

Registered no: 541132

Secure Trust Bank PLC

Annual Report

for the year ended 31 December 2003



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Secure Trust Bank PLC

Annual report for the year ended 31 December 2003

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Secure Trust Bank PLC

1

Directors and advisers

Directors

H Angest (Chairman)
J P Butcher (non-executive)
K N F Deakin (joint managing director)
D Pearson (joint managing director)
S J Lockley
A A Salmon
J Shipley
R J J Wickham (non-executive)

Secretary and registered office

J R Kaye FCIS
One Arlestone Way
Solihull
B90 4LH

Registered Auditors

PricewaterhouseCoopers LLP
Cornwall Court
Cornwall Street
Birmingham
B3 2DT

Bankers

Barclays Bank PLC
38 Hagley Road
Edgbaston
Birmingham
B16 8NY

**Directors' report
for the year ended 31 December 2003**

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

Principal activities

The company is a banking institution which is authorised and regulated by the Financial Services Authority. 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

Review of business

The directors are satisfied with the performance of the company during the year and do not envisage any significant change in the principal activity in the ensuing year. The results for the year are shown on page 6.

Dividends and transfers to reserves

The profit for the year after taxation amounted to £5,000,000. Interim dividends of £5,000,000 (2002: £5,000,000) were declared and paid during the year. The directors do not recommend the payment of a final dividend.

Tangible fixed assets

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

Directors' report (continued)**Directors**

The directors who served during the year were as follows:

H Angest (Chairman)
 J P Butcher
 K N F Deakin
 S J Lockley
 D Pearson
 E Pearson
 A A Salmon (Appointed 8 July 2003)
 J Shipley
 R J J Wickham.

The directors regret to report the death of Mr E Pearson on 18 January 2004. Mr H Angest, Mr KNF Deakin, Mr S J Lockley, Mr D Pearson 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 2003 were as follows:

	At 31 December 2003, ordinary 1p shares	At 31 December 2002, ordinary 1p shares
J Shipley	1,500	1,500

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.

Directors' report (continued)

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 2003. The directors also confirm that applicable accounting standards have been followed 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.

Auditors

A resolution to reappoint PricewaterhouseCoopers LLP as auditors to the company will be proposed at the annual general meeting.

By order of the board


J R Kaye

Company secretary

25 March 2004

Independent auditors' report to the members of Secure Trust Bank PLC

We have audited the financial statements which comprise the profit and loss account, the balance sheet and the related notes which have been prepared under the historical cost convention and the accounting policies set out in the statement of accounting policies.

Respective responsibilities of directors and auditors

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

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

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the 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. The other information comprises only the directors' report.

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 2003 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Birmingham
25 March 2004

**Profit and loss account
for the year ended 31 December 2003**

	Notes	2003 £'000	2002 £'000
Interest receivable from loans and advances		5,221	4,994
Less: interest payable		(283)	(130)
		<hr/>	<hr/>
Net interest income		4,938	4,864
Fees and commissions receivable		15,223	14,857
		<hr/>	<hr/>
Operating income		20,161	19,721
Administrative expenses	2	(11,554)	(11,378)
Depreciation	12	(707)	(670)
Provisions for bad and doubtful debts	10	(828)	(675)
Dividends from group undertakings		113	107
		<hr/>	<hr/>
Profit on ordinary activities before tax	3	7,185	7,105
Tax on profit on ordinary activities	6	(2,185)	(2,105)
		<hr/>	<hr/>
Profit on ordinary activities after tax		5,000	5,000
Dividends	7	(5,000)	(5,000)
		<hr/>	<hr/>
Retained profit for the year	17	-	-
		<hr/>	<hr/>

The above results relate wholly to continuing operations.

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

The company 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.


