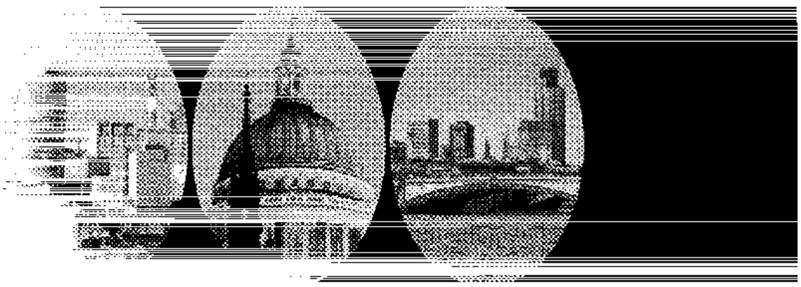

Annual Report 1998

Contents

Financial highlights

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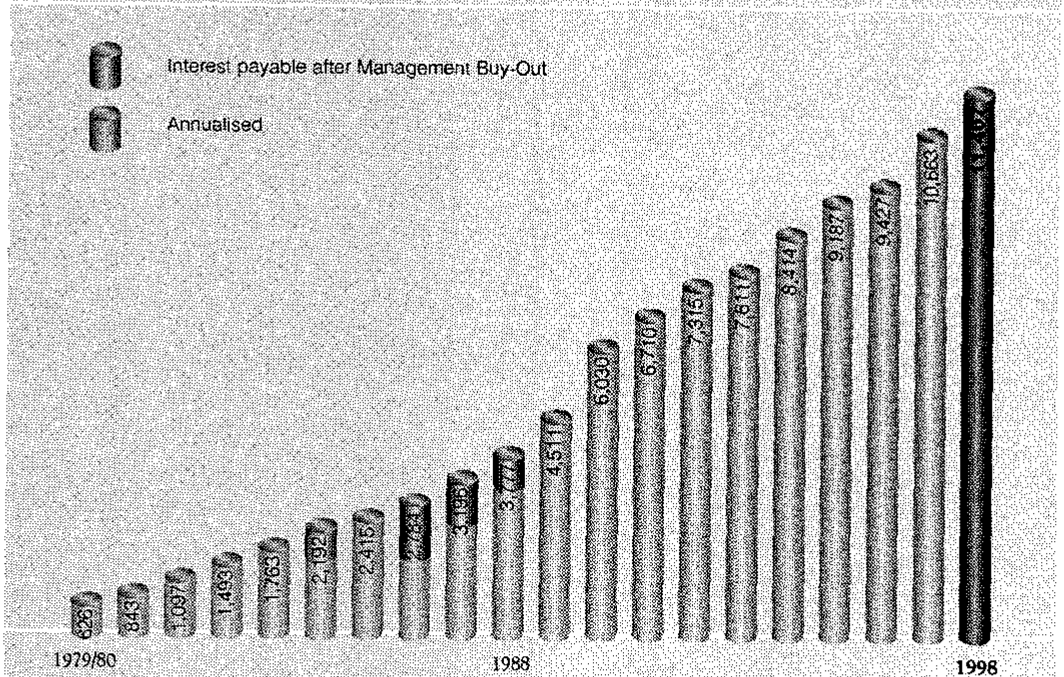
- Pre-tax profits up 7% to £11.4 million
- Earnings per share up 5% to 52.3p
- Dividends per share up 57% to 36p
- Total shareholder return over 10 years since flotation of 20.3% per annum compound

20 year record of Pre-Tax Profit (£000s)

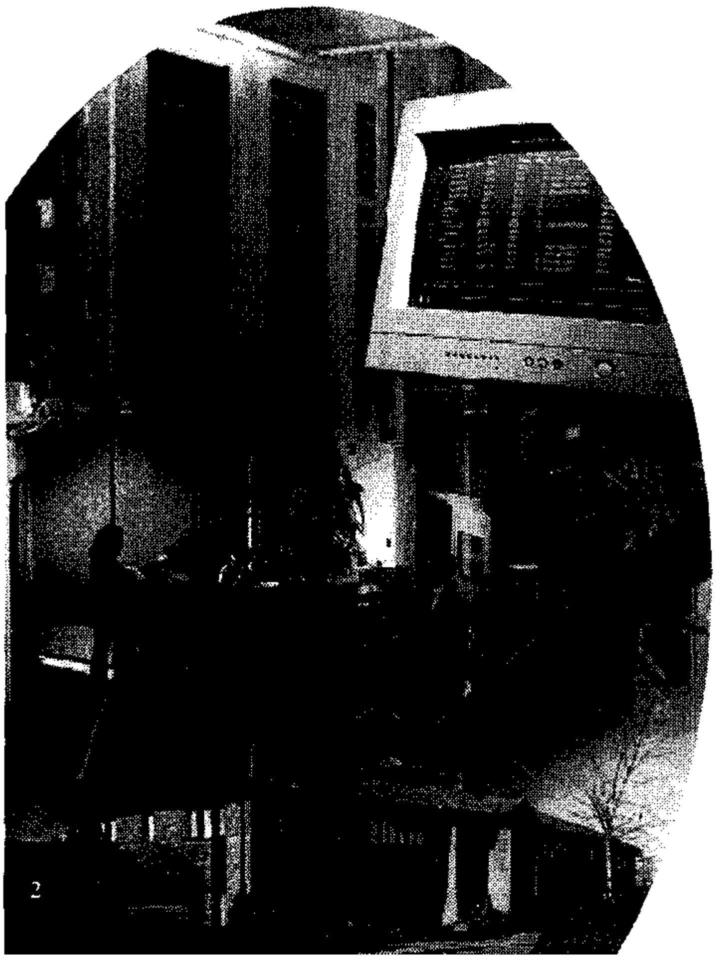


In 1984 the year end was changed from 31 March to 31 December
The Company obtained a stock market listing on 15 December 1988

Business profile

Corporate objective

Secure Trust's objective is to achieve year-on-year growth in both profits and earnings per share, consistent with prudent risk management. To achieve this objective, our strategy is to provide an expanding range of banking and related financial services, offering our customers individual attention and high standards of service.



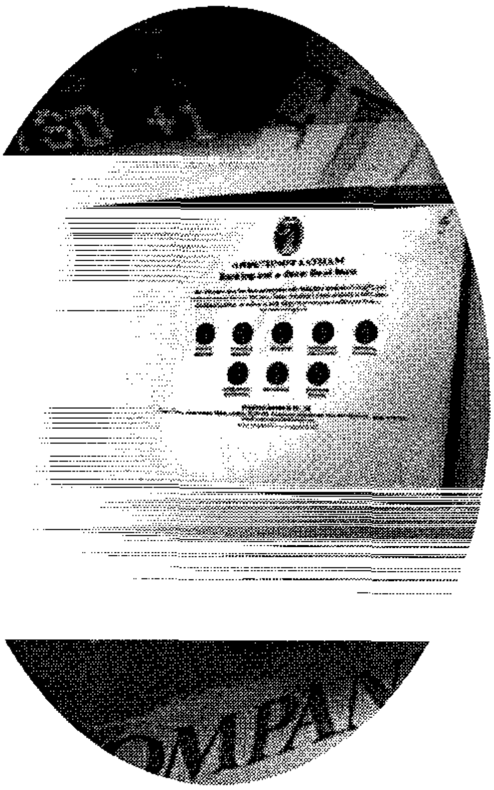
Personal financial services

The personal financial services division operates in the Midlands, Manchester and Bradford. It provides a range of services to households in these areas, the principal elements of which are:

- **Secure Homes** — the Household Cash Management service of Secure Trust Bank, offering a unique scheme which enables customers to spread their household bills over regular weekly or monthly payments, coupled with the convenience of having Secure Trust Bank handle all aspects of the administration of their household expenditure. Customers are also offered the facility to insure their regular payments against sickness, accident and redundancy.
- **Secure Trust Bank** — offers personal loans, cheque book accounts, deposit and savings accounts and cashcards. Lending is mostly to existing established customers.
- **Insurance Consultancy** — trading from 31 high street branches and a telephone sales centre, the insurance consultancy operation is a leading regional supplier of motor and household insurance policies.

