the directors to make market purchases of shares not exceeding 4.4% of the existing issued share capital with a limit of 564,000 shares. The directors will keep the position under review in order to maximise the Company's resources in the best interests of the shareholders.

SUBSTANTIAL SHAREHOLDERS

The Company was aware at 29 March 2004 of the following substantial holdings in the ordinary shares of the Company, other than those held by one director shown below:

Holder	Ordinary Shares	%
Prudential plc	763,171	5.9
Royal London Mutual Assurance	735,572	5.7
Mr & Mrs R Paston	692,130	5.3

DIRECTORS

H Angest *Chairman*
K N F Deakin
D R Lascelles
S J Lockley
D Pearson
J Reed
A A Salmon
Dr A D Turrell
A C Wakelin
R J J Wickham

Mr C J Airey served as a director from 14 January to 30 April 2003. Mr Reed and Mr Lascelles were appointed directors on 1 June 2003. Dr Turrell was appointed a director on 1 March 2004 and Mr Salmon on 8 March 2004. These four directors now retire under Article 87 of the Articles of Association and, being eligible, offer themselves for re-election. Mr Reed has a service agreement with a subsidiary company terminable on 6 months' notice. Mr Salmon has a service agreement with the Company terminable on 12 months' notice. Mr Lascelles and Dr Turrell do not have service agreements.

Mr Wickham retires under Article 109 of the Articles of Association and, being eligible, offers himself for re-election. He does not have a service agreement.

According to the register maintained under Section 325 of the Companies Act 1985, the interests of directors and their families in the ordinary 1p shares of the Company at the dates shown were, and the percentage of the current issued share capital held is, as follows:

Beneficial Interests	1 January 2003	31 December 2003	%
H Angest	6,120,033	6,120,033	47.3
S J Lockley	18,832	18,832	0.1
R J J Wickham	1,500	1,500	–
K N F Deakin	721	721	–

Mr. Angest is beneficially interested in £3,550,000 Floating Rate Subordinated Loan Notes 2009.

There have been no changes in beneficial interests between 1 January and 29 March 2004.

Apart from the interests disclosed above, no director was interested at any time in the year in the share capital of Group companies.

No director, either during or at the end of the financial year, was materially interested in any contract with the Company or any of its subsidiaries, which was significant in relation to the Group's business. At 31 December 2003 three directors had loans from Secure Trust Bank PLC amounting to £577,000 in aggregate on normal commercial terms as disclosed in note 32 to the financial statements.

The Company maintains insurance to provide liability cover for directors and officers of the Company.

BOARD COMMITTEE

The report of the Remuneration Committee on pages 24 to 26 will be the subject of an Ordinary Resolution at the Annual General Meeting.

EMPLOYEES

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

SUPPLIER PAYMENT POLICY

The Group's policy is to make payment in line with terms agreed with individual suppliers, payment being effected on average within 30 days of invoice.

STATUS

The Company is not a close company as defined in the Income and Corporation Taxes Act 1988.

AUDITORS

A resolution to reappoint PricewaterhouseCoopers LLP as auditors of the Company will be proposed at the forthcoming Annual General Meeting at a fee to be agreed in due course by the directors.

By order of the Board

J R Kaye J.R. Kaye

Secretary

31 March 2004

CORPORATE GOVERNANCE

The Board fully endorses the approach of openness, integrity and accountability which underlies The Combined Code issued in June 1998 by the Committee on Corporate Governance and conducts its affairs within the spirit of The Combined Code. The Group contains subsidiaries authorised to undertake regulated business under the Financial Services and Markets Act 2000 and regulated by the Financial Services Authority, including two which are authorised deposit taking businesses. Accordingly, the Group operates to the high standards of corporate accountability appropriate for such businesses. The Board is presently reviewing how best to respond to the new Combined Code on Corporate Governance issued in July 2003, which will apply to reporting years beginning on or after 1 November 2003.

PRINCIPLES OF GOOD GOVERNANCE

Directors. The Group is led and controlled by an effective Board which comprises six executive directors and four independent non-executive directors. Robert Wickham is the senior independent non-executive director. Furthermore, the Boards of the Group's two banking subsidiaries contain a total of four independent non-executive directors. All directors participate fully in all key areas of decision making, including the appointment of new directors, and are supplied in a timely manner with sufficient information to enable them to discharge their duties. The Nomination Committee comprises Henry Angest as Chairman, Colin Wakelin and Robert Wickham. A list has been formally approved of matters reserved for the Board as a whole. There is an agreed procedure for directors to take independent advice, if necessary, at the Company's expense.

Henry Angest performs the roles of both Group Chief Executive and Group Chairman. Stephen Lockley is Group Finance Director and Chief Executive of Arbuthnot Securities, Keith Deakin and Derek Pearson are Joint Managing Directors of Secure Trust Bank and John Reed is Chief Executive of Arbuthnot Latham.

In accordance with the requirement under the Articles, one-third of the non-executive directors retire at each Annual General Meeting. There are no specific terms of appointment for non-executive directors.

Directors' remuneration. Details of the directors' remuneration are set out in the separate remuneration report.

Relations with shareholders. The Company maintains a regular dialogue with its institutional shareholders and makes full use of the Annual General Meeting to communicate with private investors.

Accountability and audit committee. Since 26 February 2003 membership of the Audit Committee has been limited to non-executive directors only and comprises Robert Wickham (as Chairman), Colin Wakelin and David Lascelles. The Audit Committee is responsible for reviewing the Company's system of internal control and for ensuring that the Annual Report presents a balanced and understandable assessment of the Company's position and prospects. The Audit Committee meets on a minimum of three occasions a year with the external auditors present on at least one occasion. The Auditors have access to the Chairman of the Audit Committee at all times.

CODE OF BEST PRACTICE

In implementing the principles of good governance in accordance with the above statement, the Company has complied throughout the year ended 31 December 2003 with the Code of Best Practice contained within The Combined Code in all respects other than the following:

(i) Henry Angest combines the roles of Group Chairman and Group Chief Executive, which the Board believes is appropriate for a company of this size.

(ii) Henry Angest chairs the Nomination and Remuneration Committees, which the Board believes is appropriate given his significant shareholding in the Company.

(iii) There is no provision for executive directors to retire by rotation. This is under review by the Board.

(iv) There are no separate terms of appointment for non-executive directors as the Board believes it is more appropriate to review their appointments on an ongoing basis.

(v) Neither Keith Deakin nor Derek Pearson has a service agreement.

(vi) Executive contracts do not contain specific provision for compensation payable upon early termination as the Board does not consider this to be necessary given that no contracts include notice periods exceeding one year.

INTERNAL CONTROL

The Board of directors has overall responsibility for the Group's system of internal control. Throughout the year ended 31 December 2003 and to date, the Group has operated a system of internal control which is designed to provide reasonable assurance of effective and efficient operations covering all internal controls, including financial reporting and compliance with laws and regulations. Such a system is designed to manage rather than eliminate risk of failure to achieve business objectives and can only provide reasonable but not absolute assurance against the risk of material misstatement or loss. The processes in place for identifying, evaluating and managing the significant risks facing the Group accord with the guidance "Internal Control: Guidance for Directors on the Combined Code" issued by the Institute of Chartered Accountants in England and Wales.

The directors and senior management of the Group are committed to maintaining a control-conscious culture across all areas of operation. Key risks identified by the directors are formally reviewed and assessed at least once a year by the Board, in addition to which key business risks are identified, evaluated and managed by operating management on an ongoing basis by means of procedures such as physical controls, credit and other authorisation limits and segregation of duties. The Board also receives regular reports on any risk matters that need to be brought to its attention. Significant risks identified in connection with the development of new activities are subject to consideration by the Board. There are well-established budgeting procedures in place and reports are presented regularly to the Board detailing the results of each principal business unit, variances against budget and prior year, and other performance data.

