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Secure Trust

Banking Group PLC

ANNUAL REPORT AND ACCOUNTS

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OUR STRATEGY HAS
DELIVERED GROWTH IN
BOTH EARNINGS
AND DIVIDENDS FOR
SHAREHOLDERS
IN 2000.

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A Strategy for Long-Term Growth

Secure Trust Banking Group PLC is committed to developing its business through a professional and customer oriented business approach that has created a solid, profitable foundation on which to continue the long track record of profitability.

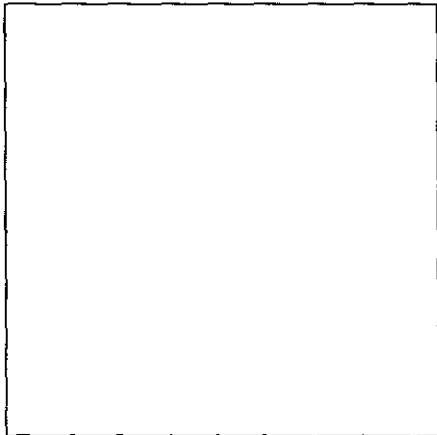
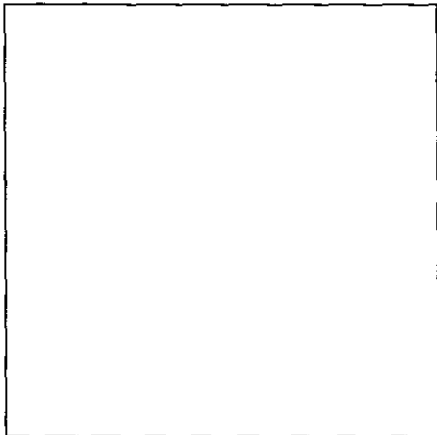
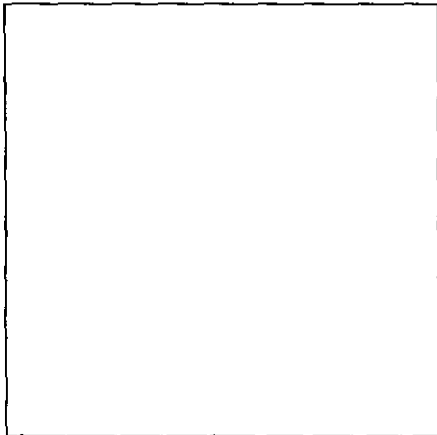
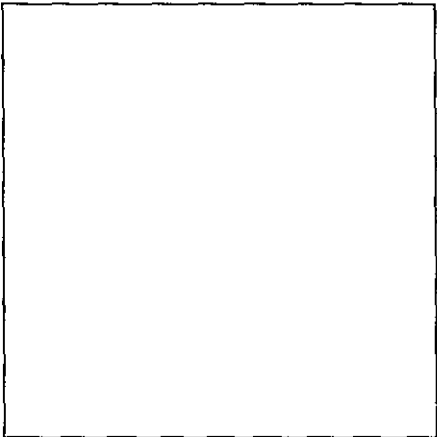
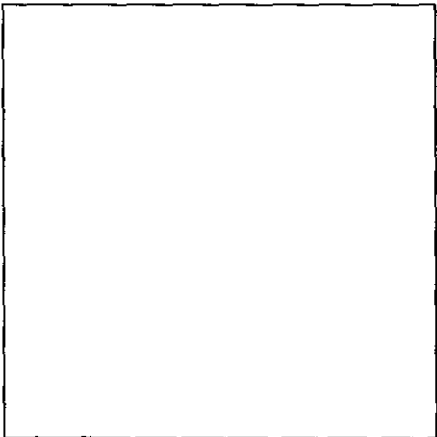
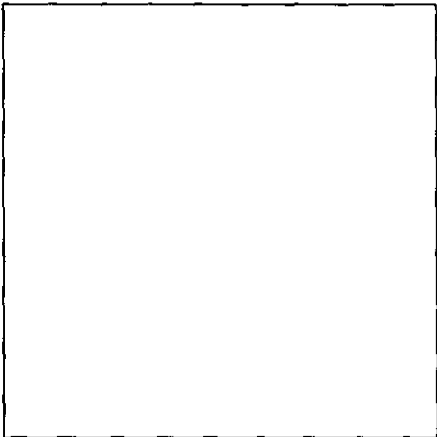
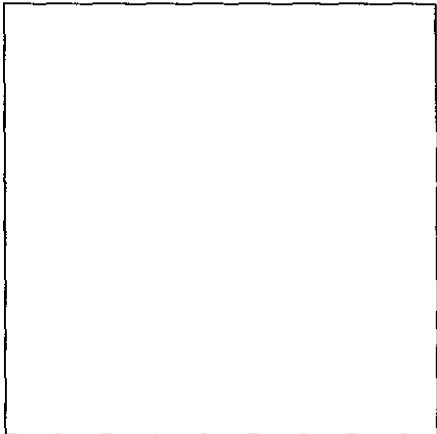
It is this solid professionalism, reflected by the quality and calibre of our personnel, that will ensure a consistent and bright future. We are not afraid to take the necessary steps, as market conditions dictate, to invest in our longer term prospects.

Our staff, our working environment and practices, our products and services available to our customers are all driven by the belief that we offer both personal attention and a very high standard of service.

SECURE TRUST
HAS AN
IMPRESSIVE
TRACK RECORD
OF SUCCESS.

2000

THE SUCCESS OF THE
GROUP IS BUILT ON THE
SKILL, DETERMINATION
AND COMMITMENT OF
OUR STAFF.



Secure Trust provides a range of banking and financial services through two specialist divisions: Secure Trust Bank, the UK's market leader in household cash management, and Arbuthnot Latham, a niche private and merchant banking group. The common theme linking our businesses is an emphasis on providing high quality, personal service tailored to meet clients' specific needs.

Personal financial services

Secure Trust was founded in Birmingham nearly 50 years ago and is 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 over fixed weekly or monthly payments.