Private & merchant banking

Operating under the Arbuthnot name, the private and merchant banking division serves private clients, professional firms, owner-managed companies, charities and pension schemes. Its services encompass:



- **Arbuthnot Latham & Co.** — offers a full range of banking services to private and business clients, including current accounts and money transmission, deposits, loans and overdrafts, foreign trade facilities and corporate and project finance.
- **Arbuthnot Fund Managers** — discretionary and advisory portfolio management.
- **Arbuthnot Commercial Finance** — invoice factoring for growing businesses.
- **Arbuthnot Pensions & Investments and Arbuthnot Pension Trustees** — specialists in pensions advice and administration, financial planning and investment advice. The business has a particular strength in the growing markets for Small Self-Administered Pension Schemes and Self-Invested Personal Pensions.
- **MPW Insurance Brokers** — general insurance broking for high net worth clients and owner-managed businesses, including a full risk assessment and insurance advisory service.
- **Arbuthnot Trust Guernsey** — formation and administration of offshore trusts and companies.

ove: Arbuthnot Latham's internet web site
left: Secure Trust Bank's new head office in Solihull

Chairman's statement

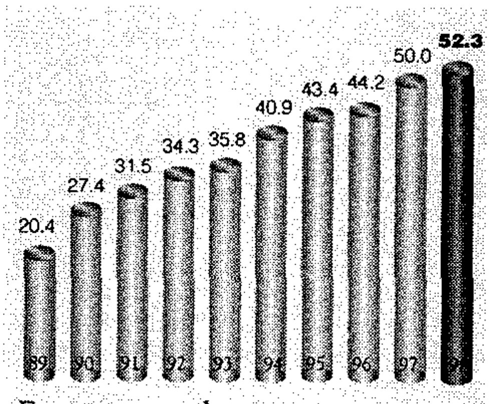
It gives me particular pleasure to be able to report that in 1998 the Group recorded its 20th consecutive year of profits growth. Pre-tax profits for the year to 31 December 1998 advanced by 7% to £11.4 million and earnings per share by 5% to 52.3p. The Board proposes to pay a final dividend of 18p per share which, together with the interim dividend of 8p and the special dividend of 10p paid in November, makes a total for the year of 36p, an increase of 57% over last year. The dividend will be paid on 17 May 1999 to shareholders on the register at 26 March 1999.

These results were achieved at a time of considerable volatility in world financial markets. Whilst the Group's absence of exposure to proprietary trading activities and emerging markets has insulated us from many of the direct consequences of this volatility, we have observed that the resulting fall in confidence in the real economy has created a more uncertain trading environment. Both consumers and businesses have been more careful in their spending and investment decisions and we, in turn, have chosen to be more cautious in our approach to new business and also in our provisioning policies. Against this background, these results represent a very solid achievement and once again demonstrate the inherent strengths of Secure Trust Banking Group.

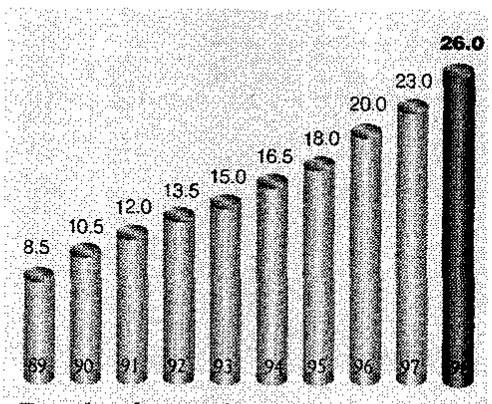
Shareholder Value and the Stock Market

One of the key objectives of the Board is to deliver value for shareholders. This philosophy drives both our emphasis on the "bottom line", with record profits being reported year after year for 20 years, and our determination to reward loyal, long-term shareholders with a generous dividend policy. A brief review of the Group's achievements over the 10 years since its stock market flotation tells its own story:

- Earnings per share up by 215% (a compound annual growth rate of 12%)
- Dividends (excluding special dividends) increased every year by a compound annual growth rate of 14%
- Two special dividends paid
- Total dividend payout of 183 pence per share (net of tax) on an original flotation price of 140 pence
- Total shareholder return over 10 years (based on the flotation price) of 20.3% per annum compound.



Earnings per share (pence)



Dividends per share (pence)
(excluding special dividends)

Despite this excellent track record, the Company is currently suffering from the failure of the stock market to recognise the value of investing in smaller companies. This phenomenon has attracted much comment lately and I believe that it is having a detrimental effect on our shareholders' investment. The year-end share price was 4% below the level that it reached 5 years ago despite earnings per share being 46% higher.

The potential damage to shareholders goes far beyond the short-term impact of a low share price. For smaller companies, the ability to use shares for growth by acquisitions is much reduced, since it would be inappropriate to issue shares at such depressed prices. Furthermore, the use of shares to motivate staff is greatly negated when their achievements are not reflected in a higher share price.

The directors cannot sit idly by and watch shareholders' interests being damaged by the stock market in this arbitrary way. The pursuit of shareholder value means that we must look at every avenue for enhancing earnings per share. In particular, the Board has a duty to consider buying back shares at the current low price. To do so will require the approval of shareholders and the necessary resolutions will be put forward at the forthcoming Annual General Meeting.

Personal Financial Services

Profits of the personal financial services division rose by 9% to £10.3 million, driven in particular by the continued success of our core business of household cash management where income rose by 7%. The personal lending business of Secure Trust Bank experienced static demand for new credit, reflecting consumers' caution in taking on additional debt at a time of perceived job insecurity. During the first half of 1998, we felt it wise to continue a trend which we commenced in 1997 of increasing the level of our already prudent bad debt provisions against personal lending. I am pleased to say that we did not see any further need for such an increase in the second half and, therefore, the bad debt charge for the year as a whole in the personal financial services division was 12% lower than that for 1997. Provisions against personal lending at 31 December 1998 represented 10.1% of outstanding advances (1997: 9.5%).

After a very successful first half of the year, our motor insurance consultancy business was disrupted during the second half of 1998 by the introduction of a new Year 2000 compliant computer system which affected the sales effort whilst staff training took place. Nevertheless, due mainly to the first half success, the retail insurance operations achieved an overall increase in profits for the year of some 22%.

Private and Merchant Banking

Operating profit, before provisions, of the private and merchant banking division increased by 31% to £1.6 million. However, given the uncertainties to which I have already referred, we felt it prudent to increase by some £0.5 million the level of provisions which we are holding against the remaining historic loan book inherited with the acquisition of Aitken Hume Bank. As a result, the division's pre-tax profits reduced slightly from £1.2 million to £1.1 million.

Our caution towards the economy has led us to place less emphasis on lending in Arbuthnot Latham during 1998 and the net loan book declined by some 6% compared with the level at the end of last year. However, the

Chairman's statement (continued)

average amount outstanding during the year was above that in 1997 and, together with a significant rise in liquid funds, a 14% increase in deposits by banks and customers and higher average base rates, this resulted in an increase of 15% in net interest income from banking activities. At the same time, we have continued to concentrate our efforts on areas which generate fees and commissions and these rose by 14% over the previous year.