The effectiveness of the internal control system is reviewed regularly by the Board and the Audit Committee, which also receives reports of reviews undertaken around the Group by the internal audit function. The Audit Committee also receives reports from the external Auditors, PricewaterhouseCoopers LLP, which include details of significant internal control matters that they have identified. Certain aspects of the system of internal control are also subject to regulatory supervision, the results of which are monitored closely by the Board.

GOING CONCERN

The directors confirm that they are satisfied that the Group has adequate resources to continue in business for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are required by the Companies Act 1985 to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and the Group as at the end of the financial year and of the profit and cash flows of the Group for the year.

The directors confirm that suitable accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, have been used in the preparation of the financial statements.

The directors also confirm that applicable accounting standards have been followed.

In addition, the directors are responsible for maintaining adequate accounting records, and taking reasonable steps to safeguard the assets of the Group and to prevent and detect fraud or any other irregularities.

REMUNERATION REPORT

REMUNERATION COMMITTEE

This part of the remuneration report is unaudited

Since 20 November 2002 membership of the Remuneration Committee has been limited to non-executive directors together with Henry Angest as Chairman. The present members of the Committee are Henry Angest, Robert Wickham and Colin Wakelin.

The Committee has responsibility for producing recommendations on the overall remuneration policy for directors and the remuneration of individual directors, both for approval by the Board. Members of the Committee do not vote on their own remuneration. The Committee is able to take external advice where it feels this is necessary, and does so from time to time.

REMUNERATION POLICY

This part of the remuneration report is unaudited

The Remuneration Committee determines the remuneration of individual directors having regard to the size and nature of the business; the importance of attracting, retaining and motivating management of the appropriate calibre without paying more than is necessary for this purpose; remuneration data for comparable positions; the need to align the interests of executives with those of shareholders; and an appropriate balance between current remuneration and longer term performance-related rewards. The remuneration package can comprise a combination of basic annual salary and benefits (including pension), a discretionary annual bonus award related to the Committee's assessment of the contribution made by the executive during the year and executive share options, which are not capable of being exercised for at least three years after the date of grant. The rules of the share option scheme include an appropriate performance condition for all new options granted. Pension benefits take the form of annual contributions paid by the Company to individual money purchase schemes. The Remuneration Committee reviews salary levels each year based on the performance of the Group during the preceding financial period. No future changes in the policy are anticipated at the date of this report.

DIRECTORS' SERVICE CONTRACTS

This part of the remuneration report is unaudited

Henry Angest entered into a service contract with the Company on 6 December 1988, Stephen Lockley entered into a service contract with the Company on 31 May 1994 and Andrew Salmon entered into a service contract with the Company on 19 November 2001. These contracts are terminable at any time on 12 months' notice in writing by either party. John Reed entered into a service contract with a subsidiary on 1 April 2003 and this contract is terminable on 6 months' notice by either party. Each contract, *inter alia*, provides for the provision of a company car, fuel, life and permanent health assurance, discretionary bonus, contributions to a money-purchase pension scheme, medical insurance and, in the case of Henry Angest, the provision of tax advice.

Neither Keith Deakin nor Derek Pearson has a service agreement.

There is no provision for compensation payable upon early termination and no fixed term in respect of these contracts. None of the directors' service contracts has any commission or profit sharing arrangements.

PENSIONS

This part of the remuneration report is unaudited

The executive directors all belong to defined contribution money-purchase schemes. The pension payments made in respect of those directors who were on the Board during 2003 are set out in this remuneration report.

SHARE OPTION SCHEMES

This part of the remuneration report is auditable information

At the date of this remuneration report, there are no outstanding options to directors under the Share Option Schemes nor any shares held in the Executive Share Option Plan.

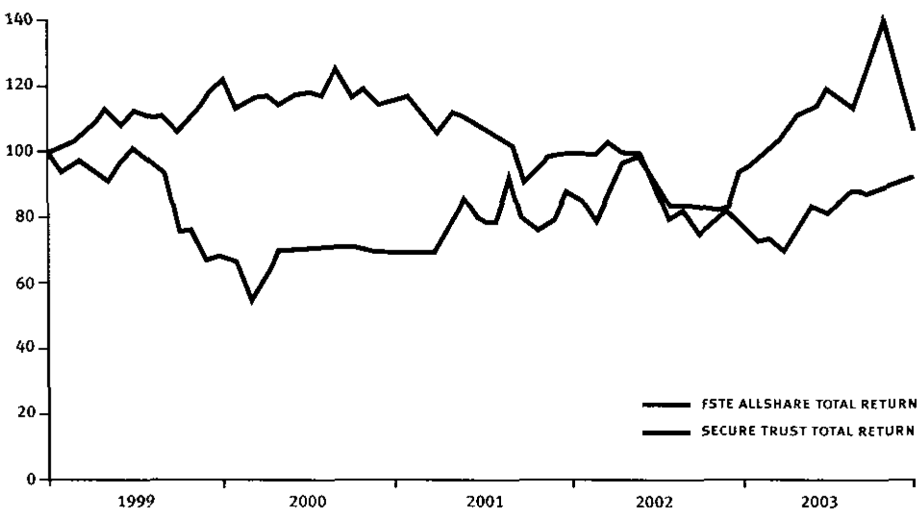
The Company established an Executive Share Option Scheme in 1988. In 1995 this Scheme was replaced by new Approved and Unapproved Executive Share Option Schemes.

The Company also has an Executive Share Option Plan under which trustees may purchase shares in the Company to satisfy the exercise of share options by employees including executive directors.

There are no other long-term incentive schemes in place for directors of the Company. It is intended during the current financial year to introduce a long-term incentive scheme for employees of Arbuthnot Securities Limited, which will involve the purchase by such employees of shares in Arbuthnot Securities Limited. This scheme will not be open to any directors of the Company.

SHARE PERFORMANCE

This part of the remuneration report is unaudited



DIRECTORS' EMOLUMENTS

This part of the remuneration report is auditable information

	2003 £000	2002 £000
Fees (including benefits in kind)	**82**	123
Salary payments (including benefits in kind and compensation for loss of office)	**1,332**	813
Pension contributions	**183**	38
	1,597	974

	Salary £000	Bonus £000	Benefits £000	Pension contributions £000	Compensation for loss of office £000	Fees £000	Total 2003 £000	Total 2002 £000
H Angest	**250**	**—**	**58**	**50**	**—**	**—**	**358**	258
C J Airey	**50**	**—**	**1**	**3**	**109**	**—**	**163**	—
K N F Deakin	**130**	**—**	**26**	**29**	**—**	**—**	**185**	—
S J Lockley	**297**	**100**	**34**	**50**	**—**	**—**	**481**	593
D Pearson	**130**	**—**	**26**	**29**	**—**	**—**	**185**	—
J Reed	**116**	**—**	**5**	**22**	**—**	**—**	**143**	—
Non-executive								
D R Lascelles	**—**	**—**	**—**	**—**	**—**	**17**	**17**	—
R Paston	**—**	**—**	**—**	**—**	**—**	**—**	**—**	73
A C Wakelin	**—**	**—**	**—**	**—**	**—**	**30**	**30**	25
R J J Wickham	**—**	**—**	**—**	**—**	**—**	**35**	**35**	25
	973	**100**	**150**	**183**	**109**	**82**	**1,597**	974

The emoluments of the Chairman were £358,000 (2002: £258,000). Pension contributions of £50,000 were payable in respect of the Chairman (2002: £Nil). The emoluments of the highest paid director were £481,000 (2002: £593,000) including pension contributions of £50,000 (2002: £38,000).

