Registered no: 541132

SECURE TRUST BANK PLC

ANNUAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2005

SECURE TRUST BANK PLC

Annual report
for the year ended 31 December 2005

SECURE TRUST BANK PLC

Directors and advisers

Directors

H Angest (Chairman)
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 Arleston Way
Solihull
B90 4LH

Registered Auditors

PricewaterhouseCoopers LLP
Cornwall Court
19 Cornwall Street
Birmingham
B3 2DT

Bankers

Barclays Bank PLC
38 Hagley Road
Edgbaston
Birmingham
B16 8NY

Directors' report
for the year ended 31 December 2005

The directors present their report and the audited financial statements for the year ended 31 December 2005.

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 and other financial services products. 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, general insurance, mortgages and other financial services products 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 5.

Dividends and transfers to reserves

The profit for the year after taxation amounted to £5,179,000 (2004: £4,269,000). Interim dividends of £4,000,000 (2004: £4,344,000) 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 10 to the financial statements.

Directors

The directors who served during the year were as follows:
H Angest (Chairman)
K N F Deakin
S J Lockley
D Pearson
A A Salmon
J Shipley
R J J Wickham.

All the Directors, except Mr Shipley, are Directors of the ultimate parent company Arbuthnot Banking Group PLC and their interests in the share capital of group companies are shown in the Directors' report of that company.

At 1 January 2005 and at 31 December 2005, Mr Shipley had an interest respectively in 1,500 and 1,709 ordinary shares of 1p in Arbuthnot Banking Group PLC.

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

Directors' report (continued)

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 2005. 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

J R Kaye
Company secretary
30 March 2006

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

We have audited the financial statements of Secure Trust Bank PLC for the year ended 31 December 2005 which comprise the Income Statement, the Balance Sheet, the Cash Flow Statement, the Statement of Change in Shareholders' Equity and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors
The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union 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 International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the 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 other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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 judgments 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, in accordance with IFRSs as adopted by the European Union, of the state of the company's affairs as at 31 December 2005 and of its profit and cash flows for the year then ended; and

- the financial statements have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Birmingham
30 March 2006

SECURE TRUST BANK PLC

INCOME STATEMENT

	Note	Year ended 31 December 2005 £000	2004 £000
Interest and similar income		**5,784**	5,161
Interest expense and similar charges		**(1,087)**	(443)
NET INTEREST INCOME		**4,697**	4,718
Fee and commission income		**16,382**	15,772
Fee and commission expense		**(175)**	(128)
NET FEE AND COMMISSION INCOME		**16,207**	15,644
OPERATING INCOME		**20,904**	20,362
Dividend income		**-**	100
Impairment losses on loans and advances	7	**(1,656)**	(1,041)
Operating expenses	1	**(11,790)**	(13,353)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAX		**7,458**	6,068
Taxation	3	**(2,279)**	(1,799)
PROFIT ON ORDINARY ACTIVITIES AFTER TAX	17	**5,179**	4,269
Dividends	8	**(4,000)**	(4,344)
RETAINED PROFIT FOR THE YEAR		**1,179**	(75)

SECURE TRUST BANK PLC

BALANCE SHEET

	Note	At 31 December 2005 £000	2004 £000
ASSETS			
Cash	4	**17**	16
Loans and advances to banks and building societies	5	**7,571**	9,975
Loans and advances to customers	6	**41,996**	43,641
Intangible assets	9	**506**	425
Investments	20	**497**	497
Property, plant and equipment	10	**1,739**	2,079
Deferred tax asset	14	**16**	-
Other assets	11	**1,494**	1,225
TOTAL ASSETS		**53,836**	57,858
LIABILITIES			
Customer accounts	12	**44,953**	50,431
Other liabilities	13	**2,260**	1,957
Deferred tax liabilities	14	**-**	26
TOTAL LIABILITIES		**47,213**	52,414
EQUITY			
Share capital	16	**5,000**	5,000
Retained earnings	17	**1,623**	444
CAPITAL AND RESERVES ATTRIBUTABLE TO THE COMPANY'S EQUITY HOLDERS		**6,623**	5,444
TOTAL EQUITY AND LIABILITIES		**53,836**	57,858