Finances

The Group balance sheet is strong. Total assets increased by 6% to £141 million, of which £59 million represents liquid funds. Customer and bank deposits increased by 8% to £97 million and our capital ratios remain in excess of regulatory requirements. Secure Trust Banking Group has virtually no debt and is well placed, therefore, to take advantage of future opportunities as they arise.

Board and Senior Management Appointments

With effect from 1 January 1999, Ron Paston became Deputy Chairman of the Group in recognition of his significant role in the development of Secure Trust Bank as its Chief Executive since 1973. On the same date, Colin Wakelin was appointed as an additional Non-executive Director. He has been a non-executive director of Arbuthnot Latham since 1995 and was formerly Chief Executive and Deputy Chairman of Investec (UK) Limited, the UK arm of a major South African financial group. In addition, I am pleased to report that Professor Sir Roland Smith has agreed to join us as an adviser to the Group. His association with us goes back for some 20 years when he was a director of Arbuthnot Securities Limited. We look forward to benefiting from his vast experience in business and academia.

With effect from 1 March 1999, we have made an important appointment at our main subsidiary, Secure Trust Bank. Andrew Giles has joined us as Deputy Managing Director of Secure Trust Bank following a long career with the Bank of England and latterly the FSA. He brings a wealth of experience which I am sure will benefit us as we develop the bank's operations in the future.

Staff

The success of Secure Trust Banking Group over the past 20 years owes much to the dedication, skill and hard work of our staff and management, many of whom have served the Group throughout the whole or a considerable part of this time. The contribution of all our staff, both long-serving and newer recruits, has continued to be a key factor in our success over the past year and it gives me great pleasure to record the thanks of the Board to them.

Outlook

Whilst we view the economic environment at the beginning of 1999 with some caution, our track record over many years demonstrates the fundamental strength of the Group's businesses. As we look to the future, therefore, I remain firmly convinced that our strategy will continue to deliver further increases in shareholder value despite the disappointing treatment which smaller companies such as ourselves are currently receiving from the stock market.

Henry Angest
30 March 1999

Group directors and advisers

Directors

Henry Angest
Chairman and Chief Executive of the Group since 1985 and Chairman of Secure Trust Bank PLC since 1982. He is also Chairman of Arbuthnot Latham & Co., Limited and other Group companies. He is a non-executive director of Parity plc and Lands Improvement Holdings plc and Chairman of the Banking Committee of the London Investment Banking Association.

Ron Paston
Appointed Deputy Chairman of the Group on 1 January 1999 and has been an Executive Director of Secure Trust Banking Group PLC since 1985 and Chief Executive of Secure Trust Bank PLC since 1973, having joined in 1962. He has been instrumental in the Company's development over the past 36 years and is also Chairman of the Group's motor insurance subsidiaries.

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 1 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 and Investec Bank (UK) 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, Northern Leisure 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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Facsimile: (0121) 693 9124

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Royex House, Aldermanbury Square,
London EC2V 7HR
Telephone: (0171) 374 0417

Advisers
Auditors
PricewaterhouseCoopers

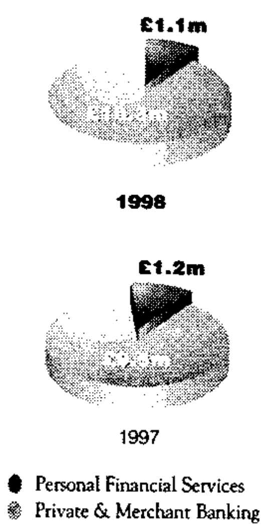
Principal Bankers
Barclays Bank PLC
Lloyds Bank Plc

Stockbrokers
Charterhouse Securities Limited

Registrars
IRG plc
Balfour House, 390-398 High Road,
Ilford, Essex IG1 1NQ.

Operating and financial review

Analysis of Pre-tax Profits



The year ended 31 December 1998 has been marked by good progress at the operating profit level for each of the Group's two divisions. This progress was achieved despite the uncertain conditions in world financial markets and in the UK economy, as well as a demanding environment in UK financial services caused by competition both from non-traditional operators, such as supermarkets, and traditional financial institutions.

Profit before provisions rose by 10% to £12.5 million. After a higher provision charge against the remainder of an historic loan portfolio acquired some five years ago, Group pre-tax profits rose by 7% to £11.4 million.

These results reflect the success of the Group's strategy of operating in carefully selected profitable niches of the financial services market where its emphasis on individual attention to customers and consistently high standards of service are always in demand.

Earnings per share were 52.3p (1997: 50p) and the Board has declared dividends of 36p per share, including a special dividend paid in November 1998 of 10p per share.

Review of Results

Net interest income increased by 11% to £8.4 million, reflecting increases in the average balances outstanding during the year of loans, deposits and liquid funds, particularly in Arbuthnot Latham. Fees and commissions receivable, excluding earned insurance premiums in 1997, rose by 8% and now account for some 75% of operating income. The increase was strongest in the private and merchant banking division at 14%.

Operating costs, excluding bad debts and insurance claims, increased by 4%. This rise reflects further investment in expanding the capacity of the private and merchant banking division, the ever-increasing burden of complying with regulatory and corporate governance requirements and costs associated with the impact of the Year 2000 on the Group's computer systems.

The bad debt charge rose from £0.7 million to £1.1 million, including further provisions of some £0.5 million against the remaining historic loan book inherited with the acquisition of Aitken Hume Bank.

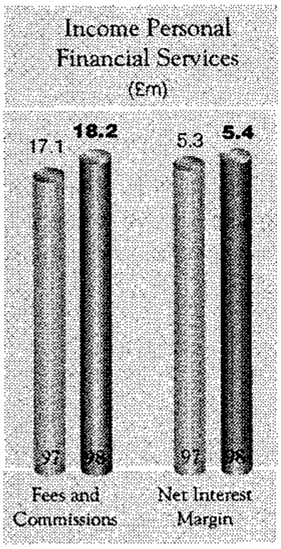
These additional provisions reduced the amount of profits available to be offset against tax losses brought forward in Arbuthnot Latham, as a result of which the effective rate of taxation increased from 28.8% in 1997 to 30.2% in 1998.

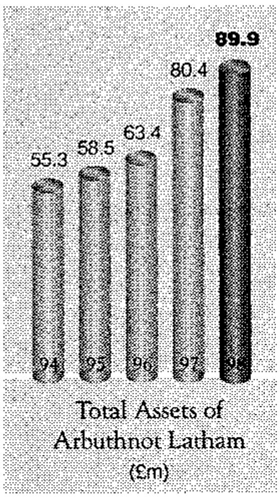
Personal Financial Services

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 2 of this Annual Report. The division's principal source of income is the fees and commissions it earns for the provision of services to customers. These fees and commissions increased by 6% in 1998 compared with the previous year. It also earns an interest margin on its lending and deposit-taking activities, which rose by 3% over last year.

Secure Trust Bank

During the course of 1998, we initiated a tighter policy for a trial period in respect of screening new business leads for the household cash management service with the aim of improving the future customer retention rate, which has traditionally been low during the first two years following take-on. Accordingly, new customer signings reduced by 15% and overall customer numbers reduced by 900 to approximately 57,000. We will monitor carefully the future customer retention rates related to this trial. In the meantime, management fee income rose by 3% and commission earnings from ancillary services sold to customers, notably sickness, accident and redundancy insurance, increased by 17%.