In April 2003 Mr Lockley moved from his role of Chief Executive of Arbuthnot Latham & Co Limited to the position of Chief Executive of Arbuthnot Securities Limited. At that time he was paid a bonus of £100,000 in recognition of his contribution to building the business of Arbuthnot Latham & Co Limited over the previous eight years.

Mr Airey who resigned as a director on 30 April 2003 received in aggregate £109,000 by way of compensation for loss of office.

Mr A C Wakelin is a director of Wakelin Partners Limited which received fees totalling £30,000 (2002: £25,000) in respect of his services to the Group.

Mr R J J Wickham is a director of Broughfame Limited which received an annual fee of £35,000 (2002: £25,000) in respect of his services to the Group.

Both fees are included in the above figures.

Retirement benefits are accruing under money purchase schemes for five directors who served during 2003 (2002: two directors).

Henry Angest

Chairman of the Remuneration Committee

31 March 2004

REPORT OF THE AUDITORS

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF SECURE TRUST BANKING GROUP PLC

We have audited the financial statements which comprise the consolidated profit and loss account, the consolidated and company balance sheets, the consolidated cash flow statement, the statement of total recognised gains and losses, the principal accounting policies and the related notes which have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and the accounting policies set out in the statement of accounting policies. We have also audited the disclosures required by Part 3 of schedule 7A to the Companies Act 1985 contained in the directors' remuneration report ("the auditable part").

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The directors' responsibilities for preparing the annual report, the directors' remuneration report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements and the auditable part of the directors' remuneration report in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the auditable part of the directors' remuneration report have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the Group has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions is not disclosed.

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the directors' report, the unaudited part of the directors' remuneration report, the chairman's statement, the operating and financial review and the corporate governance statement.

We review whether the corporate governance statement reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or to form an opinion on the effectiveness of the Company's or Group's corporate governance procedures or its risk and control procedures.

BASIS OF AUDIT OPINION

We conducted our audit in accordance with auditing standards issued by the Auditing

Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the auditable part of the directors' remuneration report. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

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

OPINION

In our opinion:

- the financial statements give a true and fair view of the state of affairs of the Company and the Group at 31 December 2003 and of the loss and cash flows of the Group for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- those parts of the directors' remuneration report required by Part 3 of Schedule 7A to the Companies Act 1985 have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP

Chartered Accountants and Registered Auditors

Birmingham

31 March 2004

CONSOLIDATED PROFIT & LOSS ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 2003

	Notes	Profit before exceptional item 2003 £000	Exceptional item 2003 £000	2003 £000	2002 £000
Interest receivable from loans, advances and investments					
Continuing activities		12,761	—	12,761	12,104
Acquisitions		138	—	138	—
		12,899	—	12,899	12,104
Less: interest payable		(4,739)	—	(4,739)	(3,733)
NET INTEREST INCOME		8,160	—	8,160	8,371
Fees and commissions receivable					
Continuing activities		28,253	—	28,253	28,026
Acquisitions		6,678	—	6,678	—
Less: fees and commissions payable					
Continuing activities		(405)	—	(405)	(554)
OPERATING INCOME		42,686	—	42,686	35,843
Administrative expenses	1	34,331	—	34,331	25,036
Exceptional administrative expenses	2	—	1,256	1,256	545
Depreciation	3	1,467	—	1,467	1,421
Amortisation of goodwill	3	199	—	199	170
Exceptional goodwill write-off	2	—	655	655	—
Provisions for bad and doubtful debts	11	900	—	900	875
OPERATING EXPENSES	3	36,897	1,911	38,808	28,047
PROFIT ON ORDINARY ACTIVITIES BEFORE TAX					
Continuing activities		7,317	(496)	6,821	7,796
Acquisitions		(1,528)	(1,415)	(2,943)	—
		5,789	(1,911)	3,878	7,796
Tax on profit on ordinary activities	5	(1,627)	377	(1,250)	(2,442)
PROFIT ON ORDINARY ACTIVITIES AFTER TAX		4,162	(1,534)	2,628	5,354
Minority interests	26	(10)	—	(10)	(9)
PROFIT ATTRIBUTABLE TO SHAREHOLDERS OF SECURE TRUST BANKING GROUP PLC	6	4,152	(1,534)	2,618	5,345
Dividends	7	(4,015)	—	(4,015)	(3,946)
RETAINED PROFIT/(LOSS) FOR THE FINANCIAL YEAR	25	137	(1,534)	(1,397)	1,399
EARNINGS PER ORDINARY SHARE					
Basic and fully diluted	8	31.9p		20.1p	39.2p

The profit on ordinary activities before tax and retained profit on an historical cost basis are not significantly different from the profit on ordinary activities before tax and retained profit for the financial years above.

STATEMENT OF TOTAL RECOGNISED GAINS & LOSSES

FOR THE YEAR ENDED 31 DECEMBER 2003

	2003 £000	2002 £000
(Loss)/retained profit for the financial year	(1,397)	1,399
Unrealised surplus arising on revaluation of freehold properties	1,931	—
Total recognised gains for the year	534	1,399

CONSOLIDATED BALANCE SHEET

AT 31 DECEMBER 2003

	Notes	2003 £000	2002 £000
ASSETS			
Cash and balances at central banks		**235**	281
Loans and advances to banks and building societies	9	**74,346**	79,702
Loans and advances to customers	10	**110,268**	104,849
Debt securities	13	**28,500**	17,000
Intangible fixed assets	15	**2,560**	2,759
Tangible fixed assets	16	**28,542**	8,327
Other assets	17	**9,302**	5,187
Prepayments and accrued income		**3,069**	2,759
TOTAL ASSETS		**256,822**	220,864
LIABILITIES			
Deposits by banks	18	**15,154**	2,494
Customer accounts	19	**187,295**	170,195
Other liabilities	20	**18,874**	17,332
Accruals and deferred income		**4,113**	2,030
Subordinated loan notes	21	**7,817**	3,817
Equity minority interests	26	**77**	72
		233,330	195,940
Called up share capital	23	**130**	134
Share premium account	24	**13,370**	13,370
Capital redemption reserve	24	**20**	16
Revaluation reserve	24	**2,442**	511
Profit and loss account	25	**7,530**	10,893
EQUITY SHAREHOLDERS' FUNDS	27	**23,492**	24,924
TOTAL LIABILITIES		**256,822**	220,864
MEMORANDUM ITEMS	36		
Contingent liabilities:			
Guarantees		**462**	722
Other contingent liabilities		**8**	26
		470	748
Commitments		**6,768**	5,676

The financial statements on pages 29 to 48 were approved by the Board of directors on 31 March 2004 and were signed on its behalf by:

H ANGEST Director

S J LOCKLEY Director

COMPANY BALANCE SHEET

AT 31 DECEMBER 2003

	Notes	2003 £000	2002 £000
FIXED ASSETS			
Shares in subsidiary undertakings	14	**29,937**	26,937
Tangible fixed assets	16	**8**	4
CURRENT ASSETS			
Due from subsidiary undertakings:			
Falling due within one year		**4,848**	8,948
Falling due after more than one year		**4,600**	2,000
Prepayments		**83**	409
Cash at bank and in hand		**164**	175
Corporation tax recoverable		**825**	381
		10,520	11,913
CREDITORS: Amounts falling due within one year			
Bank borrowings		**3,000**	3,000
Due to subsidiary undertakings		**3,452**	2,345
Dividend payable	7	**2,655**	2,590
Accruals		**200**	46
Loan notes	20	**268**	520
		9,575	8,501
NET CURRENT ASSETS		**945**	3,412
TOTAL ASSETS LESS CURRENT LIABILITIES		**30,890**	30,353
CREDITORS: Amounts falling due after more than one year	21	**7,817**	3,817
		23,073	26,536
CAPITAL AND RESERVES			
Called up share capital	23	**130**	134
Share premium account	24	**13,370**	13,370
Capital redemption reserve	24	**20**	16
Profit and loss account	25	**9,553**	13,016
EQUITY SHAREHOLDERS' FUNDS		**23,073**	26,536