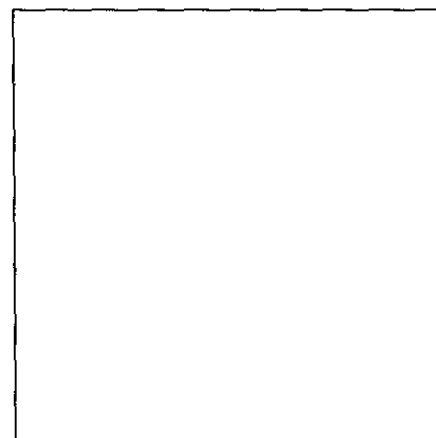
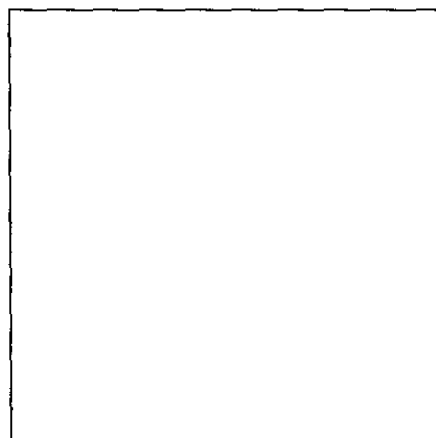
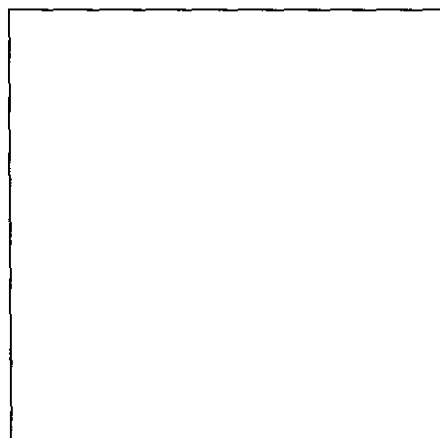
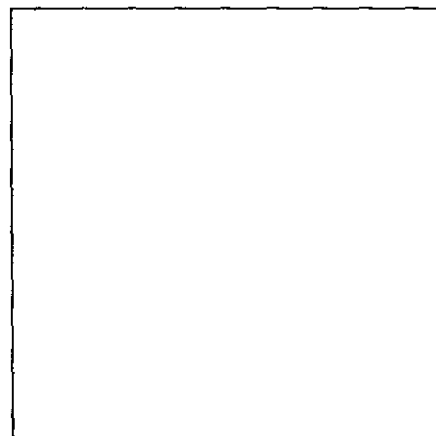
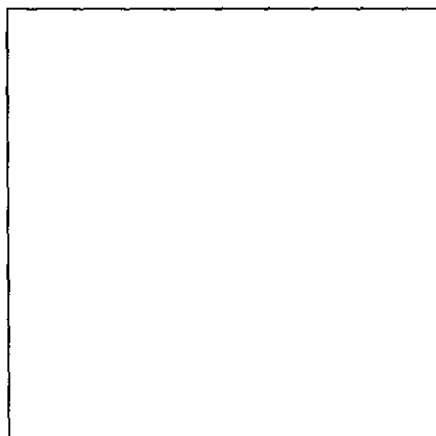
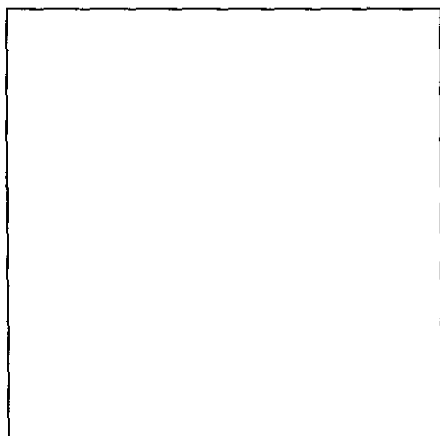
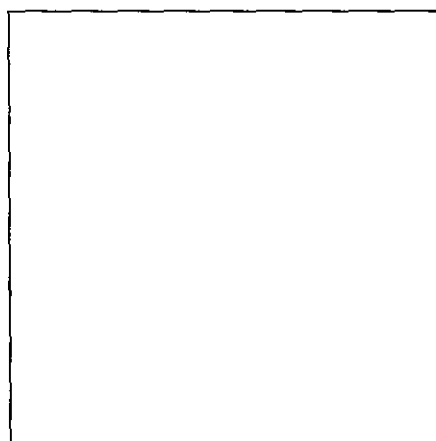
The appeal of the **Secure Homes** account is wide-ranging: the peace of mind afforded by carefully managed household finances attracts families with high financial commitments, whilst the convenience of easy bill payments appeals equally to customers at all stages of life. For added security, customers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

Secure Trust Bank also provides a full 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.

The Group's retail insurance business, **OBC Insurance Consultants**, offers motor and household insurance to customers in the West Midlands, operating from 24 high street branches as well as a dedicated telephone call centre.

THE FINANCIAL POSITION
OF THE GROUP REMAINS
STRONG AND THE BOARD
IS EXPRESSING ITS
CONFIDENCE IN THE
FUTURE WITH YET
ANOTHER INCREASE IN
THE DIVIDEND
TO SHAREHOLDERS.

OUR INNOVATION IN
SERVICE ENSURES WE
CONTINUE TO ATTRACT
NEW CUSTOMERS IN A
HIGHLY COMPETITIVE
FINANCIAL SERVICES
MARKETPLACE.



Excellence in Service

Private and merchant banking

The Arbuthnot name has been synonymous with banking and finance in the City of London for over 165 years. Today, the Arbuthnot Group provides a high quality and personalised wealth management service, aimed at attracting successful private and corporate clients, including entrepreneurs and high earning professionals.

Arbuthnot Latham & Co. offers a full banking service, including current accounts, deposit accounts, loans, overdrafts, foreign trade and corporate finance advisory 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 individually tailored service.

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

Financial planning and investment advice are offered through **Arbuthnot Pensions & Investments**, whose approach is to build long-term relationships and to design flexible financial strategies able to accommodate clients' changing requirements during their lifetime. Pensions form an increasingly important part of many clients' overall wealth and **Arbuthnot Pension Trustees** continues this personalised approach by offering expertise in products such as Self-Administered and Self-Invested pensions.

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.

Invoice factoring services are offered by **Arbuthnot Commercial Finance** to assist small and medium sized businesses in the early stages of growth, allowing them to obtain finance linked directly to their sales levels at the same time as outsourcing their credit management function.

Arbuthnot Trust Guernsey forms and administers offshore trusts and companies.

In a year where our main priority has been to plan for the next development phase in Secure Trust's business, I am pleased to report that like-for-like profits before goodwill for 2000 were £9.9 million (1999: £10.1 million). Earnings per share rose by 1% to 48.2 pence.

After allowing for the interest cost of the share buy-backs carried out in late 1999 and during 2000, pre-tax profits were £9.5 million (1999: £10.1 million before exceptional items).

The directors are recommending a final dividend of 19 pence per share which, together with the interim dividend of 9 pence, makes a total for the year of 28 pence, an increase of 4% over 1999. The final dividend will be paid on 18 May 2001 to all shareholders on the register at 30 March 2001.

Secure Trust Bank

The year 2000 has been a period of transition for Secure Trust Bank, with significant time and resources being devoted to new product development, systems enhancements, joint venture negotiations and the evolution of a new management structure for the future, on which I comment more fully below. These factors are reflected in an increase in overheads of some 7%, whilst the benefits of these investments will not be realised fully until future periods. As a result, the division's profits were £8.2 million against £8.7 million last year.

Income in the household cash management business increased by 4%. After a slow start to the year, personal loan volumes increased in the second half as a result of intensive marketing. Advances during the year achieved a similar level to the record amount reported in 1999 and total income from personal lending and banking rose by 3%.

Our Retail Insurance business has undergone a period of significant restructuring during the year, with the closure of 5 branches which we concluded would be uneconomic going forward. As a result, volumes have reduced and income fell by some 3%. A new managing director has recently been appointed to this business and a strategy for renewed growth is being implemented.

SECURE TRUST
BANK HAS BUILT
A SOUND
PLATFORM FOR
FUTURE
PROGRESS.

Arbuthnot Latham

Following the good growth achieved in 1999, the private and merchant banking division has again had a successful year, increasing its profit by 21% to £1.7 million. Its personalised approach to providing flexible, tailored solutions to clients' needs, coupled with high service levels, has continued to win new business.

The loan book increased by 26% to £61 million, deposits rose by 15% to £106 million and factored invoice volumes grew by 28% to £48 million. Together, these growth factors led to an increase in net interest income of 28%. At the same time, much emphasis continues to be placed on the development of our fee-earning activities, such as investment management, financial planning, pensions and insurance. As a result, fees and commissions received rose by 19%.

Staff and Management

Having reached the age of 70, Ron Paston decided that the time had come for him to retire from executive duties at the end of last year but I am pleased that he has agreed to remain on the Board as non-executive Deputy Chairman. In recognition of the outstanding contribution he has made to the development of the Birmingham business over the past 38 years, he has been elected President of our principal subsidiary, Secure Trust Bank PLC. His role as Chief Executive of this subsidiary has been taken over by Keith Deakin and Derek Pearson as Joint Managing Directors. Both have been directors of Secure Trust Bank PLC for a number of years and are well qualified to lead the business forward in the years ahead.