Balance sheet at 31 December 2003

	Notes	2003 £'000	2002 £'000
Assets			
Cash and balances at central banks		88	86
Loans and advances to banks and building societies	8	4,763	10,330
Loans and advances to customers	9	38,784	33,285
Shares in subsidiary undertakings	11	497	497
Tangible fixed assets	12	2,624	2,581
Prepayments and accrued income		772	360
		<hr/>	<hr/>
Total assets		47,528	47,139
		<hr/>	<hr/>
Liabilities			
Customer accounts	13	38,963	39,425
Other liabilities	14	1,251	1,085
Accruals and deferred income		1,458	779
Deferred tax	15	8	2
		<hr/>	<hr/>
		41,680	41,291
		<hr/>	<hr/>
Called up share capital	16	5,000	5,000
Profit and loss account	17	848	848
		<hr/>	<hr/>
Equity shareholders' funds	18	5,848	5,848
		<hr/>	<hr/>
Total liabilities		47,528	47,139
		<hr/>	<hr/>

The financial statements on pages 6 to 19 were approved by the board of directors on 25 March 2004 and were signed on its behalf by:



H Angest
Chairman



J Shipley
Finance Director

**Notes to the financial statements
for the year ended 31 December 2003****1 Principal accounting policies**

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

a) Basis of accounting

The financial statements have been prepared under the historical cost 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.

Under Section 228(1) of the Companies Act 1985 the company is exempt from the requirement to prepare group accounts, therefore consolidated accounts have not been prepared and these financial statements only present information about the company as an individual undertaking.

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:

Freehold buildings	2%
Computer equipment	20%
Motor vehicles	25%
Fixtures, fittings and furnishings	5% to 15%
Freehold land is not depreciated.	

1 Principal accounting policies (continued)

d) Deferred taxation

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

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

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

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

Loans and advances are held on the balance sheet and are only written off when, in the opinion of the Directors, further recoveries are unlikely.

1 Principal accounting policies (continued)**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.

j) Liquidity

The Company's liquidity is managed on a mismatch basis, the mismatch being the difference between the levels of assets and liabilities in the same maturity bands. The Company's aim is to maintain a prudent liquidity margin when compared with the mismatch criteria set by the regulators. The maturity profiles of various categories of assets and liabilities are set out in the notes to the financial statements.

2 Administrative expenses

	2003 £'000	2002 £'000
Staff costs, including directors		
- wages and salaries	4,939	4,952
- social security costs	528	436
- other pension costs (note 5)	370	237
Other administrative expenses	5,717	5,753
	<u>11,554</u>	<u>11,378</u>

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

	2003 Number	2002 Number
Administration	<u>219</u>	<u>208</u>

3 Profit on ordinary activities before tax

	2003 £'000	2002 £'000
Profit on ordinary activities before tax is stated after charging:		
Profit on disposal of tangible fixed assets	(31)	(14)
Auditors' remuneration	72	69
Other fees payable to the auditors	15	15
Operating lease rentals	368	388
	<u> </u>	<u> </u>

4 Emoluments of directors

	2003 £'000	2002 £'000
Directors' fees (including benefits in kind)	38	114
Other emoluments (including pension contributions and benefits in kind)	1,334	1,362
	<u>1,372</u>	<u>1,476</u>

The emoluments of the highest paid director were £481,000 (2002 £593,000), including pension contributions of £50,000 (2002: £38,000). Included in Other Emoluments in 2002 is compensation for loss of office totalling £100,000. Retirement benefits are accruing under money purchase schemes for six directors (2002: five 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

	2003	2002
	£'000	£'000
United Kingdom corporation tax at 30% (2002: 30%)		
Current	2,175	2,129
Deferred	(40)	(10)
Underprovided in previous years		
Current	4	(13)
Deferred	46	(1)
	<hr/>	<hr/>
	2,185	2,105
	<hr/>	<hr/>
Tax reconciliation		
Profit before tax	7,185	7,105
Tax at 30% (2002 30%)	2,156	2,132
Group income	(34)	(32)
Accelerated capital allowances	53	29
Prior period adjustments	4	(13)
	<hr/>	<hr/>
Corporation tax charge for the year	2,179	2,116
	<hr/>	<hr/>