The financial statements on pages 29 to 48 were approved by the Board of directors on 31 March 2004 and were signed on its behalf by:

H ANGEST Director

S J LOCKLEY Director

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2003

	Notes	2003 £000	2002 £000
NET CASH INFLOW FROM OPERATING ACTIVITIES	29(i)	37,998	3,931
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Dividends paid to minority shareholders of subsidiary undertaking		(5)	(5)
TAXATION		(2,315)	(2,518)
CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT			
Purchase of debt securities (net)		(11,500)	(1,500)
Purchase of tangible fixed assets		(19,834)	(1,197)
Sale of tangible fixed assets		238	286
		(31,096)	(2,411)
ACQUISITIONS			
Acquisition expenses		(655)	–
Investment in subsidiary undertakings		–	(30)
Less cash acquired		4,693	–
Net cash inflow		4,038	(30)
EQUITY DIVIDENDS PAID		(3,950)	(4,040)
FINANCING			
Issue of subordinated loan notes net of expenses	29(iii)	–	3,817
Shares repurchased		(1,966)	(1,851)
INCREASE IN CASH	29(ii)	2,704	(3,107)

PRINCIPAL ACCOUNTING POLICIES

The financial statements have been prepared in accordance with applicable accounting standards in the United Kingdom and with the applicable Statement of Recommended Practice issued by the British Bankers Association and the Finance and Leasing Association. A summary of the more important accounting policies, which have been applied consistently, is set out below.

A) BASIS OF ACCOUNTING

The consolidated financial statements have been prepared in accordance with the special provisions of Part VII of the Companies Act 1985 relating to banking groups and in accordance with the historical cost convention as modified by the revaluation of certain fixed assets. The financial statements of the Company have been prepared in accordance with Section 226 of, and Schedule 4 to, the Companies Act 1985.

The Company has taken advantage of Section 230(3) of the Companies Act 1985 and has not published a separate profit and loss account.

B) BASIS OF CONSOLIDATION

The financial statements include the results of the Company and its subsidiaries for the year ended 31 December 2003 or from the date at which control passes.

C) FEES AND COMMISSIONS RECEIVABLE

Fees and commissions receivable represent the value of management fees, corporate finance fees, market making income, banking fees and commissions and agency commissions for services supplied to customers exclusive of value added tax. Corporate finance fees are recognised on an invoiced basis; other fees and commissions are principally recognised on a date of trade basis.

D) DEPRECIATION

Depreciation is charged on a straight line basis, from the month of purchase, to write down the cost of tangible fixed assets over their estimated useful lives, applying the following annual rates:

Freehold buildings	2%
Office equipment	5% to 15%
Computer equipment	20% to 33%
Motor vehicles	25%

E) DEFERRED TAXATION

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date, where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date.

A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits against which to recover carried forward tax losses and from which the future reversal of underlying timing differences can be deducted.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

F) GOODWILL

Purchased goodwill is capitalised, classified as an asset and amortised over its useful economic life as set out in note 15.

Negative goodwill arising on acquisitions is similarly included in the balance sheet and credited to the profit and loss account over the directors' best measure of its useful life.

The gain or loss on the disposal of a subsidiary or associated undertaking is calculated by comparing the carrying value of the net assets sold (including any unamortised goodwill) with the proceeds received.

G) PENSIONS

The Group contributes to a defined contribution scheme and to individual defined contribution schemes for the benefit of certain employees. Contributions are charged against profits, at the contribution rates agreed with individual employees, in the year in which they are made. There are no post-retirement benefits other than pensions.

H) OPERATING LEASES

Operating lease rentals are charged to the profit and loss account as incurred, on a straight line basis.

I) BAD AND DOUBTFUL DEBTS

Specific provisions are made against amounts due from customers when, in the opinion of the directors, full repayment is considered to be unlikely. The level of provision for each loan identified as impaired is based on an estimate of the likely future recoverable amount, taking into account the age of arrears, the level of security held and other relevant factors.

A general provision is maintained to provide cover for possible unidentified losses that are inherent in any portfolio of bank lending. The level of general provision is estimated based on historic loss experience and also takes into account the general economic climate in the markets in which the Group operates. The accuracy of the evaluation is periodically assessed against actual losses.

Loans and advances are held on the balance sheet and are only written off when further recoveries are unlikely.

Interest of doubtful collectability is excluded from the profit and loss account and is credited to a suspense account.

J) **DEBT SECURITIES**

Debt securities represent certificates of deposit. The Group's intention is to hold them to maturity and therefore, they are stated in the balance sheet at cost.

K) **SECURITIES AND NEGOTIABLE INSTRUMENTS**

Securities and negotiable instruments are accounted for on a consistent basis according to the purpose for which they were acquired. Consequently, actively traded positions are valued at fair value in accordance with industry practice.

Marketable securities held as trading assets are stated at market value and profits and losses arising from this valuation are taken to the profit and loss account. This is not in accordance with Schedule 4 of the Companies Act 1985, which requires that such assets be stated at the lower of cost and net realisable value or that, if revalued, any revaluation differences should be taken to the revaluation reserve. The directors consider that these requirements would fail to give a fair and true view of the profit for the year of a market maker that holds readily marketable investments as current assets as their marketability enables decisions to be taken continually about whether to hold or sell those assets, and hence the economic measure of performance in any period is properly made by reference to market values. It is not practicable to quantify the effect on the accounts of these departures since information on original cost being of no continuing relevance to the business is not readily available.

L) **FOREIGN CURRENCIES**

Assets and liabilities denominated in foreign currencies are translated into sterling at exchange rates ruling at the balance sheet date. Foreign currency transactions during the year are translated at exchange rates ruling at the date of the transaction. Translation differences are dealt with in the profit and loss account.

NOTES TO THE FINANCIAL STATEMENTS

1 ADMINISTRATIVE EXPENSES

	2003 £000	2002 £000
Staff costs, including directors:		
Wages and salaries	**18,565**	13,176
Social security costs	**1,974**	1,208
Other pension costs (note 37)	**1,596**	795
Other administrative expenses	**13,196**	9,857
Contribution from Old Mutual plc in respect of operating losses of Arbuthnot Securities Limited (note 30)	**(1,000)**	—
	34,331	25,036
Exceptional items (note 2)	**1,256**	545
	35,587	25,581

2 EXCEPTIONAL ITEMS

Exceptional items comprise redundancy and reorganisation costs in Arbuthnot Latham (£496,000) and Arbuthnot Securities (£760,000) together with the write-off of £655,000 of goodwill arising from the professional expenses of the acquisition of Arbuthnot Securities.

The total cost of £1,911,000 does not relate to the ongoing profitability of the Group and is accordingly disclosed as an exceptional item. Corporation tax relief at 30% applies to the redundancy and reorganisation costs totalling £1,256,000.

