Registered no: 541132

Secure Trust Bank PLC

Annual Report

for the year ended 31 December 1998

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Directors and advisers

Directors

H Angest (Chairman)
R Paston
R O Dauncey (non-executive)
K N F Deakin
Miss P G Fielding
A J V Giles
S J Lockley
R Middleton
D Pearson
E Pearson (non-executive)
J Shipley
R J J Wickham (non-executive)

Secretary and registered office

J R Kaye FCIS
Paston House
Arleston Way
Solihull
B90 4LH

Registered Auditors

PricewaterhouseCoopers
Temple Court
35 Bull Street
Birmingham
B4 6JT

Bankers

Barclays Bank PLC
38 Hagley Road
Edgbaston
Birmingham
B16 8NY

Directors' report for the year ended 31 December 1998

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

Principal activities

The company is an authorised institution under the Banking Act 1987. Its principal activity during the year continued to be the provision of home cash management, personal lending and banking services. This entailed:

(a) accepting standing instructions from clients to discharge on their behalf liabilities of a regular and recurring nature and collecting from the clients agreed weekly or monthly sums of money to provide and maintain the funds necessary to carry out this service.

(b) banking services comprising current and deposit accounts and the provision of loans and overdrafts on a secured and unsecured basis to personal and business customers

(c) arranging and placing sickness, accident and redundancy insurance cover and general insurance on behalf of established insurance companies

(d) arranging and selling life assurance and general insurance policies through a financial services division, acting in the capacity of tied agents of Royal Life Insurance Limited.

Review of business

The directors are satisfied with the performance of the company during the year and do not envisage any change in the principal activity in the ensuing year. The results for the year are shown on page 7.

Dividends and transfers to reserves

The profit for the year after taxation amounted to £5,495,000. Interim dividends of £6,650,000 were declared and paid during the year and the resultant loss for the year of £1,155,000 has been deducted from reserves.

Year 2000

The Directors are aware of the detailed issues surrounding the Year 2000 problem. All business critical systems have been identified and are being addressed. The cost of the work is not considered to be significant and is being charged to the profit and loss account as incurred.

Directors' report (continued)

Tangible fixed assets

The movements in fixed assets during the year are set out in note 12 to the financial statements.

Directors

The directors who served during the year were as follows:

H Angest (Chairman)
R Paston
R O Dauncey
K N F Deakin
Miss P G Fielding
S J Lockley
R Middleton
D Pearson
E Pearson
J Shipley
R J J Wickham (appointed 5 January 1998).
Mr A J V Giles was appointed to the Board on 1 March 1999.
Mr H Angest, Mr R Paston, Mr S J Lockley and Mr R.J.J. Wickham are directors of the ultimate parent company Secure Trust Banking Group PLC, and their interests in the share capital of group companies are shown in the Directors' report of that company.

The interests in the share capital of Secure Trust Banking Group PLC of the other directors in office at 31 December 1998 were as follows:

	At 31 December 1998, ordinary 1p shares	At 31 December 1997, ordinary 1p shares
R O Dauncey	**1,200**	1,200
K N F Deakin	**721**	4,721
Miss P G Fielding	**74,710**	74,710
J Shipley	**1,500**	1,500

Directors' report (continued)

Directors (continued)

The balance of share options granted to, but not exercised by, the other directors at 31 December 1998 is as follows:

	Date Granted	Option price Purchase	Number of options 1 January 1998	**31 December 1998**
K N F Deakin	7 October 1994	485p	22,000	**22,000**
	31 October 1995	533p	6,000	**6,000**
	31 October 1997	607.5p	7,000	**7,000**
P G Fielding	7 October 1994	485p	10,000	-
R Middleton	7 October 1994	485p	15,000	-
D Pearson	31 October 1995	533p	25,000	**25,000**
J Shipley	31 October 1995	533p	35,000	**35,000**

The options granted in 1994 are exercisable within three and ten years of the date of their grant, those granted in 1995 and 1997 are exercisable within three and seven years of the date of their grant.

No director had a beneficial interest in any shares of the Company during the year.