7 Dividends

	2003	2002
	£'000	£'000
Interims paid	5,000	5,000
	<hr/>	<hr/>

8 Loans and advances to banks and building societies

	2003	2002
	£'000	£'000
Repayable on demand	1,763	6,830
Other loans and advances		
Remaining maturity:		
- 3 months or less	3,000	3,500
	<hr/>	<hr/>
	4,763	10,330
	<hr/>	<hr/>

9 Loans and advances to customers

	2003 £'000	2002 £'000
Remaining maturity:		
- Over 5 years	378	290
- 5 years or less but over 1 year	10,830	10,577
- 1 year or less but over 3 months	8,843	8,966
- 3 months or less	21,722	16,328
Specific bad and doubtful debt provision (note 10)	(2,989)	(2,876)
	<u>38,784</u>	<u>33,285</u>
Amounts include:		
Due from Group undertakings	<u>9,614</u>	<u>4,859</u>

There were no amounts due (2002: £Nil) which were payable on demand or at short notice.

10 Provision for bad and doubtful debts

	2003 £'000	2002 £'000
Specific		
At 1 January	2,876	2,811
Charge against profits	828	675
Amounts written off	(742)	(633)
Recoveries	27	23
	<u>2,989</u>	<u>2,876</u>
At 31 December		

11 Shares in subsidiary undertakings

	Shares at cost £'000	Impairment provision £'000	Net book value £'000
At 1 January 2003 and 31 December 2003	<u>1,513</u>	<u>(1,016)</u>	<u>497</u>

Shares in subsidiary undertakings are stated at cost less any provision for impairment.

All subsidiary undertakings are unlisted. None of the subsidiary undertakings are banking institutions.

Shares in subsidiary undertakings (continued)

The principal subsidiary undertakings of Secure Trust Bank PLC are:

	Interest %	Nature of Business
Secure Estate Agency Limited	100%	Estate agency
Secure Homes Services Limited	100%	Property rental
Secure Travel Limited	100%	Travel operator
Secure Trust Financial Services Limited	100%	Financial Services

- (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	Computers and other equipment £'000	Motor Vehicles £'000	Total £'000
Cost				
At 1 January 2003	528	5,503	749	6,780
Additions	-	524	359	883
Disposals	-	-	(263)	(263)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2003	528	6,027	845	7,400
	<hr/>	<hr/>	<hr/>	<hr/>
Accumulated depreciation				
At 1 January 2003	15	3,837	347	4,199
Disposals	-	-	(130)	(130)
Charge for year	10	509	188	707
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2003	25	4,346	405	4,776
	<hr/>	<hr/>	<hr/>	<hr/>
Net book value at 31 December 2003	503	1,681	440	2,624
	<hr/>	<hr/>	<hr/>	<hr/>
Net book value at 31 December 2002	513	1,666	402	2,581
	<hr/>	<hr/>	<hr/>	<hr/>

13 Customer accounts

	2003 £'000	2002 £'000
With agreed periods of notice:		
1 year or less but over 3 months	21,556	24,552
3 months or less but not repayable on demand	5,900	-
Repayable on demand	11,507	14,873
	<hr/> 38,963 <hr/>	<hr/> 39,425 <hr/>
Amounts include:		
Due to Group undertakings	3,989	7,709
	<hr/> 3,989 <hr/>	<hr/> 7,709 <hr/>

14 Other liabilities

	2003 £'000	2002 £'000
Corporation tax	1,251	1,085
	<hr/> 1,251 <hr/>	<hr/> 1,085 <hr/>