3 OPERATING EXPENSES

	2003 Continuing activities £000	2003 Acquisitions £000	2003 Total £000	2002 £000
Administrative expenses (note 1)	**26,546**	**9,041**	**35,587**	25,581
Amortisation of goodwill (note 15)	**199**	**—**	**199**	170
Depreciation (note 16)	**1,404**	**63**	**1,467**	1,421
Exceptional goodwill write-off (note 2)	**—**	**655**	**655**	—
Provisions for bad and doubtful debts (note 11)	**900**	**—**	**900**	875
	29,049	**9,759**	**38,808**	28,047

4 PROFIT ON ORDINARY ACTIVITIES BEFORE TAX

	2003 £000	2002 £000
is stated after:		
Income		
Profit on disposals of tangible fixed assets	**55**	27
Rent from sub-letting of premises	**50**	41
Charges		
Equipment rentals	**4**	3
Other operating lease rentals	**774**	741

The auditors' remuneration was £245,000 (2002: £197,000), of which £6,000 (2002: £5,000) related to the Company.

Remuneration of the auditors for the provision of non-audit services to the Group was £23,000 (2002: £175,000). This comprises taxation compliance and advisory fees of £20,000 (2002: £20,000), services required by regulatory bodies of £3,000 (2002: £5,000) and in 2002 due diligence services of £150,000.

5 TAX ON PROFIT ON ORDINARY ACTIVITIES

	2003 £000	2002 £000
United Kingdom corporation tax at 30% (2002: 30%)		
Current	**1,217**	2,483
Deferred	**(7)**	(59)
Under/(over) provided in previous years		
Current	**1**	(29)
Deferred	**39**	47
	1,250	2,442
Tax reconciliation		
Profit before tax	**3,878**	7,796
Tax at 30% (2002: 30%)	**1,163**	2,339
Depreciation in excess of capital allowances	**96**	65
Non-taxable amortisation of net negative goodwill	**(103)**	—
Disallowed expenses	**109**	85
Prior period adjustments	**1**	(29)
Other timing differences	**(48)**	(6)
Corporation tax charge for the year	**1,218**	2,454

6 PROFIT RECOGNISED IN THE FINANCIAL STATEMENTS OF SECURE TRUST BANKING GROUP PLC

£2,518,000 (2002: £4,780,000) of the profit attributable to ordinary shareholders has been recognised in the financial statements of Secure Trust Banking Group PLC.

7 DIVIDENDS

	2003 pence per share	2002 pence per share	2003 £000	2002 £000
Interim (paid)	**10.5**	10.0	**1,360**	1,356
Final (proposed)	**20.5**	20.0	**2,655**	2,590
	31.0	30.0	**4,015**	3,946

8 EARNINGS PER ORDINARY SHARE

BASIC AND FULLY DILUTED

Earnings per ordinary share are calculated on the net basis by dividing the profit attributable to shareholders of £2,618,000 (2002: £5,345,000) by the weighted average number of ordinary shares 13,027,289 (2002: 13,624,862) in issue during the year. There is no difference between basic and fully diluted earnings per ordinary share.

ADJUSTED

The exceptional item included in administration expenses does not relate to the profitability of the Group on an ongoing basis. Therefore, an adjusted basic and fully diluted earnings per share is presented as follows:

	2003		2002	
	£000	pence	£000	pence
Basic and fully diluted	**2,618**	**20.1**	5,345	39.2
Exceptional item	**1,534**	**11.8**	381	2.8
Earnings excluding exceptional item and adjusted earnings per share	**4,152**	**31.9**	5,726	42.0

9 LOANS AND ADVANCES TO BANKS AND BUILDING SOCIETIES

	2003 Group £000	2002 Group £000
Remaining maturity:		
3 months or less but not repayable on demand	**63,272**	71,378
Repayable on demand	**11,074**	8,324
	74,346	79,702

10 LOANS AND ADVANCES TO CUSTOMERS

	2003 Group £000	2002 Group £000
Remaining maturity:		
Over 5 years	**790**	733
5 years or less but over 1 year	**24,310**	23,288
1 year or less but over 3 months	**23,547**	27,744
3 months or less	**65,973**	57,399
	114,620	109,164
General and specific bad and doubtful debt provisions (note 11)	**(3,789)**	(3,839)
Suspended interest (note 12)	**(563)**	(476)
	110,268	104,849
Of which repayable on demand or at short notice	**18,312**	15,233

11 PROVISIONS FOR BAD AND DOUBTFUL DEBTS

	2003 Specific £000	2003 General £000	2003 Total £000	2002 Specific £000	2002 General £000	2002 Total £000
Group:						
At 1 January	**3,254**	**585**	**3,839**	4,703	585	5,288
Charge against profits	**900**	**–**	**900**	875	–	875
Amounts written off	**(977)**	**–**	**(977)**	(2,365)	–	(2,365)
Recoveries	**27**	**–**	**27**	41	–	41
At 31 December	**3,204**	**585**	**3,789**	3,254	585	3,839

12 INTEREST IN SUSPENSE

	2003 Group £000	2002 Group £000
At 1 January	**476**	1,578
Net interest suspended	**153**	305
Interest written off	**(66)**	(1,407)
At 31 December	**563**	476
In respect of loans and advances to customers		
Before provisions	**3,001**	1,985
After provisions and interest in suspense	**2,224**	1,197

13 DEBT SECURITIES

	2003 Group £000	2002 Group £000
Remaining maturity:		
1 year or less but over 3 months	**24,500**	9,000
3 months or less	**4,000**	8,000
At 31 December	**28,500**	17,000

14 SHARES IN SUBSIDIARY UNDERTAKINGS

	Shares at cost £000	Impairment provisions £000	Net £000
Secure Trust Banking Group PLC			
At 1 January 2003	30,229	(3,292)	26,937
Additions	3,655	(655)	3,000
At 31 December 2003	**33,884**	**(3,947)**	**29,937**

	2003 £000	2002 £000
Subsidiary undertakings:		
Banks	**24,444**	24,444
Other	**5,493**	2,493
Total unlisted	**29,937**	26,937

The principal subsidiary undertakings of Secure Trust Banking Group PLC at 31 December 2003 were:

Name	Interest %	Principal activity
Secure Trust Bank PLC	100	Household cash management and banking
OBC Insurance Consultants Limited	100	Motor and general insurance
Arbuthnot Latham & Co., Limited and its subsidiaries	100	Banking
Arbuthnot Fund Managers Limited	100	Fund management
Arbuthnot Insurance Brokers Limited	100	Insurance broking
Arbuthnot Pensions & Investments Limited	100	Life assurance and pensions
Arbuthnot Pension Trustees Limited	100	Trustees and pension consultants
Arbuthnot Commercial Finance Limited	91.9	Factoring
Arbuthnot Securities Limited	100	Investment banking

(i) All the above subsidiary undertakings are incorporated in Great Britain and have their respective registered offices in England and Wales and operate within the United Kingdom.

(ii) All the above subsidiary undertakings are included in the consolidated financial statements and have an accounting reference date of 31 December.

(iii) All the above interests relate wholly to ordinary shares.

15 INTANGIBLE FIXED ASSETS

	Negative Goodwill £000	Positive Goodwill £000
GROUP:		
Cost		
At 1 January 2003	—	3,325
Acquisition expenses (note 30)	—	655
Contribution from Old Mutual plc (note 30)	(1,000)	—
At 31 December 2003	**(1,000)**	**3,980**
Aggregate amortisation		
At 1 January 2003	—	566
(Released)/charged to profit and loss account	(1,000)	655
Charge for the year	—	199
At 31 December 2003	**(1,000)**	**1,420**
Net book value at 31 December 2003	**—**	**2,560**
Net book value at 31 December 2002	—	2,759

Unimpaired goodwill arising on acquisitions is being amortised on a straight line basis over 20 years. This period is the period over which the directors estimate that the value of the underlying businesses acquired is expected to exceed the value of the underlying assets.