Supplier payment policy

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

Statement of directors' responsibilities

The directors are required by UK company law to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the company as at the end of the financial year and of the profit or loss of the company for that period.

The directors confirm that suitable accounting policies have been used and applied consistently and reasonable and prudent judgements and estimates have been made in the preparation of the financial statements for the year ended 31 December 1998. The directors also confirm that applicable accounting standards have been followed with the exception of the departure disclosed and explained in note 1(c) to the financial statements and that the financial statements have been prepared on the going concern basis.
The directors are responsible for keeping proper accounting records, for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Directors report (continued)

Our auditors, Coopers & Lybrand, merged with Price Waterhouse on 1 July, following which Coopers & Lybrand resigned and the directors appointed the new firm, PricewaterhouseCoopers, as auditors. A resolution to reappoint PricewaterhouseCoopers as auditors to the company will be proposed at the annual general meeting.

By order of the board

J.R. Kaye

J R Kaye
Company secretary
30 March 1999

Auditor's report to the members of
Secure Trust Bank PLC

We have audited the financial statements on pages 7 to 16 which have been prepared under the historical cost convention.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report, including as described on page 4 the financial statements. Our responsibilities, as independent auditors, are established by statute, the Auditing Practices Board 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 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.

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 the company's affairs at 31 December 1998 and of its loss 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

Profit and loss account for the year ended 31 December 1998

	Notes	1998 £'000	1997 £'000
Interest receivable from loans and advances		**5,111**	4,320
Less: interest payable		**(123)**	(118)
Net interest income		**4,988**	4,202
Fees and commissions receivable		**14,399**	14,066
Less: fees and commissions payable		**(173)**	(153)
Operating income		**19,214**	18,115
Administrative expenses	2	**(8,704)**	(7,753)
Depreciation	12	**(408)**	(360)
Provisions for bad and doubtful debts	10	**(570)**	(648)
Write down of carrying value of investments in group undertakings	11	**(1,016)**	-
Profit on ordinary activities before tax	3	**8,516**	9,354
Tax on profit on ordinary activities	6	**(3,021)**	(2,614)
Profit on ordinary activities after tax		**5,495**	6,740
Dividends	7	**(6,650)**	(6,150)
(Loss)/retained profit for the year	16	**(1,155)**	590

The profit on ordinary activities before tax and the loss for the year as stated above, are not materially different from their historical cost equivalents.

The company has no recognised gains and losses other than those included in the profits above, and therefore no separate statement of recognised gains and losses has been presented.

The above results relate wholly to continuing operations.

Balance sheet
at 31 December 1998

	Notes	1998 £'000	1997 £'000
Assets			
Cash and balances at central banks		**36**	114
Loans and advances to banks and building Societies	8	**7,608**	13,000
Loans and advances to customers	9	**26,499**	21,589
Shares in Group undertakings	11	**497**	1,513
Tangible fixed assets	12	**2,132**	1,559
Prepayments and accrued income		**1,773**	630
Total assets		**38,545**	38,405
Liabilities			
Customer accounts	13	**29,063**	28,620
Other liabilities	14	**2,655**	2,390
Accruals and deferred income		**1,223**	636
		32,941	31,646
Called up share capital	15	**5,000**	5,000
Profit and loss account	16	**604**	1,759
Equity shareholders' funds	17	**5,604**	6,759
Total liabilities		**38,545**	38,405

The financial statements on pages 7 to 16 were approved by the board of directors on 30 March 1999 and were signed on its behalf by:

R Paston
Director

J Shipley
Director

Notes to the financial statements for the year ended 31 December 1998

Changes in presentation of financial information

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

1 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.

a) Basis of accounting

The financial statements have been prepared under the historical convention and in accordance with the special provisions of Part VII of the Companies Act 1985 relating to banking companies and in accordance with section 226 of, and Schedule 4 to, the Companies Act 1985.

b) 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 and consist entirely of activities in the United Kingdom.

c) Depreciation

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

Computer equipment	20%
Motor vehicles	25%
Fixtures, fittings and furnishings	5% to 15%