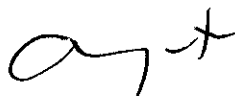
Once again, the past year has been characterised by the commitment and hard work of all our staff and, on behalf of the Board, I take this opportunity to thank them. In particular, I would like to thank Ron Paston for the many years of dedication and support he has given to me and the Company.

Outlook

Much work has been undertaken over the past year to lay the foundations for Secure Trust Bank to resume its growth path in future years via product enhancements and improved marketing strategies, including joint ventures. Meanwhile, the wealth management sector in which Arbuthnot Latham operates is recognised as a growth area and the directors are therefore optimistic regarding the medium-term prospects for the Group.

Henry Angest

5 April 2001



OUR PRIVATE
BANKING
ACTIVITIES HAVE
INCREASED
PROFITS BY 21%
FOR THE YEAR
2000.

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 and other Group companies. He is a non-executive director of Parity Group plc, Chairman of the Banking Committee of the London Investment Banking Association and a member of the Policy and Executive Committee and the Council of the Institute of Directors.

Ron Paston

Non-executive Deputy Chairman of the Group and President and non-executive director of Secure Trust Bank PLC. He was an executive director of Secure Trust Banking Group PLC from 1985 to 2000 and Chief Executive of Secure Trust Bank PLC from 1973 to 2000, having joined in 1962.

Stephen Lockley

Group Finance Director since 1994 and Chief Executive of Arbuthnot Latham & Co., Limited since 1995. He is a Chartered Accountant and was previously a director of Charterhouse Bank Limited.

Colin Wakelin

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

Robert Wickham

Senior independent non-executive director. He was the London General Manager of Bank of Scotland until his retirement in December 1993. He is also an independent non-executive director of Secure Trust Bank PLC, Arbuthnot Latham & Co., Limited, Luminar PLC and Rutland Trust Plc.

Adviser to the Board

Professor Sir Roland Smith

Advises the Board on general economic and business issues. He is currently Professor Emeritus of Management Science at the University of Manchester, Chancellor of UMIST and Chairman of Manchester United PLC. He has been on the board of a number of the UK's leading companies and from 1991 to 1996 he was a director of the Bank of England.

Secretary

Jeremy Robin Kaye FCIS

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Solihull, B90 4LH
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F: (0121) 693 9124
e: banking@securetrustbank.com

London Head Office

Royex House, Aldermanbury Square,
London EC2V 7NU
Telephone: (020) 7374 0417

Advisers

Auditors

PricewaterhouseCoopers

Principal Bankers

Barclays Bank PLC
Lloyds TSB plc

Stockbrokers

Teather & Greenwood Limited

Registrars

Capita IRG Plc
Balfour House, 390-398 High Road,
Ilford, Essex, IG1 1NQ

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 two chosen niche markets of personal financial services (Secure Trust Bank) and private and merchant banking (Arbuthnot Latham). The Group's revenues are thus derived from a combination of net interest income from its lending, deposit-taking and money market activities, management fees for services provided to customers and commissions earned on the sale of financial products.

During 2000 the Company purchased 482,500 of its own shares for cancellation, adding to the 652,110 shares already purchased in late 1999. The total cost of these share buy-backs has been £4.16 million, and whilst they have been earnings enhancing, the interest costs associated with financing them, together with an increase in goodwill amortisation, has reduced pre-tax profit to £9.5 million in 2000 (1999: £10.1 million before exceptional items). On a like-for-like basis, profits before goodwill were £9.9 million (1999: £10.1 million).

As a result of the beneficial effect of the share buy-backs, diluted earnings per share rose to 48.2p (1999: 47.8p) and the Board has declared dividends of 28p per share (1999: 27p).

Review of results

Net interest income increased by 9% to £8.6 million, reflecting the increases in average balances outstanding during the year of loans, deposits and liquid funds. Fees and commissions receivable rose by 7% as a result of the growth in business volumes, particularly in Arbuthnot Latham, and now account for some 75% of operating income.

Operating costs, excluding bad debts, increased by 13%. This rise reflects further investment in developing all areas of the Group's business. The bad debt charge was slightly higher at £0.8 million.

Due to the availability of tax losses brought forward in Arbuthnot Latham the effective rate of taxation was 27.8% (1999: 27.5%).

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 3 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. These fees and commissions rose by 3% in 2000 compared with the previous year. It also earns an interest margin on its lending and deposit-taking activities, which rose by 3% over the last year.

Secure Homes

The major emphasis in the household cash management business during 2000 has been on modernising the product and improving marketing and distribution arrangements, including through joint ventures. The benefits of these actions will largely accrue in future periods. Overall customer numbers for the household cash management service declined slightly during last year to 55,000. Management fee and commission income derived from providing household cash management services to these customers rose by 4%.

Secure Trust Bank

The demand for new unsecured personal loans matched last year's record level. Taking into account the pattern of scheduled repayments, outstanding balances at the year end increased by 3% to £26.2 million. There are some 14,000 borrowers, most of whom are also customers of the household cash management service, and the average life of a loan is 27 months. The number of customers with cheque accounts is 2,220. Arrears patterns on personal lending remain very satisfactory and the bad debt charge in Secure Trust Bank was £0.7 million (1999: £0.5 million). Provisions against personal lending at 31 December 2000 represented 9.8% of outstanding advances (1999: 9%).

OBC Insurance Consultants

Profits before tax of the retail insurance operations reduced by 13%.

The motor insurance consultancy business experienced an increase in average premiums during the year of 12%. Conversely, motor policy volumes decreased by 8% following a rationalisation of the branch network, and commission rates came under pressure throughout the year.

Management of the outstanding claims book in West Yorkshire Insurance once again progressed satisfactorily during the year and the company continues to earn a healthy level of investment income on the funds it is holding against future claims settlement.

Private and merchant banking

The companies forming the private and merchant 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. The division now looks after client assets totalling in excess of £700 million and operating profits increased by 21% to £1.7 million.

Arbuthnot Latham & Co.

Arbuthnot Latham's relationship-based approach to banking has continued to attract new clients, the number of whom increased by 17% during the year. Business volumes were buoyant, with loans outstanding increasing by 26% and deposits by 15%.

Arbuthnot Latham & Co. — summarised balance sheet

	2000 £m	1999 £m
Assets:		
Advances	61.4	48.9
Liquid assets	55.7	53.8
Other assets	8.8	8.0
	125.9	110.7
Liabilities:		
Customer and bank deposits	105.9	92.0
Other liabilities	2.1	1.8
Total liabilities	108.0	93.8
Capital resources	17.9	16.9
	125.9	110.7

Arbuthnot Fund Managers

Arbuthnot Fund Managers is a portfolio manager looking after investments for private clients, trusts, charities and pension schemes. Market conditions were generally favourable during 2000 and fees and commissions increased by 53%.

Pensions, Financial Planning and Insurance Broking

Arbuthnot Pensions & Investments, Arbuthnot Pension Trustees and Arbuthnot Weinell Financial Consultants enjoyed a year of further progress, with fees and commissions increasing by 26%. With effect from 1 January 2001, Arbuthnot Weinell Financial Consultants has been merged into Arbuthnot Pensions & Investments, which will lead to further operational benefits.

At the beginning of 2000, the Group acquired the 49% of MPW Insurance Brokers it did not already own and merged

the business with Dalgleish Weinell & Partners and Partnership Protection. The combined business is now operating as Arbuthnot Insurance Brokers. During 2000 it continued to gain clients and increase commission earnings. Turnover rose by 19%.