16 TANGIBLE FIXED ASSETS

	Freehold land and buildings £000	Computer and other equipment £000	Motor vehicles £000	Total £000
GROUP:				
Cost or valuation				
At 1 January 2003	5,000	8,812	1,478	15,290
Subsidiary acquired	—	168	—	168
Additions	17,526	1,602	706	19,834
Disposals	—	—	(492)	(492)
Revaluation	1,931	—	—	1,931
At 31 December 2003	24,457	10,582	1,692	36,731
Accumulated depreciation				
At 1 January 2003	128	6,194	641	6,963
Subsidiary acquired	—	68	—	68
Disposals	—	—	(309)	(309)
Charge for year	90	989	388	1,467
At 31 December 2003	218	7,251	720	8,189
Net book value at 31 December 2003	24,239	3,331	972	28,542
Net book value at 31 December 2002	4,872	2,618	837	8,327

Freehold property acquired during 2003 was professionally revalued on an existing use basis by Dickens Watts & Dade Chartered Surveyors resulting in a revaluation surplus of £1.93 million. In December 2001 freehold properties then owned by the Group were professionally revalued on an existing use basis by Grenville Smith & Duncan, Chartered Surveyors and Fraser Wood Mayo & Pinson, Chartered Surveyors.

These valuations were made in accordance with the RICS appraisal and valuation manual. The directors are not aware of any material change in value since the valuation dates and therefore, the valuations have not been updated.

All freehold land and buildings are occupied and used by Group companies. The carrying value of freehold land not depreciated is £10.9 million.

16 TANGIBLE FIXED ASSETS continued

The historical cost of freehold property included at valuation is as follows:

	2003 £000	2002 £000
Cost	**22,242**	4,716
Accumulated depreciation	**(451)**	(361)
Net book value	**21,791**	4,355

	Office equipment & fittings £000
COMPANY:	
Cost	
At 1 January 2003	184
Additions	10
31 December 2003	194
Depreciation	
At 1 January 2003	180
Charge for year	6
At 31 December 2003	186
Net book value at 31 December 2003	8
Net book value at 31 December 2002	4

17 OTHER ASSETS

	2003 Group £000	2002 Group £000
Amounts falling due within one year:		
Trade debtors	**7,745**	4,921
Long securities positions	**1,138**	–
Corporation tax recoverable	**185**	–
Amounts falling due after more than one year:		
Deferred tax (note 22)	**234**	266
	9,302	5,187

18 DEPOSITS BY BANKS

	2003 Group £000	2002 Group £000
With agreed periods of notice:		
5 years or less but over 1 year	**13,140**	–
1 year or less but over 3 months	**1,750**	2,045
Repayable on demand	**264**	449
	15,154	2,494

The deposits with a period of notice of 5 years or less but over 1 year are secured on the freehold property acquired in the year.

19 CUSTOMER ACCOUNTS

	2003 Group £000	2002 Group £000
With agreed periods of notice:		
1 year or less but over 3 months	**49,890**	65,173
3 months or less but not repayable on demand	**57,689**	38,235
Repayable on demand	**79,716**	66,787
	187,295	170,195

20 OTHER LIABILITIES

	2003 Group £000	2002 Group £000
Amounts falling due within one year:		
Bank borrowings	**3,000**	3,000
Trade creditors	**12,458**	10,310
Short securities positions	**493**	—
Dividends payable	**2,655**	2,590
Corporation tax	**—**	912
Unsecured loan notes	**268**	520
	18,874	17,332

The unsecured loan notes are redeemable, at the holder's option, at dates up to September 2005 and bear interest at 1% below Barclays Bank PLC base rate.

21 SUBORDINATED LOAN NOTES

	2003 Group and Company £000	2002 Group and Company £000
The subordinated loan notes carry interest at 3% per annum over LIBOR for six month sterling deposits and are repayable at par on 31 December 2009 unless redeemed or repurchased earlier by the Company	**7,817**	3,817

22 DEFERRED TAX

	2003 Group £000	2002 Group £000
The deferred tax asset comprises:		
Accelerated capital allowances	46	78
Short-term timing differences	188	188
	234	266
At 1 January	266	254
Profit and loss account (note 5)	(32)	12
At 31 December	234	266

23 CALLED UP SHARE CAPITAL

	£000
Authorised (at 31 December 2002 and 2003):	
418,439,000 ordinary shares of 1p each	4,184
Allotted, called up and fully paid	
At 1 January 2003: 13,401,974 ordinary shares of 1p each	134
At 31 December 2003: 12,951,974 ordinary shares of 1p each	130

On 16 January 2003 and 18 March 2003 the Company repurchased 110,000 and 340,000 1p ordinary shares at 410 pence and 440 pence respectively in accordance with the authority given by shareholders on 16 May 2002 for a total consideration of £455,511 and £1,510,961.

The repurchased shares represented 3.4% of called up share capital at the start of the year.

24 RESERVES

	Group £000	Company £000
Share premium account		
At 1 January 2003 and 31 December 2003	13,370	13,370
Capital redemption reserve		
At 1 January 2003	16	16
Arising in the year	4	4
At 31 December 2003	20	20
Revaluation reserve		
At 1 January 2003	511	–
Arising in the year	1,931	–
At 31 December 2003	2,442	–

25 PROFIT AND LOSS ACCOUNT

	2003 Group £000	2003 Company £000
At 1 January	**10,893**	**13,016**
Cost of shares repurchased	**(1,966)**	**(1,966)**
Loss for the year	**(1,397)**	**(1,497)**
At 31 December	**7,530**	**9,553**

Cumulative goodwill written off relating to acquisitions made prior to 1999, which has been eliminated against reserves, amounts to £21.930 million (2002: £21.930 million).

26 MINORITY INTERESTS

	2003 Group £000	2002 Group £000
At 1 January	**72**	84
Profit and loss account	**10**	9
Reduction on disposal of shares	**—**	(16)
Dividends paid	**(5)**	(5)
At 31 December	**77**	72

27 RECONCILIATION OF MOVEMENTS IN EQUITY SHAREHOLDERS' FUNDS

	2003 Group £000	2002 Group £000
Profit for the financial year	**2,618**	5,345
Dividends	**(4,015)**	(3,946)
	(1,397)	1,399
Purchase of own shares	**(1,966)**	(1,851)
Surplus on revaluation of freehold properties	**1,931**	—
Opening equity shareholders' funds	**24,924**	25,376
Closing equity shareholders' funds	**23,492**	24,924

28 ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

	2003 Group £000	2002 Group £000
Assets denominated in sterling	**249,049**	209,273
Assets denominated in currencies other than sterling	**7,773**	11,591
Total assets	**256,822**	220,864
Liabilities denominated in sterling	**249,079**	209,248
Liabilities denominated in currencies other than sterling	**7,743**	11,616
Total liabilities	**256,822**	220,864

29 CONSOLIDATED CASH FLOW STATEMENT

	2003 £000	2002 £000
(i) Reconciliation of operating profit to net cash inflow from operations		
Operating profit before exceptional item	**5,789**	8,341
Exceptional administrative costs	**(1,256)**	(545)
Profit on sale of tangible fixed assets	**(55)**	(27)
Decrease in accrued income and prepayments	**981**	371
Decrease in accruals and deferred income	**(808)**	(644)
Provisions for bad and doubtful debts	**900**	875
Depreciation and amortisation	**1,666**	1,591
Net cash flow from trading activities	**7,217**	9,962
Net decrease in loans and advances to banks and customers	**1,787**	(26,320)
Net increase in deposits by banks and customer accounts	**29,760**	21,455
Net decrease in trade debtors	**6,807**	(1,122)
Net decrease in other liabilities	**(7,573)**	(44)
Net cash inflow from operating activities	**37,998**	3,931