The financial statements on pages 5 to 22 were approved by the Board of directors on 30 March 2006 and were signed on its behalf by:

H Angest Chairman

J Shipley Director

The notes on pages 9 to 22 are an integral part of these financial statements

SECURE TRUST BANK PLC

STATEMENT OF CHANGES IN EQUITY

	Share capital £000	Retained earnings £000	Total £000
BALANCE AT 1 JANUARY 2004	5,000	519	5,519
Profit on ordinary activities after tax for 2004	-	4,269	4,269
Dividends	-	(4,344)	(4,344)
AT 31 DECEMBER 2004/ 1 JANUARY 2005	5,000	444	5,444
Profit on ordinary activities after tax for 2005	-	5,179	5,179
Dividends	-	(4,000)	(4,000)
AT 31 DECEMBER 2005	**5,000**	**1,623**	6,623

CASH FLOW STATEMENT

SECURE TRUST BANK PLC

	Note	Year ended 31 December 2005 £000	2004 £000
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest received		**5,784**	5,161
Interest paid		**(1,087)**	(443)
Dividends received		**-**	100
Fees and commissions received		**16,207**	15,644
Recoveries on loans previously written off		**23**	10
Cash payments to employees and suppliers		**(11,000)**	(12,571)
Taxation paid		**(2,687)**	(2,144)
Cash flows from operating profits before changes in operating assets and liabilities		**7,240**	5,757
Changes in operating assets and liabilities:			
- net increase in loans and advances to customers		**(34)**	(6,119)
- net increase in other assets		**(269)**	(453)
- net decrease in amounts due to customers		**(5,478)**	11,468
- net increase in other liabilities		**669**	(507)
NET CASH FROM OPERATING ACTIVITIES		**2,128**	10,146
CASH USED IN INVESTING ACTIVITIES			
Purchase of property, plant and equipment		**(383)**	(1,063)
Purchase of computer software		**(260)**	(176)
Proceeds from sale of property, plant and equipment		**112**	577
NET CASH USED IN INVESTING ACTIVITIES		**(531)**	(662)
CASH USED IN FINANCING ACTIVITIES			
Dividend paid	8	**(4,000)**	(4,344)
NET CASH USED IN FINANCING ACTIVITIES		**(4,000)**	(4,344)
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(2,403)**	5,140
Cash and cash equivalents at beginning of year		**9,991**	4,851
CASH AND CASH EQUIVALENTS AT END OF YEAR	18	**7,588**	9,991

PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

1. Basis of presentation
The Company's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. This means those International Accounting Standards, International Financial Reporting Standards and related interpretations (SIC-IFRIC interpretations), subsequent amendments to those standards and related interpretations, future standards and related interpretations adopted by the International Accounting Standards Board (IASB) that have been endorsed by the European Union. The financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain fixed assets, financial assets and financial liabilities held at fair value through profit or loss.

These financial statements are the first full financial statements prepared by the Company in accordance with IFRS. The impact of the change from UK Generally Accepted Accounting Policies (UK GAAP) is summarised in Note 22. Comparative information for 2004 has been restated to comply with IFRS.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 24.

2. Interest income and expense
Interest income and expense are recognised in the income statement for all instruments measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Company takes into account all contractual terms of the financial instrument but does not consider future credit losses.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

3. Fee and commission income
Fees and commissions are generally recognised on an accrual basis when the service has been provided. Loan commitment fees are deferred and recognised as an adjustment to the effective interest rate on the loan.

4. Financial assets
The Company classifies its financial assets in the following categories: financial assets at fair value through profit or loss; loans and receivables; held-to-maturity investments; and available-for-sale financial assets. Management determines the classification of its investments at initial recognition.

(a) Financial assets at fair value through profit or loss
This category comprises financial assets held for trading. The Company held no such assets during the two financial years ended 31 December 2005.