Arbuthnot Commercial Finance

The consistent progress achieved every year by Arbuthnot Commercial Finance since its formation continued in 2000. Factored volumes grew by 28% and outstanding advances by 35%.

Risk management

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 £98.7 million at 31 December 2000, some £27.1 million represents largely unsecured loans to customers of Secure Trust Bank and £71.6 million represents the commercial lending portfolio, most of which is well secured against cash, property, factored debts or other assets. A provision of £5.0 million (5.1% 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 rates, currency rates and securities re-pricing is limited to the interest earnings on its free cash and timing differences.

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 increased to £23.0 million at the year end (1999: £21.8 million) after share buy-backs during 2000 costing £1.6 million. Total assets rose from £161.0 million to £178.8 million. During the year, the Group's total liquid resources (cash, advances to banks and building societies and certificates of deposit) increased by £2.0 million to £66.2 million. The major cash outflows during the year were in respect of an increase in customer advances of £15.9 million, the repurchase of shares of £1.6 million, net capital expenditure of £1.1 million, acquisitions of £1.1 million and insurance claims settled of £2.4 million. Financing of these outflows came from an increase in deposits of £17.0 million, additional bank borrowings of £1.5 million and an operating cash inflow, after taxation and dividends, of £5.6 million. Bank borrowings of Secure Trust Banking Group PLC at 31 December 2000 amounted to £4.0 million.

Secure Trust Bank PLC

Henry Angest	<i>Chairman</i>
Ron Paston	<i>President</i>
Keith Deakin	<i>Joint Managing Director</i>
Derek Pearson	<i>Joint Managing Director</i>
Ronald Middleton	<i>Executive</i>
John Shipley	<i>Finance</i>
Stephen Lockley	<i>Group</i>
John Butcher	<i>Non-executive</i>
Edward Pearson	<i>Non-executive</i>
Robert Wickham	<i>Non-executive</i>

Arbuthnot Latham & Co., Ltd

Henry Angest	<i>Chairman</i>
Stephen Lockley	<i>Chief Executive</i>
Brian Collis	<i>Risk Management</i>
Allan James	<i>Banking</i>
Wayne Mathews	<i>Finance</i>
Andrew Whitton	<i>Private Banking</i>
Brian Rout	<i>Executive</i>
Roger Keast	<i>Non-executive</i>
Colin Wakelin	<i>Non-executive</i>
Robert Wickham	<i>Non-executive</i>

Additional non-executive biographies

John Butcher

National Chairman of the Institute of Directors 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.

Roger Keast

Consultant to and formerly Senior Partner of Stephens & Scown, Solicitors, an Alderman of the City of Exeter and its former Mayor. He is also Chairman of South West Industrial Crops Limited and a non-executive director of several West Country companies.

Edward Pearson

Formerly Managing Director of Bradford Pennine Insurance Company Limited. He is also a director of OBC Insurance Consultants Limited and West Yorkshire Insurance Company Limited and has over 35 years experience in the insurance industry.

The directors submit their annual report and the audited consolidated financial statements for the year ended 31 December 2000.

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 18. The retained profit for the year of £2.9 million has been transferred to reserves.

The directors recommend the payment of a final dividend of 19p on the ordinary shares which, together with the interim dividend of 9p paid on 3 November 2000, represents a total dividend for the year of 28p. The final dividend, if approved by members at the Annual General Meeting, will be paid on 18 May 2001 to shareholders on the register at close of business on 30 March 2001.

Share Capital

On 3 April 2000 the Company repurchased 200,000 ordinary shares at 315.5 pence, in accordance with the authority given by shareholders on 12 May 1999. On 18 and 19 October 2000 the Company repurchased 140,000 and 142,500 ordinary shares at 355p and 350p per share respectively, in accordance with the authority given by shareholders on 10 May 2000.

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.

To date, options granted to 56 employees and 1 director between 7 October 1994 and 26 March 1998 at prices varying between 485p and 770p and not yet exercised cover 487,750 shares.

The Company 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.

At the Annual General Meeting shareholders will 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 2002.

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 10% of the issued share capital. 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 4 April 2001 of the following substantial holdings in the ordinary shares of the Company, other than those held by the two directors shown below:

Holder	Ordinary Shares	%
Prudential plc	1,368,000	9.8
Framlington Group	942,824	6.8
Gambier Holding Inc.	545,000	3.9
Britannic Assurance	528,000	3.8

Directors

H Angest *Chairman*
S J Lockley
R Paston
A C Wakelin
R J J Wickham

Mr Paston 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 were as follows:

1 January and		
Beneficial Interests	31 December 2000	%
H Angest	6,120,033	44.0
R Paston	692,130	5.0
S J Lockley	8,832	0.1
R J J Wickham	505	—

There have been no changes in beneficial interests between 1 January and 4 April 2001, other than the purchase of 995 shares by Mr Wickham on 20 March 2001.

On 7 October 1994 Mr Lockley was granted options to subscribe between October 1997 and October 2004 for 100,000 shares in the Company at 485 pence each. On 16 October 1995 he was granted options to subscribe between October 1998 and October 2002 for a further 100,000 shares at 540 pence each, and on 26 March 1998 he was granted options to subscribe between March 2001 and March 2005 for a further 50,000 shares at 770 pence each, in both cases subject to the increase in the Company's earnings per share over a three year period exceeding the change in the retail price index over the same period by at least 2% per annum. All of these options remain outstanding. During the year to 31 December 2000 the share price ranged between 305 pence and 380 pence. The middle market closing share price at 31 December 2000 was 347.5 pence.

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. One director has a loan from Secure Trust Bank PLC of £200,000 on normal commercial terms as disclosed in note 31 to the financial statements.

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

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

BY ORDER OF THE BOARD

J R Kaye

Secretary

J.R. Kaye

5 April 2001

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 two Authorised Institutions regulated by the Financial Services Authority and its other significant businesses are subject to regulation by appropriate bodies. Accordingly, the Group operates to the high standards of corporate accountability appropriate for such businesses. However, in view of the size and proprietorial nature of the Company, the Board believes strongly that it should act as a unitary Board and not split itself into sub-committees which it does not believe would achieve enhancement of profitability or shareholder value.

Principles of good governance

Directors. The Group is led and controlled by an effective Board which comprises two executive directors, a former executive director and two independent non-executive directors. Furthermore, the Boards of the Group's two banking subsidiaries contain a total of five 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. There is no separate Nomination Committee. 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 Chairman and Group Chief Executive. He also exercises overall responsibility for Secure Trust Bank. Stephen Lockley 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. The remuneration policy for executive directors and the remuneration packages of individual directors, including performance-related remuneration, are determined by the Remuneration Committee, which comprises the whole Board under the Chairmanship of Henry Angest. Individual directors do not vote on their own remuneration. The Company's remuneration policy is set out below and details of the remuneration of each director are set out in note 5 to the financial statements.

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. The Audit Committee comprises the whole Board under the Chairmanship of Bob Wickham, the senior independent non-executive director. 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 two occasions a year at which the external auditors are present. 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 2000 with the Code of Best Practice contained within The Combined Code in all respects other than those identified and explained above.

Remuneration report

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. Information in relation to share options granted to directors is set out in the Directors' Report. Pension benefits take the form of annual contributions paid by the Company to individual money purchase schemes. The executive directors' service contracts are terminable by the Company on one year's

notice. The Remuneration Committee reviews salary levels each year based on the performance of the Group during the preceding financial period.

Internal control

The Board of directors has overall responsibility for the Group's system of internal control. Throughout the year ended 31 December 2000 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 Auditors, PricewaterhouseCoopers, 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.