	2002 £000	Cash flow £000	2003 £000
(ii) Analysis of the balances of cash as shown in the balance sheet			
Cash and balances at central banks	281	**(46)**	**235**
Bank overdrafts	(3,000)	—	**(3,000)**
Loans and advances to other banks repayable on demand	8,324	**2,750**	**11,074**
	5,605	**2,704**	**8,309**

	Share capital (including premium) £000	Loans £000
(iii) Analysis of changes in financing during the year		
At 1 January 2003 and 31 December 2003	13,520	3,817

	£000
(iv) Cash flow movements arising from acquisitions during the year	
Net cash outflow from operating activities	(3,662)
Investing activities	(96)
Net cash outflow	(3,758)

30 ACQUISITION OF ARBUTHNOT SECURITIES LIMITED

On 14 January 2003 the Group completed the purchase of Old Mutual Securities Limited (since renamed Arbuthnot Securities Limited) at an initial consideration of £4,000,000, satisfied by the issue of Floating Rate Subordinated Loan Notes 2009, and expenses totalling £655,000, satisfied by cash. Further consideration up to a maximum of £8,000,000 is payable dependent on the results of that business in the three years ending 31 December 2005. Under the terms of the acquisition agreement the vendor of Old Mutual Securities Limited has contributed £1 million in respect of the operating losses of that business in 2003. This has been treated as a reduction in the purchase price and the resulting negative goodwill of £1 million less goodwill of £655,000, arising on the expenses of the acquisition, has been credited to profit and loss as the directors believe that this is the best measure of their useful lives.

For the period 1 January 2003 to 13 January 2003 the loss before taxation amounted to £178,000. It utilised £96,000 of funds for investing activities. For the year to 31 December 2002 its audited loss after taxation was £1,396,000.

30 ACQUISITION OF ARBUTHNOT SECURITIES LIMITED continued

The fair value of the operating assets of Old Mutual Securities Limited was not materially different from the book value and is shown below:

Fair Value

	£000
Fixed assets	100
Current assets	16,753
Total assets	16,853
Total liabilities	12,853
Net assets	4,000
Total consideration including expenses	3,655
Net negative goodwill arising	345
Net negative goodwill comprises:	
Contribution from Old Mutual plc in respect of operating losses	1,000
Acquisition expenses	(655)

31 SEGMENTAL INFORMATION

Year ended 31 December 2003

	Personal financial services 2003 £000	Private banking 2003 £000	Investment banking 2003 £000	Subordinated loan stock 2003 £000	Group total 2003 £000
Segment profit	7,110	921	(1,528)	–	6,503
Subordinated loan note interest	–	–	–	(515)	(515)
Amortisation of goodwill	–	(199)	–	–	(199)
Profit before exceptional items	7,110	722	(1,528)	(515)	5,789
Exceptional items	–	(496)	(1,415)	–	(1,911)
Profit before tax	7,110	226	(2,943)	(515)	3,878
Segment Net Assets	15,979	13,587	1,743	(7,817)	23,492
Segment Total Assets	57,168	198,517	8,954	(7,817)	256,822

Year ended 31 December 2002

	Personal financial services 2002 £000	Private banking 2002 £000	Investment banking 2002 £000	Subordinated loan stock 2002 £000	Group total 2002 £000
Segment profit	7,460	1,065	–	–	8,525
Subordinated loan note interest	–	–	–	(14)	(14)
Amortisation of goodwill	–	(170)	–	–	(170)
Profit before exceptional item	7,460	895	–	(14)	8,341
Exceptional item	(515)	(30)	–	–	(545)
Profit before tax	6,945	865	–	(14)	7,796
Segment Net Assets	17,243	11,498	–	(3,817)	24,924
Segment Total Assets	55,032	169,649	–	(3,817)	220,864

The Group's operations are conducted wholly within the United Kingdom and geographic segmental information is therefore not presented.

32 DIRECTORS' AND OFFICERS' LOANS

The aggregate amount outstanding at 31 December 2003 and 31 December 2002 under transactions, arrangements and agreements, on normal commercial terms, made by authorised institutions within the Group with those who were directors (including connected persons) or officers of Secure Trust Banking Group PLC during the year, and the number of persons concerned, were as follows:

	2003	2002	2003	2002
	Aggregate amount outstanding		Number of persons	
Directors' loans	**£577,000**	£200,000	**3**	1

33 CAPITAL COMMITMENTS

	2003 £000	2002 £000
Capital commitments for the Group (Company: £nil), which have been contracted for but for which no provision has been made in the financial statements	**709**	96

34 AVERAGE NUMBER OF EMPLOYEES

The average number of persons employed by the Group during the year was made up as follows:

	2003	2002
Personal financial services	**371**	348
Private and merchant banking	**168**	174
Investment banking	**80**	—
	619	522

35 OPERATING LEASE COMMITMENTS

	2003 Land and buildings £000	2002 Land and buildings £000
At the year end, annual commitments under non-cancellable operating leases were:		
Group:		
Expiring		
within one year	**278**	114
between one and five years	**200**	550
in five years or more	**242**	277
	720	941
Company:		
Expiring		
within one year	**26**	—
between one and five years	**—**	52

36 MEMORANDUM ITEMS

The tables below give the nominal principal amounts of off-balance sheet transactions. The nominal principal amounts indicate the volume of business outstanding at the balance sheet date and do not represent amounts of risk.

	Nominal principal amount 2003 £000	Nominal principal amount 2002 £000
Contingent liabilities		
Guarantees	**462**	722
Other contingent liabilities	**8**	26
	470	748

36 MEMORANDUM ITEMS continued

	Nominal principal amount 2003 £000	Nominal principal amount 2002 £000
Commitments		
Documentary letters of credit	**56**	62
Credit lines and other commitments to lend		
less than one year	**6,712**	5,614
	6,768	5,676

37 PENSION COMMITMENTS

The Group contributes to individual defined contribution schemes for certain employees and to a defined contribution scheme.

The assets of the latter scheme are held in a separate trustee administered fund. Fees totalling £12,000 (2002: £12,000) in respect of administration services have been recharged to the employer by Arbuthnot Pension Trustees Limited.

The total pension cost is shown in note 1.

38 FIVE YEAR SUMMARY

	1999 £000	2000 £000	2001 £000	2002 £000	2003 £000
Profit before tax and exceptional items*	10,062	9,502	8,150	8,341	**5,789**
Profit before tax	7,590	9,502	8,150	7,796	**3,878**
Earnings per share					
Basic (p)	31.3	48.9	40.8	39.2	**20.1**
Adjusted* (p)	47.8	48.9	40.8	42.0	**31.9**
Dividends per share (p)	27.0	28.0	29.0	30.0	**31.0**

* The exceptional items and the adjusted earnings per share reflect, in 1999, goodwill, previously written off directly to reserves, which was reinstated and charged in the profit and loss account and, in 2002, the cost of buying out outstanding share option entitlements.

39 RISK MANAGEMENT

The Group is exposed to credit risk, liquidity risk and market risk. Market risk includes foreign currency and interest rate risk. During the year the Group did not enter into derivative instruments either on its own account or on behalf of its clients.

CREDIT RISK

The Group's approach to credit risk is managed through the credit committees of its banking subsidiaries which seek to balance the credit risk on a particular transaction with the return generated by the transaction.

LIQUIDITY

The Group's liquidity is managed on a mismatch basis, the mismatch being the difference between the levels of assets and liabilities in the same maturity bands. The Group's aim is to maintain a prudent liquidity margin when compared with the mismatch criteria set by the regulators. Use is made of long-term committed bank facilities and certificates of deposit (debt securities) in the management of liquidity.

The maturity profiles of various categories of assets and liabilities are set out in the notes to the financial statements.