(b) Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Company provides money, goods or services directly to a debtor with no intention of trading the receivable.

(c) Held-to-maturity
Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company's management has the positive intention and ability to hold to maturity.

(d) Available-for-sale
Available-for-sale investments are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. The Company held no such assets during the two financial years ended 31 December 2005.

Loans are recognised when cash is advanced to the borrowers.

5. Offsetting financial instruments
Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

PRINCIPAL ACCOUNTING POLICIES (continued)

6. Impairment of financial assets
The Company assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

If there is objective evidence that an impairment loss on loans and receivables has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

When a loan is uncollectable, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of the provision for loan impairment in the income statement.

7. Intangible assets
(a) Goodwill
Goodwill represents the excess of the cost of an acquisition over the fair value of the Company's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in 'intangible assets'. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

(b) Computer software
Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised on the basis of the expected useful lives (five years).
Costs associated with developing or maintaining computer software programs are recognised as an expense as incurred.

8. Property, plant and equipment
Land and buildings comprise mainly branches and offices and are stated at latest valuation with subsequent additions at cost less depreciation. Plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Land is not depreciated. Depreciation on other assets is calculated using the straight-in-line method to allocate their cost to their residual values 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%

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement.

9. Cash and cash equivalents
For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including cash, loans and advances to banks and building societies and short-term highly liquid debt securities.

10. Post-retirement benefits
The Company contributes to a defined contribution scheme and to individual defined contribution schemes for the benefit of certain employees. The schemes are funded through payments to insurance companies or trustee-administered funds at the contribution rates agreed with individual employees.

The Company has no further payment obligations once the contributions have been paid. The contributions are recognised as an employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

There are no post-retirement benefits other than pensions.

11. Deferred tax
Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets are recognised where it is probable that future taxable profits will be available against which the temporary differences can be utilised.

12. Share capital
Dividends on ordinary shares are recognised in equity in the period in which they are approved.

NOTES TO THE FINANCIAL STATEMENTS

1. OPERATING EXPENSES

	2005 £000	2004 £000
Staff costs, including directors:		
Wages and salaries	**4,682**	5,881
Social security costs	**481**	553
Other pension costs (note 21)	**318**	293
Amortisation of software (note 9)	**179**	147
Depreciation (note 10)	**620**	663
Profit on disposals of property, plant and equipment	**(9)**	(28)
Operating lease rentals	**445**	438
Other administrative expenses	**5,074**	5,406
TOTAL OPERATING EXPENSES	**11,790**	13,353

The auditors' remuneration for audit services was £77,000 (2004: £75,000). Remuneration of the auditors for the provision of non-audit services to the Company was £20,000 (2004: £15,000), which comprises taxation and other advisory fees.

2. AVERAGE NUMBER OF EMPLOYEES

	2005	2004
Administration	**259**	226

3. TAXATION EXPENSE

	2005 £000	2004 £000
United Kingdom corporation tax at 30% (2004: 30%)		
Current	**2,318**	1,820
Deferred	**(38)**	18
Current prior year under/(over) provision	**1**	(39)
Deferred prior year under/(over) provision	**(2)**	-
TAXATION EXPENSE	**2,279**	1,799

	2005 £000	2004 £000
TAX RECONCILIATION		
Profit before tax	**7,458**	6,068
Tax at 30% (2004:30%)	**2,237**	1,820
Depreciation in excess of capital allowances	**-**	30
Group income	**-**	(30)
Short term timing differences	**39**	18
Prior period adjustments	**3**	(39)
Corporation tax charge for the year	**2,279**	1,799

4. CASH

	2005 £000	2004 £000
Cash in hand included in cash and cash equivalents (Note 18)	**17**	16

SECURE TRUST BANK PLC

NOTES TO THE FINANCIAL STATEMENTS (continued)

5. LOANS AND ADVANCES TO BANKS AND BUILDING SOCIETIES

	2005 £000	2004 £000
Placements with other banks and building societies included in cash and cash equivalents (note 18)	**7,571**	9,975