Auditors' report to the members of Secure Trust Banking Group PLC

We have audited the financial statements on pages 18 to 36 which have been prepared under the historical cost convention and the accounting policies set out on pages 22 and 23.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report. As described on page 16, this includes responsibility for preparing the financial statements, in accordance with applicable United Kingdom accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board, the Listing Rules of the Financial Services Authority and our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the United Kingdom Companies Act. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the Company 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 or the Listing Rules 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.

We review whether the statement on pages 14 to 16 reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by 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 Group's corporate governance procedures or its risk and control procedures.

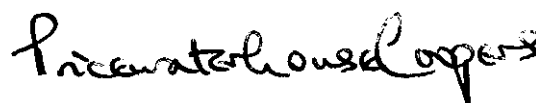
Basis of audit opinion

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. 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 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 2000 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the United Kingdom Companies Act 1985.



PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
Birmingham
5 April 2001

CONSOLIDATED
PROFIT AND
LOSS
ACCOUNT

		2000	1999
	NOTES	£000	£000
For the year ended 31 December 2000			
Interest receivable from loans, advances and investments		12,902	10,783
Less: interest payable		(4,334)	(2,928)
Net interest income		8,568	7,855
Fees and commissions receivable		26,294	24,496
Less: fees and commissions payable		(758)	(616)
Operating income		34,104	31,735
Administrative expenses	1	22,533	19,810
Depreciation	2	1,135	1,105
Amortisation of goodwill	2	150	65
Provisions for bad and doubtful debts	12	784	693
Operating expenses	2	24,602	21,673
Operating profit		9,502	10,062
Exceptional item	3	—	(2,472)
Profit on ordinary activities before tax		9,502	7,590
Tax on profit on ordinary activities	6	(2,645)	(2,769)
Profit on ordinary activities after tax		6,857	4,821
Minority interests	25	(16)	(128)
Profit attributable to shareholders of			
Secure Trust Banking Group PLC	7	6,841	4,693
Dividends	8	(3,922)	(3,943)
Retained profit for the financial year	24	2,919	750
Earnings per ordinary share	9		
Basic and fully diluted		48.2p	31.3p
Adjusted		48.2p	47.8p

All the above items relate to continuing operations.

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

The Group has no recognised gains and losses other than the profits above and therefore no separate statement of total recognised gains and losses has been presented.

CONSOLIDATED
BALANCE
SHEET

At 31 December 2000

	NOTES	2000 £000	1999 £000
Assets			
Cash and balances at central banks		224	168
Loans and advances to banks and building societies	10	52,468	51,573
Loans and advances to customers	11	93,737	78,668
Debt securities	14	13,500	12,500
Intangible fixed assets	16	3,081	2,278
Tangible fixed assets	17	7,314	7,250
Other assets	18	5,693	5,999
Prepayments and accrued income		2,752	2,538
Total assets		178,769	160,974
Liabilities			
Deposits by banks	19	16,227	13,397
Customer accounts	20	118,153	104,028
Insurance reserves	21	2,179	4,583
Other liabilities	22	16,719	14,535
Accruals and deferred income		2,373	2,585
Equity minority interests	25	72	79
		155,723	139,207
Called up share capital	23	139	144
Share premium account	24	13,370	13,370
Capital redemption reserve	24	11	6
Profit and loss account	24	9,526	8,247
Equity shareholders' funds	26	23,046	21,767
Total liabilities		178,769	160,974
Memorandum items	35		
Contingent liabilities:			
Guarantees		478	384
Other contingent liabilities		8	16
		486	400
Commitments		6,069	5,189

The financial statements on pages 18 to 36 were approved by the Board of directors on

5 April 2001 and were signed on its behalf by:

H Angest
S J Lockley } Directors

angest
S J Lockley

COMPANY
BALANCE
SHEET

At 31 December 2000

	NOTES	2000 £000	1999 £000
Fixed assets			
Shares in subsidiary undertakings	15	26,907	26,873
Tangible fixed assets	17	137	18
Current assets			
Due from subsidiary undertakings:			
Falling due within one year		7,870	6,008
Falling due after more than one year		2,000	2,000
Prepayments		24	8
Cash at bank and in hand		160	143
Corporation tax		141	374
		10,195	8,533
Creditors: Amounts falling due within one year			
Bank borrowings		4,000	2,510
Due to subsidiary undertakings		2,354	1,544
Dividend payable	8	2,644	2,664
Accruals		123	27
Deferred consideration	22	—	800
Loan notes	22	1,137	467
		10,258	8,012
Net current (liabilities)/assets		(63)	521
Total assets less current liabilities		26,981	27,412
Capital and reserves			
Called up share capital	23	139	144
Share premium account	24	13,370	13,370
Capital redemption reserve	24	11	6
Profit and loss account	24	13,461	13,892
Equity shareholders' funds		26,981	27,412

The financial statements on pages 18 to 36 were approved by the Board of directors on
5 April 2001 and were signed on its behalf by:

H Angest
S J Lockley } Directors

angest
S J Lockley

CONSOLIDATED
CASH FLOW
STATEMENT

For the year ended
31 December 2000

	NOTES	2000 £000	1999 £000
Net cash inflow from operating activities	28(i)	10,120	20,508
Returns on investments and servicing of finance			
Dividends paid to minority shareholders of subsidiary undertaking		(23)	(103)
Taxation		(2,889)	(3,565)
Capital expenditure and financial investment			
Purchase of debt securities		(1,000)	(6,000)
Purchase of tangible fixed assets		(1,446)	(1,425)
Sale of tangible fixed assets		323	809
		(2,123)	(6,616)
Acquisitions			
Investment in subsidiary undertakings		(1,083)	(1,407)
Cash acquired		—	142
		(1,083)	(1,265)
Equity dividends paid		(3,942)	(3,988)
Financing			
Shares repurchased		(1,640)	(2,519)
Issue of shares for cash		—	8
Bank loan repaid		—	(1,254)
		(1,640)	(3,765)
Decrease in cash	28(ii)	(1,580)	1,206

The financial statements have been prepared in accordance with applicable accounting standards in the United Kingdom. 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. 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 2000 or from the date at which control passes.

(c) Fees and commissions receivable

Fees and commissions receivable represent the value of management fees, banking fees and commissions and agency commissions for services supplied to customers exclusive of value added tax.

(d) Insurance claims

Claims incurred comprise claims paid in the year and changes in provisions for outstanding claims, including an estimate for claims incurred but not yet reported.

(e) 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%

(f) Deferred taxation

Deferred taxation is provided, at the current rate of corporation tax, to the extent that it is probable that a liability or asset will crystallise in the foreseeable future.

(g) Goodwill

Purchased goodwill is capitalised, classified as an asset and amortised over its useful economic 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. Prior to 1998 the Group's policy was for goodwill to be held as a negative reserve in the balance sheet. This has now been deducted from the profit and loss reserves and has not been reinstated.

(h) 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.

(i) Operating leases

Operating lease rentals are charged to the profit and loss account as incurred.

(j) Provisions for bad and doubtful debts

Specific provisions are made against advances which are recognised to be bad or doubtful. In addition, general provisions are maintained to cover bad and doubtful debts which may be present at the year end in the portfolio of advances but which have not been specifically identified. Interest of doubtful collectability is excluded from the profit and loss account and credited to a suspense account.

(k) 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.

(l) 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 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 27.

(m) 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.

(n) 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 is set out in note 38.