The demand for new unsecured personal loans remained at a similar level in 1998 to that experienced the year before. Taking into account the pattern of scheduled repayments, outstanding balances at the year-end increased to £23 million. There are some 13,000 borrowers, many 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 2,250.

Insurance

Profits before tax of the retail insurance operations increased by 22%.

Following the acquisition of BRM Insurance Consultants in late 1997, the motor insurance consultancy business succeeded in increasing the level of premiums it handled in 1998 by 4%, despite the inevitable disruption caused by the implementation of a new Year 2000 compliant computer system. At the same time, costs remain under tight control, increasing by 2%, and branch numbers reduced to 31.

Management of the outstanding claims book in West Yorkshire Insurance 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. Profits of the division before provisions increased by 31% to £1.6 million.

Arbuthnot Latham & Co.

Arbuthnot Latham's relationship-based approach to banking has continued to attract new clients, the number of whom increased by 7% during the year. In view of the deteriorating economy, coupled with a competitive lending market, the bank was deliberately more selective in its lending during 1998 and the net loan book declined by 6% to £39 million at the year end, although the average amount outstanding during the year was above that in 1997. Deposits by customers and banks rose by 14% and net interest income was 15% higher than the previous year. Fees and commissions were up by 41%.

Arbuthnot Latham & Co.
— summarised balance sheet

	1998 £m	1997 £m
Assets:		
Advances	**38.5**	41.0
Liquid assets	**46.3**	34.7
Other assets	**5.1**	4.7
	89.9	80.4
Liabilities:		
Customer and bank deposits	**73.3**	64.2
Other liabilities	**0.5**	0.8
	73.8	65.0
Capital resources	**16.1**	15.4
	89.9	80.4

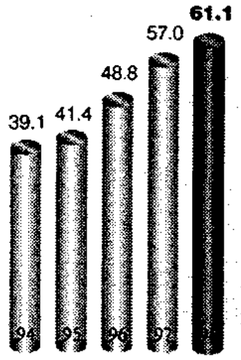
Arbuthnot Fund Managers

Arbuthnot Fund Managers is a portfolio manager looking after investments for private clients, charities and pension schemes. Despite the volatility of world stock markets during 1998, it succeeded in recording an 8% advance in profits compared with the previous year.

Pensions, Investment Advice and Insurance Broking

The operations of Arbuthnot Pensions & Investments and Arbuthnot Pension Trustees were expanded in the course of 1998 by the opening of a London office and by the acquisition in May of Southernhays, an Exeter-based independent financial adviser and

Operating and financial review (continued)



Customer Deposits of Arbuthnot Latham (£m)

consulting actuary. As a result, revenues from these companies grew by 36%.

MPW Insurance Brokers (51% owned) has once again had a successful year in gaining new clients and it produced record commission earnings, up 9% on 1997. This achievement came against the background of continuing softness of premium rates in the commercial insurance market.

Arbuthnot Commercial Finance

The consistent progress achieved by Arbuthnot Commercial Finance since its formation nearly five years ago continued throughout 1998. Factored volumes grew by 69%, outstanding advances by 68% and pre-tax profits by 64%.

Risk Management

The principal non-operational risks inherent in the Group's business are credit 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 £70 million at 31 December 1998, some £23 million represents unsecured loans to customers of Secure Trust Bank and £47 million represents the commercial lending portfolio, most of which is well secured against cash, property, factored debts or other assets. A provision of £4.6 million (6.6% 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 minimal.

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 comfortably in excess of the minimum levels set by the regulators.

Year 2000

Work is now well advanced throughout the Group in preparation for the impact of the Year 2000 on our computer systems. Although only a relatively small proportion of our customers is dependent upon computer systems for their survival, we have taken such steps as we reasonably can to alert our customers and suppliers to the importance of preparing for the Year 2000 where this is appropriate. However, there can be no absolute assurance that the Group will not be adversely affected by the inability of third parties to manage the Year 2000 problem. In respect of our own systems, we have committed to some £300,000 of capital expenditure on enhancements to our computer software. In addition, some £400,000 of our own staff costs and consultancy costs have been written off against 1998 profits in relation to making our existing software Year 2000 compliant. Since the year end time has been spent by our staff and consultants and further time is required to complete the project. The estimated costs to be incurred in 1999 amount to some £500,000.

Finances

Shareholders' funds increased to £21.1 million at the year end (1997: £18.4 million) and total assets rose from £132.8 million to £140.7 million. During the year, the Group's total liquid resources (cash, advances to banks and building societies and certificates of deposit) increased by £1.9 million to £58.9 million. The major cash outflows during the year were in respect of an increase in customer advances of £2.5 million, capital expenditure of £5.4 million, repayment of bank loans of £2.6 million and insurance claims settled of £2.1 million. Financing of these outflows came from an increase in deposits of £7.6 million and an operating cash inflow, after taxation and dividends, of £6.9 million. Bank borrowings of Secure Trust Banking Group PLC at 31 December 1998 amounted to £1.3 million.

Banking subsidiaries' directors

Secure Trust Bank PLC

Group directors
Henry Angest *Chairman*
Ron Paston *Chief Executive*
Stephen Lockley
Robert Wickham *Non-executive*

Executive directors
Keith Deakin *Information Technology*
Patricia Fielding *Administration*
Andrew Giles *Deputy Managing Director*
Ronald Middleton *Branch Operations*
Derek Pearson *Marketing*
John Shipley *Finance*

Non-executive directors
Robert Dauncey
Edward Pearson

Arbuthnot Latham & Co., Ltd

Group directors
Henry Angest *Chairman*
Stephen Lockley *Chief Executive*
Ron Paston
Colin Wakelin *Non-executive*
Robert Wickham *Non-executive*

Executive directors
Brian Collis *Risk Management*
Allan James *Banking*
Wayne Mathews *Finance*
Andrew Whitton *Private Banking*

Non-executive directors
Bill Brown CBE
Robert Erith TD
Roger Keast

Independent non-executive directors' biographies

Bill Brown
Former Deputy Group Chairman and Deputy Group Chief Executive of Standard Chartered Plc and Chairman of Aitken Hume Bank PLC. He is a non-executive director of Kexim Bank (UK) Limited and Atlantis Japan Growth Fund Limited.

Robert Dauncey
A consultant with Edge & Ellison, Solicitors, and a non-executive director of a number of West Midlands companies engaged in a wide range of activities.

Robert Erith
Previously High Sheriff of Essex and Chairman of the Equities division of UBS with whom he remains a consultant. He is a non-executive director of Graham Group plc, Crest Nicholson plc, The International Shakespeare Globe Centre Limited and Essex Community Foundation.

Roger Keast
Senior Partner of Stephens & Scown, Solicitors, and a former Mayor of Exeter.

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

Directors' report

The directors submit their annual report and the audited consolidated financial statements for the year ended 31 December 1998.

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 £2.437 million has been transferred to reserves.

The directors recommend the payment of a final dividend of 18p on the ordinary shares which, together with the interim dividend of 18p (including the special dividend of 10p per share commemorating the tenth anniversary of the Group's flotation) paid on 6 November 1998, represents a total dividend for the year of 36p. The final dividend, if approved by members at the Annual General Meeting, will be paid on 17 May 1999 to shareholders on the register at close of business on 26 March 1999.

Share Capital

On 15 May 1998 the Company issued 10,456 ordinary shares as part of the initial consideration of £300,000 for the acquisition of the pensions business of Southernhays which is based in Exeter.

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 67 employees and 1 director between 12 March 1990 and 26 March 1998 at prices varying between 220p and 770p and not yet exercised cover 537,750 shares.