15 Deferred tax

	2003 £'000	2002 £'000
The provision for deferred tax comprises:-		
Accelerated capital allowances	8	2
	<hr/> 8 <hr/>	<hr/> 2 <hr/>
At 1 January	2	13
Profit and loss account (note 6)	6	(11)
At 31 December	<hr/> 8 <hr/>	<hr/> 2 <hr/>

16 Share capital

	2003 £'000	2002 £'000
Authorised, allotted, called up and fully paid:		
Ordinary shares of £1 each	5,000	5,000
	<hr/> 5,000 <hr/>	<hr/> 5,000 <hr/>

17 Profit and loss account

	2003 £'000	2002 £'000
At 1 January and 31 December	848	848

18 Reconciliation of movements in equity shareholders' funds

	2003 £'000	2002 £'000
Profit on ordinary activities after tax	5,000	5,000
Dividends	(5,000)	(5,000)
Net increase in shareholders' funds	-	-
Opening shareholders' funds	5,848	5,848
Closing shareholders' funds	5,848	5,848

19 Directors' loans

The aggregate amounts outstanding at 31 December 2003 under transactions, arrangements and agreements on normal commercial terms, made by the company 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	577	3

20 Operating lease commitments

At the year end the company had the following annual commitments under non-cancellable operating leases in respect of land and buildings:

	2003	2002
	Land and Buildings	Land and Buildings
	£'000	£'000
- within one year	56	16
- between one and five years	34	65
- five years or more	308	323
	<hr/>	<hr/>
	398	404
	<hr/>	<hr/>

21 Capital commitments

	2003	2002
	£'000	£'000
Capital expenditure that has been contracted for but has not been provided for in the financial statements	475	84
	<hr/>	<hr/>

22 Memorandum items

The nominal principal amount of off balance sheet transaction comprise

	2003	2002
	£'000	£'000
Credit lines and commitments to lend less than one year	444	494
	<hr/>	<hr/>

23 Interest rate repricing

The majority of lending to, and deposits from, customers is priced without reference to base rate. The table below summarises the repricing mismatches on the company's assets and liabilities as at 31 December 2003 and 31 December 2002.

	Not More than 3 months	More than 3 months but not more than 6 months	More than 6 months but not more than 1 year	More than 1 year but not more than 5 years	More than 5 years	Non interest bearing	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
At 31 December 2003							
Assets							
Loans and advances to banks	4,763	-	-	-	-	-	4,763
Loans and advances to customers	9,235	3,836	4,977	10,922	200	9,614	38,784
Other assets	-	-	-	-	-	3,981	3,981
Total assets	13,998	3,836	4,977	10,922	200	13,595	47,528
Liabilities							
Customer accounts	13,418	-	-	-	-	25,545	38,963
Other liabilities	-	-	-	-	-	2,717	2,717
Shareholders funds	-	-	-	-	-	5,848	5,848
Total liabilities	13,418	-	-	-	-	34,110	47,528
Interest rate sensitivity gap	580	3,836	4,977	10,922	200	(20,515)	-
Cumulative gap	580	4,416	9,393	20,315	20,515	-	-

23 Interest rate repricing (continued)

At 31 December 2002	Not More than 3 months	More than 3 months but not more than 6 months	More than 6 months but not more than 1 year	More than 1year but not more than 5 years	More than 5 years	Non interest bearing	Total
Assets	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Loans and advances to banks	10,330						10,330
Loans and advances to customers	8,674	3,760	5,206	10,496	290	4,859	33,285
Other assets						3,524	3,524
Total assets	19,004	3,760	5,206	10,496	290	8,383	47,139
Liabilities							
Customer accounts	7,166					32,259	39,425
Other liabilities						1,866	1,866
Shareholders funds						5,848	5,848
Total liabilities	7,166	-	-	-	-	39,973	47,139
Interest rate sensitivity gap	11,838	3,760	5,206	10,496	290	(31,590)	-
Cumulative gap	11,838	15,598	20,804	31,300	31,590	-	-

24 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, One Arlestone Way, Solihull, B90 4LH.