1 Administrative expenses

	2000	1999
	£000	£000
Staff costs, including directors		
Wages and salaries	11,335	9,679
Social security costs	1,114	921
Other pension costs (note 36)	729	636
Other administrative expenses	9,355	8,574
	22,533	19,810

2 Operating expenses

	2000	1999
	£000	£000
Administrative expenses	22,533	19,810
Amortisation (note 16)	150	65
Depreciation (note 17)	1,135	1,105
Provisions for bad and doubtful debts	784	693
	24,602	21,673

3 Exceptional item

In 1999, in accordance with FRS 10, goodwill of £2,472,000 arising on the acquisition of West Yorkshire Insurance Company Limited, previously written off directly against reserves, was reinstated and charged in the profit and loss account as the Group has no plans to resume motor insurance underwriting in the foreseeable future. There is no taxation charge or credit applicable to this item.

4 Profit on ordinary activities before tax

	2000	1999
	£000	£000
is stated after:		
Income		
Profit on disposals of tangible fixed assets	76	193
Rent from sub-letting of premises	38	129
Charges		
Equipment rentals	14	14
Other operating lease rentals	840	888

The auditors' remuneration was **£206,000** (1999: £203,000), of which **£5,000** (1999: £4,000) related to the Company.

Remuneration of the auditors for the provision of non-audit services to the Group was **£132,000** (1999: £48,000). This comprises taxation compliance and advisory fees of **£40,000** (1999: £22,000), other regulatory services required under the Banking Act 1987 and by other regulatory bodies of **£89,000** (1999: £20,000) and other services of **£3,000** (1999: £6,000).

5 Emoluments of directors

	2000 £000	1999 £000
Fees	54	54
Salary payments (including benefits in kind)	780	764
Pension contributions	38	71
	872	889

	Salary £000	Benefits £000	Pension contributions £000	Fees £000	Total 2000 £000	Total 1999 £000
H Angest	180	50	—	—	230	255
R Paston	235	27	—	—	262	255
S J Lockley	265	23	38	—	326	325
Non-executive						
A C Wakelin	—	—	—	30	30	30
R J J Wickham	—	—	—	24	24	24
	680	100	38	54	872	889

The emoluments of the Chairman were **£230,000** (1999: £255,000). No pension contributions were payable in respect of the Chairman (1999: £33,000). The emoluments of the highest paid director were **£326,000** (1999: £325,000) including pension contributions of **£38,000** (1999: £38,000).

Mr A C Wakelin is a director of Wakelin Partners Limited which received fees totalling **£30,000** (1999: £30,000) in respect of his services to the Group.

Mr R J J Wickham is a director of Broughame Limited which received an annual fee of **£24,000** (1999: £24,000) 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 two directors (1999: two directors).

6 Tax on profit on ordinary activities

	2000 £000	1999 £000
United Kingdom corporation tax at 30% (1999: 30.25%)		
Current	2,661	2,837
Over provided in previous years	(16)	(68)
	2,645	2,769

The tax charge for the year has been reduced by approximately £340,000 in respect of losses brought forward in subsidiary companies.

A potential deferred tax asset of **£363,000** in respect of accelerated capital allowances and general provisions has not been recognised. No potential deferred tax liability exists.

7 Profit dealt with in the financial statements of Secure Trust Banking Group PLC

£5,131,000 (1999: £5,652,000) of the profit attributable to ordinary shareholders has been dealt with in the financial statements of Secure Trust Banking Group PLC.

8 Dividends

	2000 pence per share	1999 pence per share	2000 £000	1999 £000
Interim (paid)	9.0	8.5	1,278	1,279
Final (proposed)	19.0	18.5	2,644	2,664
	28.0	27.0	3,922	3,943

9 Earnings per ordinary share

a) Basic and fully diluted

Earnings per ordinary share are calculated on the net basis by dividing the profit attributable to shareholders of **£6,841,000** (1999: £4,693,000) by the weighted average number of ordinary shares **14,193,974** (1999: 14,991,698) in issue during the year. There is no difference between basic and fully diluted earnings per ordinary share.

b) Adjusted

The exceptional item charged against profit on ordinary activities before tax in 1999 does not relate to the profitability of the Group on an ongoing basis. Therefore, an adjusted basic earnings per share is presented, as follows:

	2000		1999	
	£000	pence	£000	pence
Basic	6,841	48.2	4,693	31.3
Exceptional item	—	—	2,472	16.5
Earnings excluding exceptional item and adjusted earnings per share	6,841	48.2	7,165	47.8

10 Loans and advances to banks and building societies

	2000 Group £000	1999 Group £000
Remaining maturity:		
5 years or less but over 1 year	—	500
1 year or less but over 3 months	—	3,335
3 months or less but not repayable on demand	41,120	36,235
Repayable on demand	11,348	11,503
	52,468	51,573

11 Loans and advances to customers

	2000 Group £000	1999 Group £000
Remaining maturity:		
Over 5 years	613	1,534
5 years or less but over 1 year	26,907	21,713
1 year or less but over 3 months	19,555	24,201
3 months or less	53,029	36,812
	100,104	84,260
General and specific bad and doubtful debt provisions (note 12)	(5,035)	(4,657)
Suspended interest (note 13)	(1,332)	(935)
	93,737	78,668
Of which repayable on demand or at short notice	17,476	14,396

12 Provisions for bad and doubtful debts

	2000			1999		
	Specific £000	General £000	Total £000	Specific £000	General £000	Total £000
Group:						
At 1 January	4,027	630	4,657	4,005	630	4,635
Charge against profits	740	44	784	693	—	693
Amounts written off	(462)	—	(462)	(765)	—	(765)
Recoveries	56	—	56	94	—	94
At 31 December	4,361	674	5,035	4,027	630	4,657

13 Interest in suspense

	2000 Group £000	1999 Group £000
At 1 January	935	908
Net interest suspended	398	322
Interest written off	(1)	(295)
At 31 December	1,332	935
In respect of loans and advances to customers		
Before provisions	3,959	3,343
After provisions and interest in suspense	1,210	1,078

14 Debt securities

	2000 Group £000	1999 Group £000
Remaining maturity:		
1 year or less but over 3 months	8,500	8,500
3 months or less	5,000	4,000
At 31 December	13,500	12,500

Debt securities represent certificates of deposit. These instruments are held in the balance sheet at their net book value which is not significantly different from market value. The Group's intention is to hold these to maturity.

15 Shares in subsidiary undertakings

	Shares at cost £000	Provisions £000	Net £000
Secure Trust Banking Group PLC			
At 1 January 2000	30,165	(3,292)	26,873
Additions	34	—	34
At 31 December 2000	30,199	(3,292)	26,907
		2000	1999
		£000	£000
Subsidiary undertakings			
Banks		24,444	24,444
Other		2,463	2,429
Total unlisted		26,907	26,873

The principal subsidiary undertakings of Secure Trust Banking Group PLC at 31 December 2000 were:

Name	Interest %	Principal activity
Secure Trust Bank PLC	100	Household cash management and banking
OBC Insurance Consultants Limited	100	Motor and general insurance
West Yorkshire Insurance Company Limited	100	Insurance underwriting
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 pensions consultants
Weinel & Partners Limited and its subsidiary	100	Fund management
Arbuthnot Weinell Financial Consultants Limited	100	Life assurance and pensions
Arbuthnot Commercial Finance Limited	90	Factoring

- (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.

16 Intangible fixed assets

	Goodwill £000
Group:	
Cost	
At 1 January 2000	2,358
Additions (note 29)	953
At 31 December 2000	3,311
Aggregate amortisation	
At 1 January 2000	80
Charge for the year	150
At 31 December 2000	230
Net book value at 31 December 2000	3,081
Net book value at 31 December 1999	2,278

The 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.