FOREIGN EXCHANGE

The foreign exchange activity of the Group is solely to support the requirements of customers. The Group normally only deals as a matched principal in the foreign exchange spot markets and consequently should not be exposed to significant position risk.

The Group's business is predominantly transacted in sterling, although accounts will be offered in currencies other than sterling in order to service clients' requirements. The majority of balances in foreign currencies are denominated in US dollars. An analysis of the balances held in currencies other than sterling is set out in note 28.

FINANCIAL INSTRUMENTS HELD FOR TRADING PURPOSES

The only entity that holds financial instruments for trading purposes is Arbuthnot Securities Limited, but the carrying amounts are not materially different from their fair value.

39 RISK MANAGEMENT continued

INTEREST RATE RISK

A significant proportion of the loans and advances to customers and customer accounts of the Group are priced by reference to base rate, thereby providing an automatic hedge against movements in interest base rates. A controlled mismatching of the dates on which instruments mature is used to improve the return on interest related products, principally through the purchase of certificates of deposit with maturity dates up to one year. Longer dated fixed deposits tend to be hedged through the purchase of certificates of deposit, which are also used actively in the management of liquidity, although the level of fixed deposits of over 3 months to maturity is not material when compared with the total level of deposits. An analysis of interest rate repricing mismatches at 31 December 2003 and 31 December 2002 is set out below.

Items are allocated to time bands by reference to the earlier of the next contractual interest repricing date and the maturity date. Short-term debtors and creditors are treated as non-interest bearing.

At 31 December 2003	Not more than 3 months	More than 3 months but less than 6 months	More than 6 months but less than 1 year	More than 1 year but less than 5 years	More than 5 years	Non-Interest bearing	Total
ASSETS							
Loans and advances to banks	73,603	–	–	–	–	743	74,346
Loans and advances to customers	88,682	3,836	4,977	10,922	1,466	385	110,268
Debt securities	4,000	8,500	16,000	–	–	–	28,500
Other assets	–	–	–	–	–	43,708	43,708
Total assets	166,285	12,336	20,977	10,922	1,466	44,836	256,822
LIABILITIES							
Deposits by banks	15,137	–	–	–	–	17	15,154
Customer accounts	157,051	979	–	–	–	29,265	187,295
Other liabilities	–	–	–	–	–	30,881	30,881
Shareholders' funds	–	–	–	–	–	23,492	23,492
Total liabilities	172,188	979	–	–	–	83,655	256,822
Interest rate sensitivity gap	(5,903)	11,357	20,977	10,922	1,466	(38,819)	–
Cumulative gap	(5,903)	5,454	26,431	37,353	38,819	–	–

At 31 December 2002	Not more than 3 months	More than 3 months but less than 6 months	More than 6 months but less than 1 year	More than 1 year but less than 5 years	More than 5 years	Non-Interest bearing	Total
ASSETS							
Loans and advances to banks	78,722	–	–	–	–	980	79,702
Loans and advances to customers	83,866	3,760	5,206	10,586	200	1,231	104,849
Debt securities	8,000	1,000	8,000	–	–	–	17,000
Other assets	–	–	–	–	–	19,313	19,313
Total assets	170,588	4,760	13,206	10,586	200	21,524	220,864
LIABILITIES							
Deposits by banks	2,491	–	–	–	–	3	2,494
Customer accounts	137,735	58	1,000	–	–	31,402	170,195
Other liabilities	3,520	–	3,890	–	–	15,841	23,251
Shareholders' funds	–	–	–	–	–	24,924	24,924
Total liabilities	143,746	58	4,890	–	–	72,170	220,864
Interest rate sensitivity gap	26,842	4,702	8,316	10,586	200	(50,646)	–
Cumulative gap	26,842	31,544	39,860	50,446	50,646	–	–

NOTICE OF MEETING

NOTICE IS HEREBY GIVEN that the eighteenth Annual General Meeting of the Company will be held at Arbuthnot House, 20 Ropemaker Street, London EC2Y 9AR on Tuesday, 25 May 2004 at 3 pm for the following purposes:

1. To receive and adopt the Report of the Directors and the Financial Statements for the year ended 31 December 2003.

2. To declare a dividend on the ordinary shares which the directors recommend should be 20.5 pence per ordinary share.

3. To receive the report of the Remuneration Committee.

4. To elect Mr J Reed as a director.

5. To elect Mr D R Lascelles as a director.

6. To elect Dr A D Turrell as a director.

7. To elect Mr A A Salmon as a director.

8. To elect Mr R J J Wickham as a director.

9. To reappoint PricewaterhouseCoopers LLP as Auditors and to authorise the directors to fix their remuneration.

SPECIAL BUSINESS

To consider and, if thought fit, to approve the passing of the following Resolutions, of which Resolution 10 will be proposed as an Ordinary Resolution and Resolutions 11 and 12 will be proposed as Special Resolutions.

10. That the directors be and they are hereby generally and unconditionally authorised in accordance with Section 80 of the Companies Act 1985 to exercise all the powers of the Company to allot relevant securities (as defined in Subsection (2) of that Section) up to an aggregate nominal amount of £40,000, such authority to expire on 25 May 2009 save that the Company may before such expiry make an offer or agreement which would or might require relevant securities to be allotted after such expiry.

11. That the directors be and they are hereby empowered pursuant to Section 95 of the Companies Act 1985 to allot equity securities (as defined in Subsection (2) of the Section 94 of the Companies Act 1985) as if Subsection (1) of Section 89 of the Companies Act 1985 did not apply to any such allotment PROVIDED THAT such power shall be limited:

    (i) to the allotment of equity securities in connection with any rights issue in favour of or general offer to holders of ordinary shares in the capital of the Company where the equity securities respectively attributable to the interests of all the shareholders are proportionate (as nearly as may be) to the respective numbers of ordinary shares held by them but subject to such exclusions or other arrangements as the directors may deem necessary or expedient to deal with problems in connection with fractional entitlements, record dates, overseas shareholders or otherwise; and

(ii) to the allotment (otherwise than pursuant to subparagraph (i) above) of equity securities up to an aggregate nominal value of £6,450

and shall expire at the next Annual General Meeting of the Company save that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry.

12. That the Company be and is hereby generally and unconditionally authorised, pursuant to section 166 of the Companies Act 1985 and Article 50 (b) of the Articles of Association, to make market purchases (as defined in Section 163 of the Companies Act 1985) of its own ordinary shares on The London Stock Exchange on such terms and in such manner as the directors shall determine, provided that the general authority conferred by this resolution shall:

(i) be limited to a maximum of 564,000 ordinary shares of 1p each;

(ii) not permit payment of a price per ordinary share more than 105% of the average of the middle market quotations for such shares derived from The London Stock Exchange Daily Official List for the ten business days immediately preceding the date on which the shares are contracted to be purchased or less than 1p, exclusive of expenses;

(iii) expire on the conclusion of the next Annual General Meeting of the Company save that the Company may before such expiry contract to purchase its own shares on terms which will or may provide for completion to take place in whole or in part after such expiry.

By order of the Board

J R Kaye J. R. Kaye

Secretary

10 April 2004

One Arleston Way, Solihull, B90 4LH

NOTE:

1. To be entitled to attend and vote at the meeting (and for the purpose of determining the number of votes the member may cast) a member must be entered on the register of members by close of business on 23 May 2004.

2. A member entitled to attend and vote may appoint one or more proxies to attend and, on a poll, vote in his stead. A proxy need not be a member of the Company.

3. There are no service contracts of directors other than ones which may be terminated on up to 12 months' notice at any time. Copies of these service agreements will be available for inspection at the registered office during usual business hours on any weekday (Saturdays and public holidays excepted) from the date of this Notice until the date of the meeting and at the place of meeting for 15 minutes prior to and during the meeting.

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