No depreciation is provided on freehold property since in the opinion of the directors the amount of any provision would not be material.

d) Deferred taxation

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

1 Principal accounting policies (continued)

e) Pensions

The company 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.

f) Operating leases

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

g) Provision 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.

h) Cash flow statement

The company is a wholly owned subsidiary of Secure Trust Banking Group PLC, and the cash flows of the company are included in the consolidated group cash flow statement of Secure Trust Banking Group PLC. Consequently, the company is exempt under the terms of Financial Reporting Standard No 1 (Revised) from publishing a cash flow statement.

i) Related party transactions

The company is a wholly owned subsidiary of Secure Trust Banking Group PLC. The company is therefore exempt from disclosing transactions and balances with group entities under the terms of Financial Reporting Standard No.8.

2 Administrative expenses

	1998	1997
	£'000	£'000
Staff costs, including directors		
- wages and salaries	**3,598**	3,156
- social security costs	**358**	309
- other pension costs (note 5)	**217**	195
Other administrative expenses	**4,531**	4,093
	8,704	7,753

2 Administrative expenses continued

The average number of persons (including executive directors) employed by the company during the year was as follows:

	1998 Number	1997 Number
Administration	**192**	188

3 Profit on ordinary activities before tax

	1998 £'000	1997 £'000
Profit on ordinary activities before tax is stated after charging:		
Loss on disposal of tangible fixed assets	**(11)**	96
Auditors' remuneration	**60**	53
Other fees payable to the auditors	**37**	35
Hire of equipment – operating leases	**8**	25

4 Emoluments of directors

	1998 £'000	1997 £'000
Directors' fees	**16**	16
Other emoluments (including pension contributions and benefits in kind)	**1,228**	1,162
	1,244	1,178

The emoluments of the highest paid director excluding pension contributions were £275,423 (1997: £257,217). Retirement benefits are accruing under money purchase schemes for seven directors (1997: seven directors).

5 Pension costs

The principal pension scheme operated by the company is a defined contribution scheme. The assets of the scheme are held independently in a separate trustee administered fund. The pension cost charge represents contributions paid and payable during the year by the company to the scheme. The total charge for pension costs is shown in note 2.

6. Tax on profit on ordinary activities

	1998 £'000	1997 £'000
United Kingdom corporation tax at 31% (1997: 31.5%):		
Current	**3,006**	2,856
Under/(over) provided in previous years	**15**	(242)
	3,021	2,614

7 Dividends

	1998 £'000	1997 £'000
Interims paid	**6,650**	6,150

8 Loans and advances to banks and building societies

	1998 £'000	1997 £'000
Repayable on demand	**1,108**	-
Other loans and advances		
Remaining maturity:		
- 1 year or less but over 3 months		3,000
- 3 months or less	**6,500**	10,000
	7,608	13,000

9 Loans and advances to customers

	1998 £'000	1997 £'000
Remaining maturity:		
- Over 5 years	**201**	314
- 5 years or less but over 1 year	**9,041**	8,710
- 1 year or less but over 3 months	**6,783**	7,989
- 3 months or less	**12,619**	6,347
General and specific bad and doubtful debt provision (note 10)	**(2,145)**	(1,771)
	26,499	21,589
Amounts include:		
Due from group undertakings	**5,730**	2,149

There were no amounts due (1997: £Nil) which were payable on demand or at short notice.

10 Provisions for bad and doubtful debts

	1998 Specific	1998 General	1998 Total	1997 Specific	1997 General	1997 Total
At 1 January	**1,671**	**100**	**1,771**	1,042	325	1,367
Charge/(credit) against profits	**670**	**(100)**	**570**	873	(225)	648
Amounts written off	**(229)**	**-**	**(229)**	(287)	-	(287)
Recoveries	**33**	**-**	**33**	43	-	43
At 31 December	**2,145**	**-**	**2,145**	1,671	100	1,771

11 Shares in Group undertakings

	Shares at Cost £'000
At 1 January 1998	**1,513**
Amounts written off	**(1,016)**
At 31 December 1998	**497**

Shares in Group undertakings are stated at cost, written down to their recoverable amounts.
All subsidiary undertakings are unlisted. None of the subsidiary undertakings are banking institutions.