17 Tangible fixed assets

	Freehold land and buildings £000	Computer and other equipment £000	Motor Vehicles £000	Total £000
Group:				
Cost				
At 1 January 2000	4,258	7,133	1,455	12,846
Additions	26	751	669	1,446
Disposals	(107)	(561)	(624)	(1,292)
At 31 December 2000	4,177	7,323	1,500	13,000
Accumulated depreciation				
At 1 January 2000	166	4,809	621	5,596
Disposals	(14)	(552)	(479)	(1,045)
Charge for year	70	657	408	1,135
At 31 December 2000	222	4,914	550	5,686
Net book value at 31 December 2000	3,955	2,409	950	7,314
Net book value at 31 December 1999	4,092	2,324	834	7,250

All freehold land and buildings are occupied and used by Group companies. The carrying value of freehold land not depreciated is £0.5 million.

	Office equipment fittings £000
Company:	
Cost	
At 1 January 2000	48
Additions	128
At 31 December 2000	176
Depreciation	
At 1 January 2000	30
Charge for year	9
At 31 December 2000	39
Net book value at 31 December 2000	137
Net book value at 31 December 1999	18

18 Other assets

	2000 Group £000	1999 Group £000
Amounts falling due within one year:		
Trade debtors	4,143	3,699
Reinsurers' share of claims outstanding	1,550	2,300
	5,693	5,999

19 Deposits by banks

	2000 Group £000	1999 Group £000
With agreed periods of notice:		
5 years or less but over 1 year	11,000	12,250
1 year or less but over 3 months	5,050	1,100
Repayable on demand	177	47
	16,227	13,397

20 Customer accounts

	2000 Group £000	1999 Group £000
With agreed periods of notice:		
5 years or less but over 1 year	—	571
1 year or less but over 3 months	37,600	27,971
3 months or less but not repayable on demand	38,272	43,891
Repayable on demand	42,281	31,595
	118,153	104,028

21 Insurance reserves

	2000 Group £000	1999 Group £000
Claims outstanding	2,179	4,583

22 Other liabilities

	2000 Group £000	1999 Group £000
Amounts falling due within one year:		
Bank borrowings	4,000	2,519
Trade creditors	7,306	6,209
Dividends payable	2,644	2,664
Corporation tax	1,632	1,876
Unsecured loan notes (note 29 (i))	1,137	467
Deferred consideration (note 29 (i))	—	800
	16,719	14,535

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.

23 Called up share capital

£000

Authorised (at 31 December 1999 and 2000):	
418,439,000 ordinary shares of 1p each	4,184
Allotted, called up and fully paid	
At 1 January 2000: 14,400,474 ordinary shares of 1p each	144
At 31 December 2000: 13,917,974 ordinary shares of 1p each	139

On 3 April 2000 the Company purchased 200,000 1p ordinary shares for a total consideration of £636,554. On 18 October 2000 it purchased 140,000 shares for a total consideration of £500,976 and on 19 October a further 142,500 shares were purchased for a total consideration of £502,740. The repurchased shares represented 3.35% of called up share capital at the start of the year.

At 31 December 2000, options to subscribe for 488,250 ordinary shares were outstanding exercisable by employees between 2000 and 2005 at prices between 485p and 770p.

24 Reserves

Group
£000

Company
£000

Share premium account		
At 1 January 2000 and 31 December 2000	13,370	13,370
Capital redemption reserve		
At 1 January 2000	6	6
Arising in the year on share repurchases	5	5
At 31 December 2000	11	11
Profit and loss account		
At 1 January 2000	8,247	13,892
Cost of shares repurchased	(1,640)	(1,640)
Retained profit for the year	2,919	1,209
At 31 December 2000	9,526	13,461

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

25 Minority interests

2000
Group
£000

1999
Group
£000

At 1 January	79	54
Profit and loss account	16	128
Dividends paid	(23)	(103)
At 31 December	72	79

26 Reconciliation of movements in equity shareholders' funds

	2000 Group £000	1999 Group £000
Profit for the financial year	6,841	4,693
Reinstatement of goodwill previously written off	—	2,472
Dividends	(3,922)	(3,943)
	2,919	3,222
New share capital issued	—	8
Purchase of own shares	(1,640)	(2,519)
Opening equity shareholders' funds	21,767	21,056
Closing equity shareholders' funds	23,046	21,767

27 Assets and liabilities denominated in foreign currencies

	2000 Group £000	1999 Group £000
Assets denominated in sterling	165,720	147,888
Assets denominated in currencies other than sterling	13,049	13,086
Total assets	178,769	160,974
Liabilities denominated in sterling	165,737	147,867
Liabilities denominated in currencies other than sterling	13,032	13,107
Total liabilities	178,769	160,974

28 Consolidated cash flow statement

	2000 £000	1999 £000
(i) Reconciliation of operating profit to net cash inflow from operations		
Operating profit	9,502	7,590
Exceptional item	—	2,472
Profit on sale of tangible fixed assets	(76)	(193)
Increase in accrued income and prepayments	(214)	938
Decrease in accruals and deferred income	(212)	(327)
Provisions for bad and doubtful debts	784	693
Depreciation and amortisation	1,285	1,170
Decrease in insurance reserves	(2,404)	(925)
Net cash flow from trading activities	8,665	11,418
Net increase in loans and advances to banks and customers	(16,903)	(9,820)
Net increase in deposits by banks and customer accounts	16,955	19,553
Net decrease in other assets	306	(343)
Net increase in other liabilities	1,097	(300)
	1,455	9,090
Net cash inflow from operating activities	10,120	20,508

28 Consolidated cash flow statement (continued)

	1999 £000	Cash flow £000	2000 £000
(ii) Analysis of the balances of cash as shown in the balance sheet			
Cash and balances at central banks	168	56	224
Bank overdrafts	(2,519)	(1,481)	(4,000)
Loans and advances to other banks repayable on demand	11,503	(155)	11,348
	9,152	(1,580)	7,572
		Share capital (including premium) £000	Loans £000
(iii) Analysis of changes in financing during the year			
At 1 January 2000 and 31 December 2000		13,520	—

29 Summary of the effect of acquisitions

(i) Weinel & Partners Limited

The whole of the issued share capital of Weinel & Partners Limited was acquired by Arbuthnot Latham & Co., Limited on 7 July 1999 for a total consideration of £1,913,000, including estimated deferred consideration of £800,000. During the year, further consideration totalling £949,000, including expenses totalling £55,000, was paid, satisfied by cash of £55,000 and the issue of redeemable loan notes of £894,000. The resultant goodwill of £149,000 is included in intangible fixed assets.

(ii) Arbuthnot Insurance Brokers Limited

On 1 January 2000 Arbuthnot Latham & Co., Limited acquired, for a cash consideration of £804,000, the 49% minority shareholding in Arbuthnot Insurance Brokers Limited (formerly MPW Insurance Brokers Limited). Goodwill of £804,000 arising on the acquisition is included in intangible fixed assets and is being amortised over 20 years.