The Company issued 29,500 ordinary shares to satisfy options exercised during the year.

The directors have established 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 an Ordinary Resolution to renew for five years the authority granted in 1994 to allot shares to an aggregate nominal amount of £50,000. The directors have no present intention of allotting shares, other than in response to persons exercising share options 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 2000.

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 29 March 1999 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	%
Mercury Asset Management Limited	1,070,000	7.1
Prudential Assurance Co. Limited	768,117	5.1
Universities Superannuation Scheme	559,000	3.7
Baillie Gifford British Smaller Companies Fund	522,006	3.5
BT Telecom Pension Scheme	493,417	3.3

Directors

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

Mr Wakelin, who was appointed a director on 1 January 1999, retires under Article 87 of the Articles of Association and, being eligible, offers himself for re-election.

Mr Wickham retires under Article 109 of the Articles of Association and, being eligible, offers himself for re-election.

Neither of the directors seeking re-election has 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:

Beneficial Interests	1 January 1998	31 December 1998	%
H. Angest	6,082,735	6,120,035	40.7
R. Paston	692,130	692,130	4.6
S. J. Lockley	8,832	8,832	0.1
R. J. J. Wickham	505	505	—

There have been no changes in beneficial interests between 1 January and 29 March 1999.

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 1998 the share price ranged between 580 pence and 782.5 pence. The middle market closing share price at 31 December 1998 was 580 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

Directors' report (continued)

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 30 to the financial statements.

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

Directors' Fees

At the Annual General Meeting, shareholders will be asked to approve an Ordinary Resolution to increase the aggregate fees payable to directors under Article 84 from £50,000 p.a., the amount fixed at the time of flotation in December 1998, to £200,000 p.a. Such fees are payable only to non-executive directors.

Employees

The Group 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

The auditors, Coopers & Lybrand, merged with Price Waterhouse on 1 July 1998, following which Coopers & Lybrand resigned and the directors appointed the new firm, PricewaterhouseCoopers, as auditors.

A resolution to reappoint PricewaterhouseCoopers 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 30 March 1999

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 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 (two of the executive directors being substantial shareholders), 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 three executive directors and two independent non-executive directors. Furthermore, the Boards of the Group's two banking subsidiaries contain a total of seven 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 but the close involvement in all operational matters of the other executive directors, who are the Chief Executives of the two major operating divisions, together with the position of Ron Paston as Deputy Chairman, ensures that there is an appropriate balance of power and authority.

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 4 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, an 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.

Corporate governance (continued)

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 1998 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 all terminable by the Company on one year's notice. The Remuneration Committee awards salary increases each year based on the performance of the Group during the preceding financial period.

Internal Financial Control

The Combined Code specifies that the directors should, at least annually, conduct a review of the effectiveness of the Group's system of internal control and should report to shareholders that they have done so. Pending the issue of guidance from the Institute of Chartered Accountants in England and Wales on the detailed application of this provision, the London Stock Exchange has stated that companies will satisfy The Combined Code if they continue to report on their internal financial controls, as in previous years. The directors have therefore adopted such an approach for the year ended 31 December 1998.

The Board of directors has overall responsibility for the Group's system of internal financial control. Such a system can provide only reasonable and not absolute assurance against material misstatement or loss. The directors have reviewed the effectiveness of the Group's system of internal financial control during the year ended 31 December 1998. The key procedures in place are:

Control environment — The Board exercises its responsibility for internal financial control through an organisation structure with clearly defined levels of responsibility and authority and appropriate reporting procedures. Experienced and suitably qualified staff take responsibility for important business functions. Standards of performance are maintained through appraisal and disciplinary procedures.

Risk assessment — The identification of major business risks is carried out on an ongoing basis by operating management and steps are taken to mitigate or eliminate these where possible. All key risks facing the Group are formally reviewed and assessed at least once a year by the Board and this assessment is reinforced by the work of internal audit. Significant risk areas arising from the development of new activities are subject to consideration by the Board.

Information systems — There is a comprehensive budgeting system and the annual budget is approved by the Board. Monthly management accounts are prepared showing comparisons against corresponding figures for the budget and the previous year covering financial results, balance sheets, liquidity, capital adequacy and key indicators of operating performance. The reasons for variances are analysed and commented upon and the results are discussed in detail at Board meetings.

Control procedures — Financial controls and procedures are operated throughout the Group which include authorisation limits, formal credit and other risk approval procedures, segregation of incompatible duties and management review of the operation of key controls.

Monitoring systems — The Group's system of internal financial control is monitored on an ongoing basis through all of the foregoing procedures and in addition is subject to regular reviews by the external auditors (to the extent necessary to express their audit opinion), by internal audit, by regulatory inspectors and by independent accountants in compliance with the requirements of the Banking Act 1987. The main findings contained in reports on these reviews are presented to the Audit Committee.

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 accounts.

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.

Consolidated profit and loss account

For the year ended 31 December 1998	Notes	**1998 £000**	1997 £000
Interest receivable from loans and advances		**11,826**	10,609
Interest receivable from debt securities		**382**	155
Less: interest payable		**(3,837)**	(3,222)
Net interest income		**8,371**	7,542
Fees and commissions receivable		**23,269**	22,372
Less: fees and commissions payable		**(537)**	(449)
Operating income		**31,103**	29,465
Administrative expenses	1	**17,705**	17,207
Depreciation and amortisation	2	**884**	924
Provisions for bad and doubtful debts	11	**1,107**	671
Operating expenses	2	**19,696**	18,802
Profit on ordinary activities before tax	3	**11,407**	10,663
Tax on profit on ordinary activities	5	**3,445**	3,076
Profit on ordinary activities after tax		**7,962**	7,587
Minority interests	24	**107**	92
Profit attributable to shareholders of Secure Trust Banking Group PLC	6	**7,855**	7,495
Dividends	7	**5,418**	3,451
Retained profit for the financial year	23	**2,437**	4,044
Basic earnings per ordinary share	8	**52.3p**	50.0p
Diluted earnings per ordinary share	8	**51.9p**	49.8p

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 1998	Notes	1998 £000	1997 £000
Assets			
Cash and balances at central banks		**187**	379
Loans and advances to banks and building societies	9	**52,243**	53,652
Loans and advances to customers	10	**65,127**	63,753
Debt securities	13	**6,500**	3,000
Intangible fixed assets	15	**310**	—
Tangible fixed assets	16	**7,519**	3,049
Other assets	17	**5,656**	6,745
Prepayments and accrued income		**3,149**	2,174
Total assets		**140,691**	132,752
Liabilities			
Deposits by banks	18	**9,479**	5,320
Customer accounts	19	**87,543**	84,148
Insurance reserves	20	**5,508**	7,575
Other liabilities	21	**14,544**	15,230
Accruals and deferred income		**2,507**	2,035
Equity minority interests	24	**54**	48
		119,635	114,356
Called up share capital	22	**150**	150
Share premium account	23	**13,362**	13,139
Profit and loss account	23	**7,544**	5,107
Equity shareholders' funds	25	**21,056**	18,396
Total liabilities		**140,691**	132,752
Memorandum items	34		
Contingent liabilities			
Guarantees		**652**	768
Other contingent liabilities		**11**	28
		663	796
Commitments		**4,182**	3,968

The financial statements on pages 18 to 35 were approved by the Board of Directors on 30 March 1999 and were signed on its behalf by:

H. Angest
S. J. Lockley } Directors

Company balance sheet

At 31 December 1998	*Notes*	**1998 £000**	1997 £000
Fixed assets			
Shares in subsidiary undertakings	*14*	**27,329**	27,329
Current assets			
Due from subsidiary undertakings:			
Falling due within one year		**3,987**	6,597
Falling due after more than one year		**2,000**	—
Prepayments		**31**	41
Cash at bank and in hand		**124**	49
Corporation tax		**362**	405
		6,504	7,092
Creditors: Amounts falling due within one year			
Bank loan	*21*	**1,254**	2,607
Due to subsidiary undertakings		**1,091**	378
Dividend payable	*7*	**2,709**	2,401
Accruals		**15**	248
Deferred consideration	*28*	**550**	550
		5,619	6,184
Net current assets		**885**	908
Total assets less current liabilities		**28,214**	28,237
Creditors: Amounts falling due after more than one year			
Bank loan	*21*	**—**	1,254
Net assets		**28,214**	26,983
Capital and reserves			
Called up share capital	*22*	**150**	150
Share premium account	*23*	**13,362**	13,139
Profit and loss account	*23*	**14,702**	13,694
Equity shareholders' funds		**28,214**	26,983

The financial statements on pages 18 to 35 were approved by the Board of Directors on 30 March 1999 and were signed on its behalf by:

H. Angest
S. J. Lockley } Directors

Consolidated cash flow statement

For the year ended 31 December 1998	Notes	**1998 £000**	1997 £000
Net cash inflow from operating activities	27(i)	**22,022**	2,521
Returns on investments and servicing of finance			
Dividends paid to minority shareholders of subsidiary undertaking		**(101)**	(84)
Taxation		**(2,938)**	(2,215)
Capital expenditure and financial investment	27(ii)	**(8,805)**	(2,758)
		10,178	(2,536)
Acquisitions	27(iii)	**(245)**	(129)
Equity dividends paid		**(5,110)**	(3,150)
		4,823	(5,815)
Financing	27(iv)	**(2,464)**	(1,275)
Increase/(decrease) in cash	27(v)	**2,359**	(7,090)

Accounting policies

Principal accounting policies

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.

Changes in presentation of financial information

FRS 10, 'Goodwill and intangible assets', has been adopted and, consequently, the balance on the premiums on acquisitions written off reserve shown in the financial statements for 31 December 1997 has been eliminated against the profit and loss reserve under the transitional arrangements in FRS 10.

FRS 11, 'Impairment of fixed assets and goodwill', came into effect for these financial statements, but has not resulted in any changes in presentation.

FRS 14, 'Earnings per share', has been adopted and, consequently, basic and diluted earnings per share have been calculated in accordance with the new methodology. Comparative basic and diluted earnings per share for 1997 have been recalculated on the same basis.

(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 1998 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 premiums and claims**

Earned insurance premiums represent premiums written during the year less the proportion relating to the unexpired terms of policies in force at the balance sheet date, calculated on a time apportionment basis. 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**

The Group's accounting policy for goodwill, previously described in the financial statements as premiums on acquisitions, has been changed in line with FRS 10 'Goodwill and intangible assets'.

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. Previously 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.

Notes to the financial statements

1 Administrative expenses

	1998 £000	1997 £000
Staff costs, including directors		
Wages and salaries	**8,319**	7,473
Social security costs	**809**	680
Other pension costs (note 35)	**591**	519
Other administrative expenses	**7,986**	8,535
	17,705	17,207

2 Operating expenses

	1998 £000	1997 £000
Administrative expenses	**17,705**	17,207
Amortisation (note 15)	**15**	—
Depreciation (note 16)	**869**	924
Provisions for bad and doubtful debts	**1,107**	671
	19,696	18,802

3 Profit on ordinary activities before tax

	1998 £000	1997 £000
is stated after:		
Income		
Profit on disposals of tangible fixed assets	**34**	129
Rent from sub-letting of premises	**114**	24
Charges		
Equipment rentals	**37**	56
Other operating lease rentals	**621**	565

The auditors' remuneration was **£175,500** (1997: £151,500) of which **£3,750** (1997: £3,000) related to the Company.

Remuneration of the auditors for the provision of non-audit services to the Group was **£96,000** (1997: £84,000). This comprises taxation compliance and advisory fees of **£70,000** (1997: £45,000), other regulatory services required under the Banking Act 1987 and by other regulatory bodies of **£20,000** (1997: £30,000) and other services of **£6,000** (1997: £9,000).

Notes to the financial statements (continued)

4 Emoluments of directors

	1998 £000	1997 £000
Fees	**23**	17
Salary payments (including benefits in kind)	**735**	695
Pension contributions	**63**	52
	821	764

	Salary	Bonus	Benefits	Pension contributions	Fees	Total 1998	Total 1997
Executive	£000	£000	£000	£000	£000	**£000**	£000
H. Angest	170	—	37	27	—	**234**	229
R. Paston	230	—	23	—	—	**253**	236
S. J. Lockley	155	100	20	36	—	**311**	282
Non-executive							
R. J. J. Wickham	—	—	—	—	23	**23**	17
	555	100	80	63	23	**821**	764

The emoluments of the Chairman were **£234,000** (1997: £229,000) including pension contributions of **£27,000** (1997: £27,000). The emoluments of the highest paid director were **£311,000** (1997: £282,000) including pension contributions of **£36,000** (1997: £25,000).

Mr. R. J. J. Wickham is a director of Broughfame Limited which received an annual fee of **£23,000** (1997: £17,000) in respect of his services to the Group, which is included in the above figures.

Retirement benefits are accruing under Money Purchase Schemes for two directors (1997: two directors).

5 Tax on profit on ordinary activities

	1998 £000	1997 £000
United Kingdom corporation tax at 31% (1997: 31.5%)		
Current	**3,382**	3,145
Under provided in previous years	**63**	(69)
	3,445	3,076

The tax charge for the year has been reduced by approximately £164,000 in respect of losses brought forward in subsidiary companies.

A potential deferred tax asset of £265,000 in respect of accelerated capital allowances and general provisions has not been recognised. No potential deferred tax liability exists.

6 Profit dealt with in the accounts of Secure Trust Banking Group PLC

£6,426,000 (1997: £2,568,000) of the profit attributable to ordinary shareholders has been dealt with in the accounts of Secure Trust Banking Group PLC.

7 Dividends

	1998 pence per share	1997 pence per share	**1998 £000**	1997 £000
Interim (paid)	**8.0**	7.0	**1,207**	1,050
Special (paid)	**10.0**	—	**1,502**	—
Final (proposed)	**18.0**	16.0	**2,709**	2,401
	36.0	23.0	**5,418**	3,451

8 Earnings per ordinary share

a) Basic

Earnings per ordinary share are calculated on the net basis by dividing the profit attributable to shareholders of **£7,855,000** (1997: £7,495,000) by the weighted average number of ordinary shares **15,034,295** (1997: 14,999,278) in issue during the year.

b) Diluted

Diluted earnings per ordinary share have been calculated in accordance with FRS 14 by dividing the profit attributable to shareholders of **£7,855,000** (1997: £7,495,000) by the weighted average number of ordinary shares **15,141,528** (1997: 15,048,604) in issue during the year, adjusted to reflect the effect of outstanding share options.