The principal subsidiary undertakings of Secure Trust Bank PLC are:

	Interest %	Nature of Business
Secure Homes Services Limited	100%	General Retailing
Secure Travel Limited	100%	Travel Operator

(i) All the above subsidiary undertakings are registered in England and Wales and operate within the United Kingdom.

(ii) All the above subsidiary undertakings have an accounting reference date of 31 December.

(iii) The interests of Secure Trust Bank PLC comprise £1 ordinary shares only.

12 Tangible fixed assets

	Freehold land and buildings £'000	Leasehold land and buildings £'000	Computer and other Equipment £'000	Motor vehicles £'000	Total £'000
Cost					
At 1 January 1998	**360**	**68**	**2,675**	**670**	**3,773**
Additions	-	**49**	**884**	**83**	**1,016**
Disposals	-	-	**(24)**	**(79)**	**(103)**
Group transfers					
At 31 December 1998	**360**	**117**	**3,535**	**674**	**4,686**
Accumulated depreciation					
At 1 January 1998	**24**	-	**1,980**	**210**	**2,214**
Disposals	-	-	**(10)**	**(58)**	**(68)**
Charge for year	-	**5**	**244**	**159**	**408**
Group transfers	-	-			
At 31 December 1998	**24**	**5**	**2,214**	**311**	**2,554**
Net book value at 31 December 1998	**336**	**112**	**1,321**	**363**	**2,132**
Net book value at 31 December 1997	336	68	695	460	1,559

13 Customer accounts

	1998 £'000	1997 £'000
With agreed periods of notice:		
1 year or less but over 3 months	**22,583**	23,023
3 months or less not repayable on demand	**46**	104
Repayable on demand	**6,434**	5,493
	29,063	28,620
Amounts include:		
Due to subsidiary undertakings	**2,635**	2,323

14 Other liabilities

	1998 £'000	1997 £'000
Corporation tax	**2,655**	2,390

15 Share capital

	1998 £'000	1997 £'000
Authorised, allotted, called up and fully paid:		
Ordinary shares of £1 each	**5,000**	5,000

16 Profit and loss account

	£'000
At 1 January 1998	**1,759**
Loss for the year	**(1,155)**
At 31 December 1998	**604**

17 Reconciliation of movements in equity shareholders' funds

	1998 £'000	1997 £'000
Profit on ordinary activities after tax	**5,495**	6,740
Dividends	**(6,650)**	(6,150)
Net reduction in shareholders' funds	**(1,155)**	590
Opening shareholders' funds	**6,759**	6,169
Closing shareholders' funds	**5,604**	6,759

18 Directors' loans

The aggregate amounts outstanding at 31 December 1998 under transactions, arrangements and agreements on normal commercial terms, made by the authorised institution from those who were directors (including connected persons) or officers of Secure Trust Bank PLC during the year, and the number of persons concerned, were as follows:

	Aggregate amount outstanding £'000	Number of Persons
Directors		
- loans	**480**	3

19 Operating lease commitments

At the year end the company had annual commitments under non-cancellable operating leases expiring:

	1998 Land and buildings £'000	**1998 Computer and other equipment £'000**	1997 Land and Buildings £'000	1997 Computer and Other Equipment £'000
- within one year	**46**	**2**	45	1
- between one and five years	**19**	**2**	16	3
- five years or more	**79**		77	-
	144	**4**	138	4

20 Capital commitments

	1998 £'000	1997 £'000
Capital expenditure that has been contracted for but has not been provided for in the financial statements	**135**	187

21 Ultimate parent company

The directors regard Secure Trust Banking Group PLC, a company registered in England and Wales, as the ultimate parent company and also the ultimate controlling party.

A copy of the consolidated financial statements of Secure Trust Banking Group PLC may be obtained from the Secretary, Secure Trust Banking Group PLC, Paston House, Arleston Way, Solihull, B90 4LH.