30 Segmental information

	Personal financial services		Private and merchant banking		Group total	
	2000 £000	1999 £000	2000 £000	1999 £000	2000 £000	1999 £000
Segment profit						
Before exceptional item	8,170	8,715	1,712	1,412	9,882	10,127
Exceptional items	—	(2,472)	—	—	—	(2,472)
After exceptional item	8,170	6,243	1,712	1,412	9,882	7,655
Interest on share buy-back costs	(230)	—	—	—	(230)	—
Amortisation of goodwill	—	—	(150)	(65)	(150)	(65)
Profit before tax	7,940	6,243	1,562	1,347	9,502	7,590
Segment Net Assets	12,031	10,985	11,015	10,782	23,046	21,767
Segment Total Assets	45,787	46,149	132,982	114,825	178,769	160,974

31 Directors' and officers' loans

The aggregate amount outstanding at 31 December 2000 and 31 December 1999 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:

	Aggregate amount outstanding	Number of persons
Director's loan	£200,000	1

32 Capital commitments

	2000 £000	1999 £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	641	131

33 Average number of employees

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

	2000	1999
Personal financial services	320	331
Private and merchant banking	148	125
	468	456

34 Operating lease commitments

	2000		1999	
	Land and buildings	Computer and other equipment	Land and buildings	Computer and other equipment
	£000	£000	£000	£000
At the year end, annual commitments under non-cancellable operating leases were:				
Group:				
Expiring				
within one year	83	8	117	—
between one and five years	557	—	581	8
in five years or more	405	2	286	2
	1,045	10	984	10
Company:				
Expiring				
between one and five years	105		105	

35 Memorandum items

The tables below give the nominal principal amounts and risk weighted 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. The risk weighted amounts have been calculated in accordance with the Financial Services Authority's regulations on capital adequacy. During the year the Group did not enter into derivative instruments, either on its own account or on behalf of clients.

	2000		1999	
	Contract amount	Risk weighted amount	Contract amount	Risk weighted amount
	£000	£000	£000	£000
Contingent liabilities				
Guarantees	478	478	384	384
Other contingent liabilities	8	4	16	8
	486	482	400	392
Commitments				
Documentary letters of credit	102	20	153	31
Credit lines and other commitments to lend less than one year	5,967	—	5,036	—
	6,069	20	5,189	31

36 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 **£7,000** (1999: £8,000) in respect of administration services have been recharged to the scheme by Arbuthnot Pension Trustees Limited.

The total pension cost is shown in note 1.

37 Five year summary

	1995	1996	1997	1998	1999	2000
	£000	£000	£000	£000	£000	£000
Profit before tax and exceptional item*	9,187	9,427	10,663	11,407	10,062	9,502
Profit before tax	9,187	9,427	10,663	11,407	7,590	9,502
Earnings per share						
Basic (p)	43.4	44.2	50.0	52.3	31.3	48.2
Adjusted* (p)	43.4	44.2	50.0	52.3	47.8	48.2
Dividends per share† (p)	18.0	20.0	23.0	26.0	27.0	28.0

* The exceptional item and the adjusted earnings per share in 1999 reflect goodwill, previously written off directly to reserves, which was reinstated and charged in the profit and loss account.

† Excluding special dividends of 10p in 1995 and in 1998.

38 Interest rate repricing

The Group's risk management approach is set out on page 10. The tables below summarise the repricing mismatches in the Group's assets and liabilities as at 31 December 2000 and 31 December 1999. 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.

	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
At 31 December 2000							
Assets							
Loans and advances to banks	51,805	—	—	—	—	663	52,468
Loans and advances							
to customers	76,239	3,389	3,753	7,279	1,501	1,576	93,737
Debt securities	5,000	3,500	5,000	—	—	—	13,500
Other assets	—	—	—	—	—	19,064	19,064
Total assets	133,044	6,889	8,753	7,279	1,501	21,303	178,769
Liabilities							
Deposits by banks	16,227	—	—	—	—	—	16,227
Customer accounts	89,979	917	41	—	—	27,216	118,153
Other liabilities	—	—	—	—	—	21,343	21,343
Shareholders' funds	—	—	—	—	—	23,046	23,046
Total liabilities	106,206	917	41	—	—	71,605	178,769
Interest rate							
sensitivity gap	26,838	5,972	8,712	7,279	1,501	(50,302)	—
Cumulative gap	26,838	32,810	41,522	48,801	50,302	—	—
	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
At 31 December 1999							
Assets							
Loans and advances to banks	51,117	—	—	—	—	456	51,573
Loans and advances							
to customers	58,751	3,550	3,713	10,318	685	1,651	78,668
Debt securities	4,000	3,500	5,000	—	—	—	12,500
Other assets	—	—	—	—	—	18,233	18,233
Total assets	113,868	7,050	8,713	10,318	685	20,340	160,974
Liabilities							
Deposits by banks	13,397	—	—	—	—	—	13,397
Customer accounts	76,798	783	—	571	—	25,876	104,028
Other liabilities	—	—	—	—	—	21,782	21,782
Shareholders' funds	—	—	—	—	—	21,767	21,767
Total liabilities	90,195	783	—	571	—	69,425	160,974
Interest rate							
sensitivity gap	23,673	6,267	8,713	9,747	685	(49,085)	—
Cumulative gap	23,673	29,940	38,653	48,400	49,085	—	—

NOTICE OF MEETING

NOTICE IS HEREBY GIVEN that the fifteenth Annual General Meeting of the Company will be held at Paston House, Arleston Way, Solihull, B90 4LH, on Wednesday, 16 May 2001 at 12.30 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 2000.
2. To declare a dividend on the ordinary shares which the directors recommend should be 19p per ordinary share.
3. To elect Mr R Paston as a director.
4. To reappoint PricewaterhouseCoopers 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, which will be proposed as Special Resolutions.

5. 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 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 £6,900

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.

NOTICE OF MEETING

2

6. 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 1,390,000 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.

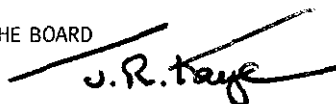
BY ORDER OF THE BOARD

J R Kaye

Secretary

12 April 2001

Paston House, Arlestone 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 14 May 2001.
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 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.

FORM OF PROXY

For use at the Annual General Meeting 2001

Secure Trust Banking Group PLC

I/We (Block capitals, please)
a member/members of the above-named Company, hereby appoint the chairman of the meeting

.....
as my/our proxy to vote for me/us on my/our behalf at the Annual General Meeting of the
Company to be held at 12.30 pm on Wednesday, 16 May 2001 and at any adjournment thereof.

Dated Signature

Please indicate with an X in the spaces below how you wish your vote to be cast.

	For	Against
1 To receive the Directors' Report and Financial Statements.		
2 To declare a dividend.		
3 To elect Mr R Paston* as a director.		
4 To reappoint PricewaterhouseCoopers as auditors and to authorise the directors to fix their remuneration.		
5 Special Resolution to give the directors authority to issue equity securities for cash.		
6 Special Resolution to give the directors authority to purchase shares.		

* Member of the Audit and Remuneration Committees

Notes:

- 1 A member may appoint a proxy of his own choice. If such an appointment is made, delete the words 'the chairman of the meeting' and insert the full name of the person appointed proxy in the space provided (any alterations to this form must be initialled). A proxy need not be a member of the Company but must attend the meeting to represent you.
- 2 If the appointor is a corporation, this form must be under its common seal or under the hand of some officer or attorney duly authorised in that behalf.
- 3 In the case of joint holders, the signature of any one holder will be sufficient, but the names of all the joint holders should be stated. The vote of the senior joint holder who tenders a vote, whether in person or by proxy, will be accepted to the exclusion of the votes of the other joint holders, and for this purpose seniority shall be determined by the order in which the names stand in the register of members in respect of the joint holding.
- 4 If this form is returned without any indication as to how the person appointed proxy shall vote, he will exercise his discretion as to how he votes or whether he abstains from voting.
- 5 To be valid, this form must be completed and deposited at the office of the Registrars, Capita IRG Plc, Balfour House, 390-398 High Road, Ilford, Essex, IG1 1BR, not less than 48 hours before the time fixed for holding the meeting or adjourned meeting.
- 6 Completion of this form of proxy will not preclude the member from attending and voting at the meeting in person.



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BUSINESS REPLY SERVICE
Licence No. ANG 1468

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**Capita IRG Plc
BALFOUR HOUSE
390-398 HIGH ROAD
ILFORD
ESSEX
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Third fold
and tuck in flap opposite

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Banking Group PLC

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