9 Loans and advances to banks and building societies

	1998 Group £000	1997 Group £000
Remaining maturity:		
5 years or less but over 1 year	**1,000**	1,850
1 year or less but over 3 months	**850**	5,000
3 months or less	**42,634**	41,944
Repayable on demand	**7,759**	4,858
	52,243	53,652

10 Loans and advances to customers

	1998 Group £000	1997 Group £000
Remaining maturity:		
Over 5 years	**1,350**	3,305
5 years or less but over 1 year	**15,513**	17,627
1 year or less but over 3 months	**11,700**	13,573
3 months or less	**42,107**	34,365
	70,670	68,870
General and specific bad and doubtful debt provisions (note 11)	**(4,635)**	(4,284)
Suspended interest (note 12)	**(908)**	(833)
	65,127	63,753
Of which repayable on demand or at short notice	**14,340**	13,319

Notes to the financial statements (continued)

11 Provisions for bad and doubtful debts

	1998 Specific £000	1998 General £000	1998 Total £000	1997 Specific £000	1997 General £000	1997 Total £000
Group:						
At 1 January	**3,606**	**678**	**4,284**	3,472	1,105	4,577
Charge against profits	**1,155**	**(48)**	**1,107**	1,098	(427)	671
Amounts written off	**(812)**	**—**	**(812)**	(1,009)	—	(1,009)
Recoveries	**56**	**—**	**56**	45	—	45
At 31 December	**4,005**	**630**	**4,635**	3,606	678	4,284

12 Interest in suspense

	1998 Group £000	1997 Group £000
At 1 January	**833**	422
Net interest suspended	**443**	582
Interest written off	**(368)**	(171)
At 31 December	**908**	833
In respect of loans and advances to customers		
Before provisions	**4,354**	5,167
After provisions	**2,189**	3,861

13 Debt securities

	1998 Group £000	1997 Group £000
Remaining maturity:		
1 year or less but over 3 months	**5,500**	2,000
3 months or less	**1,000**	1,000
At 31 December	**6,500**	3,000

Debt securities represent certificates of deposit. These instruments are held in the balance sheet at their net book values which equate to market value. The Group's intention is to hold these to maturity.

14 Shares in subsidiary undertakings

	Shares at cost £000	Provisions £000	Net £000
Secure Trust Banking Group PLC			
At 1 January 1998 and 31 December 1998	30,621	(3,292)	27,329

	1998 £000	1997 £000
Subsidiary undertakings		
Banks	**24,994**	24,994
Other	**2,335**	2,335
Total unlisted	**27,329**	27,329

The principal subsidiary undertakings of Secure Trust Banking Group PLC at 31 December 1998 were:

Name	**Interest %**	**Principal activity**
Secure Trust Bank PLC	100	Household cash management
and its wholly owned subsidiaries		and banking
Heathfield Finance Limited		Personal loans
Secure Homes Services Limited		General retailing
Secure Travel Limited		Travel operator
OBC Insurance Consultants Limited	100	Motor and general insurance
and its wholly owned subsidiary		
BRM Insurance Consultants Limited		Motor and general insurance
West Yorkshire Insurance Company Limited	100	Insurance underwriting
Arbuthnot Latham & Co., Limited	100	Banking
and its subsidiaries		
Arbuthnot Fund Managers Limited	100	Fund management
Arbuthnot Pensions & Investments Limited	100	Life assurance and pensions
Arbuthnot Pension Trustees Limited	100	Trustees and pensions consultants
MPW Insurance Brokers Limited	51	Insurance broking
Southernhays Actuarial Consultancy Limited	100	Actuarial and pensions consultants
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 accounts and have an accounting reference date of 31 December.

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

Notes to the financial statements (continued)

15 Intangible fixed assets

	Goodwill £000
Group:	
Cost	
At 1 January 1998	—
Additions (note 28)	325
At 31 December 1998	**325**
Aggregate amortisation	
At 1 January 1998	—
Charge for the year	15
At 31 December 1998	**15**
Net book value at 31 December 1998	**310**
Net book value at 31 December 1997	—

The goodwill arising on the acquisition of Southernhays 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 business 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				
At 1 January 1998	970	5,038	1,343	7,351
Additions	3,652	1,527	253	5,432
Disposals	—	(24)	(257)	(281)
At 31 December 1998	**4,622**	**6,541**	**1,339**	**12,502**
Accumulated depreciation				
At 1 January 1998	103	3,675	524	4,302
Disposals	—	(10)	(178)	(188)
Charge for year	14	562	293	869
At 31 December 1998	**117**	**4,227**	**639**	**4,983**
Net book value at 31 December 1998	**4,505**	**2,314**	**700**	**7,519**
Net book value at 31 December 1997	867	1,363	819	3,049

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

17 Other assets

	1998 Group £000	1997 Group £000
Amounts falling due within one year:		
Trade debtors	**3,618**	3,920
Reinsurers' share of claims outstanding	**2,038**	2,225
Amounts falling due after one year:		
ACT recoverable	**—**	600
	5,656	6,745

18 Deposits by banks

	1998 Group £000	1997 Group £000
With agreed periods of notice:		
5 years or less but over 1 year	**—**	5,000
1 year or less but over 3 months	**9,250**	—
3 months or less but not repayable on demand	**179**	262
Repayable on demand	**50**	58
	9,479	5,320

Included in the above are deposits with a value of **£0.2 million** (1997: £0.3 million), which support the guarantee given to a subsidiary undertaking for loans made.

19 Customer accounts

	1998 Group £000	1997 Group £000
With agreed periods of notice:		
Over 5 years	**—**	1,653
5 years or less but over 1 year	**542**	—
1 year or less but over 3 months	**28,078**	26,387
3 months or less but not repayable on demand	**31,549**	27,505
Repayable on demand	**27,374**	28,603
	87,543	84,148

20 Insurance reserves

	1998 Group £000	1997 Group £000
Claims outstanding	**5,508**	7,575

Notes to the financial statements (continued)

21 Other liabilities

	1998 Group £000	1997 Group £000
Amounts falling due within one year:		
Bank overdraft	**850**	500
Bank loan (Group and Company)	**1,254**	2,607
Trade creditors	**6,509**	5,153
Dividends payable	**2,709**	2,401
Corporation tax	**2,672**	2,765
Deferred consideration (note 28 (ii))	**550**	550
	14,544	13,976
Amounts falling due after one year:		
Bank loan (Group and Company)	**—**	1,254
	14,544	15,230

The bank loan is secured by a charge on the share capital of Secure Trust Bank PLC and of West Yorkshire Insurance Company Limited and is repayable as follows:

	1998 Group £000	1997 Group £000
Within one year	**1,254**	2,607
Between one and two years	**—**	1,254
	1,254	3,861

22 Called up share capital

	£000
Authorised (at 31 December 1997 and 1998):	
418,439,000 ordinary shares of 1p each	**4,184**
Allotted, called up and fully paid	
At 1 January 1998: 15,008,628 ordinary shares of 1p each	150
At 31 December 1998: 15,048,584 ordinary shares of 1p each	**150**

On 15 May 1998 10,456 shares were issued, credited as fully paid up, for a premium of £80,000 in connection with consideration payable on the acquisition of the business and undertaking of Southernhays.

Additionally, during the year 29,500 ordinary shares were issued for cash under the Executive Share Option Scheme for a total premium of £143,000.

At 31 December 1998, options to subscribe for 537,750 ordinary shares were outstanding exercisable by employees between 1999 and 2005 at prices between 220p and 770p.

23 Reserves

	Group £000	Company £000
Share premium account		
At 1 January 1998	13,139	13,139
Arising in the year (note 22)	223	223
At 31 December 1998	**13,362**	**13,362**
Profit and loss account		
At 1 January 1998		
As previously reported	29,509	13,694
Elimination of goodwill reserve	(24,402)	—
As restated	5,107	13,694
Retained profit for the year	2,437	1,008
At 31 December 1998	**7,544**	**14,702**

Elimination of goodwill reserve

The profit and loss account reserve at 1 January 1998 has been restated to eliminate the balance on the goodwill reserve (previously described as 'premiums on acquisitions written off') at 31 December 1997 and 1996 in accordance with the provisions of FRS 10 'Goodwill and intangible assets'. This amount comprises all goodwill previously eliminated to reserves as the directors consider it would be impracticable to apply the provisions of FRS 10 retrospectively. Had the Group continued to apply its previous policy in respect of goodwill, £325,000 would have been included in the goodwill reserve, which would then have shown a balance of £24.727 million. Retained profit for the year would have been £2.452 million, reflecting the lack of amortisation of goodwill arising in respect of businesses acquired in the year. The Group's balance sheet would have shown total liabilities of £140.381 million at 31 December 1998. Cumulative goodwill written off relating to acquisitions made prior to 1998, which has been eliminated against reserves, amounts to **£24.402 million** (1997: £24.402 million).

24 Minority interests

	1998 Group £000	1997 Group £000
At 1 January	**48**	40
Profit and loss account	**107**	92
Dividends paid	**(101)**	(84)
At 31 December	**54**	48

Notes to the financial statements (continued)

25 Reconciliation of movements in equity shareholders' funds

	1998 Group £000	1997 Group £000
Profit for the financial year	**7,855**	7,495
Dividends	**(5,418)**	(3,451)
	2,437	4,044
New share capital issued	**223**	64
Opening equity shareholders' funds	**18,396**	14,288
Closing equity shareholders' funds	**21,056**	18,396

26 Assets and liabilities denominated in foreign currencies

	1998 Group £000	1997 Group £000
Assets denominated in sterling	**128,681**	124,263
Assets denominated in currencies other than sterling	**12,010**	8,489
Total assets	**140,691**	132,752
Liabilities denominated in sterling	**128,681**	124,277
Liabilities denominated in currencies other than sterling	**12,010**	8,475
Total liabilities	**140,691**	132,752

27 Consolidated cash flow statement

	1998 £000	1997 £000
(i) Reconciliation of operating profit to net cash inflow from operations		
Operating profits	**11,407**	10,663
Profit on sale of tangible fixed assets	**(34)**	(129)
Increase in accrued income and prepayments	**(975)**	(587)
Increase in accruals and deferred income	**472**	(242)
Provisions for bad and doubtful debts	**1,107**	671
Depreciation and amortisation	**884**	924
Decrease in insurance reserves	**(2,067)**	(5,173)
Net cash flow from trading activities	**10,794**	6,127
Net decrease in loans and advances to banks and customers	**1,829**	(19,915)
Net increase in deposits by banks and customer accounts	**7,554**	16,193
Net decrease in other assets	**489**	(752)
Net increase in other liabilities	**1,356**	868
	11,228	(3,606)
Net cash inflow from operating activities	**22,022**	2,521

27 Consolidated cash flow statement (continued)

	1998 £000	1997 £000
(ii) Capital expenditure and financial investment		
Purchase of debt securities	**(3,500)**	(2,000)
Purchase of tangible fixed assets	**(5,432)**	(1,127)
Sale of tangible fixed assets	**127**	369
	(8,805)	(2,758)
(iii) Acquisitions		
Investment in subsidiary undertakings	**(245)**	(241)
Cash acquired	**—**	112
	(245)	(129)
(iv) Financing		
Issue of ordinary share capital for cash	**143**	29
Bank loan repaid	**(2,607)**	(1,304)
	(2,464)	(1,275)

	1997 £000	Cash flow £000	1998 £000
(v) Analysis of the balances of cash as shown in the balance sheet			
Cash and balances at central banks	**379**	**(192)**	**187**
Bank overdrafts	**(500)**	**(350)**	**(850)**
Loans and advances to other banks repayable on demand	**4,858**	**2,901**	**7,759**
	4,737	**2,359**	**7,096**

The Group is no longer required to maintain balances with the Bank of England (1997: £168,000).

	Share capital (including premium) £000	Loans £000
(vi) Analysis of changes in financing during the year		
At 1 January 1998	13,289	3,861
Cash inflow from financing	143	(2,607)
Shares issued fully paid up	80	—
At 31 December 1998	**13,512**	**1,254**

28 Summary of the effect of acquisitions

(i) Southernhays

On 15 May 1998 the Group acquired, for a total consideration of £325,000, the business and undertaking of Southernhays, part of which was subsequently incorporated as Southernhays Actuarial Consultancy Limited and part of which was subsequently merged into Arbuthnot Pensions & Investments Limited. The consideration, which included expenses of £25,000, was satisfied by the issue of 10,456 ordinary shares, credited as fully paid up, having a fair value of £80,000. The balance was paid in cash. The resulting premium of £325,000 has been included as an intangible asset and is being amortised over 20 years. For the period 15 May 1998 to 31 December 1998 the operating loss and loss after taxation of Southernhays amounted to £10,000. It utilised no funds for investing activities. For the year to 30 April 1998 its unaudited adjusted profit after taxation was £35,000.

Notes to the financial statements (continued)

28 Summary of the effect of acquisitions (continued)

(ii) Arbuthnot Pensions & Investments Limited and Arbuthnot Pension Trustees Limited

A provision of £550,000 was held at 31 December 1998 (1997: £550,000) in respect of further deferred cash consideration, being the maximum payable under the terms of the acquisition agreement.

29 Segmental information

	Personal financial services		Private and merchant banking		Group total	
	1998 £000	1997 £000	**1998 £000**	1997 £000	**1998 £000**	1997 £000
Segment profit before taxation	**10,327**	9,454	**1,080**	1,209	**11,407**	10,663
Net Assets	**7,056**	4,566	**14,000**	13,830	**21,056**	18,396
Segment Total Assets	**44,884**	45,243	**95,807**	87,509	**140,691**	132,752

All trading activities are carried out in the United Kingdom.

The directors consider it appropriate to divide the Group's business into two business segments, personal financial services and private and merchant banking.

30 Directors' and officers' loans

The aggregate amount outstanding at 31 December 1998 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

31 Capital commitments

	1998 £000	1997 £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	**168**	238

32 Average number of employees

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

	1998	1997
Personal financial services	**329**	320
Private and merchant banking	**106**	98
	435	418

33 Operating lease commitments

	1998		1997	
	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	**237**	**2**	110	1
— between one and five years	**236**	**2**	221	3
— in five years or more	**202**	**—**	266	—
	675	**4**	597	4
Company				
Expiring				
— between one and five years	**20**		20	

34 Memorandum items, foreign exchange and interest rate contracts

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.

	1998		1997	
	Contract amount	**Risk weighted amount**	Contract amount	Risk weighted amount
	£000	**£000**	£000	£000
Contingent liabilities				
Guarantees	**652**	**652**	768	648
Other contingent liabilities	**11**	**5**	28	4
	663	**657**	796	652
Commitments				
Documentary letters of credit	**52**	**10**	29	6
Credit lines and other commitments to lend less than one year	**4,130**	**—**	3,939	—
	4,182	**10**	3,968	6

35 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 £5,000 (1997: £10,000) 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.

Report of the auditors

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

We have audited the financial statements on pages 18 to 35 which have been prepared under the historical cost convention and the accounting policies set out on page 22.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report including, as described on page 17, the financial statements. Our responsibilities, as independent auditors, are established by statute, the Auditing Practices Board, the Listing Rules of the London Stock Exchange 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 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 15 to 17 reflects the Company's compliance with those provisions of The Combined Code specified for our review by the London Stock Exchange, and we report if it does not. We are not required to form an opinion on the effectiveness of the Group's corporate governance procedures or its internal controls.

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 1998 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers

PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
Birmingham
30 March 1999