6. LOANS AND ADVANCES TO CUSTOMERS

	2005 £000	2004 £000
Gross loans and advances	**46,947**	47,395
Less: allowances for losses on loans and advances	**(4,951)**	(3,754)
	41,996	43,641
Amounts include:		
Due from Group undertakings	**12,407**	13,856

7. PROVISION FOR BAD AND DOUBTFUL DEBTS

	2005 £000	2004 £000
Specific		
At 1 January	**3,754**	3,200
Charged against profits	**1,656**	1,041
Amounts written off	**(482)**	(497)
Recoveries	**23**	10
	4,951	**3,754**

8. DIVIDENDS

	2005 £000	2004 £000
Interims paid	**4,000**	4,344

NOTES TO THE FINANCIAL STATEMENTS (continued)

9. INTANGIBLE ASSETS

	£000
COMPUTER SOFTWARE	
At 1 January 2004	
Cost	726
Accumulated depreciation	(330)
NET BOOK AMOUNT	396
Year ended 31 December 2004	
Opening net book amount	396
Additions	176
Amortisation charge	(147)
Closing net book amount	425
At 31 December 2004	
Cost	902
Accumulated depreciation	(477)
Net book amount	425
Year ended 31 December 2005	
Opening net book amount	425
Additions	260
Amortisation charge	(179)
Closing net book amount	506
At 31 December 2005	
Cost	1,162
Accumulated depreciation	(656)
NET BOOK AMOUNT	**506**

10. PROPERTY, PLANT AND EQUIPMENT

	Freehold land and buildings £000	Computer and other equipment £000	Motor vehicles £000	Total £000
AT 1 JANUARY 2004				
Cost or valuation	528	6,012	860	7,400
Transfer to intangible assets cost	-	(726)	-	(726)
Accumulated depreciation	(25)	(4,346)	(405)	(4,776)
Transfer to intangible assets depreciation	-	330	-	330
Net book amount	503	1,270	455	2,228
YEAR ENDED 31 DECEMBER 2004				
Opening net book amount	503	1,270	455	2,228
Additions	-	678	385	1,063
Transfer to other assets	(493)	-	-	(493)
Group transfer	-	-	19	19
Disposals	-	-	(75)	(75)
Depreciation charge	(10)	(443)	(210)	(663)
CLOSING NET BOOK AMOUNT	-	1,505	574	2,079
AT 31 DECEMBER 2004				
Cost or valuation	-	5,950	953	6,903
Accumulated depreciation	-	(4,445)	(379)	(4,824)
Net book amount	-	1,505	574	2,079
YEAR ENDED 31 DECEMBER 2005				
Opening net book amount	-	1,505	574	2,079
Additions	-	241	142	383
Group transfer	-	17	(87)	(70)
Disposals	-	-	(33)	(33)
Depreciation charge	-	(399)	(221)	(620)
CLOSING NET BOOK AMOUNT	-	**1,364**	**375**	**1,739**
AT 31 DECEMBER 2005				
Cost or valuation	-	6,212	701	6,913
Accumulated depreciation	-	(4,848)	(326)	(5,174)
NET BOOK AMOUNT	-	**1,364**	**375**	**1,739**

11. OTHER ASSETS

	2005 £000	2004 £000
Prepayments and accrued income	**1,494**	1,225

NOTES TO THE FINANCIAL STATEMENTS (continued)

12. DUE TO CUSTOMERS

	2005 £000	2004 £000
Retail customers:		
-current /demand accounts	8,817	14,344
-term deposits	36,136	36,087
	44,953	50,431
Amounts include:		
Due to Group undertakings	455	6,111

13. OTHER LIABILITIES

	2005 £000	2004 £000
Trade creditors	146	118
Corporation Tax	382	748
Accruals and deferred income	1,732	1,091
	2,260	1,957

14. DEFERRED TAXATION

	2005 £000	2004 £000
The deferred tax (asset) liability) comprises:		
Capital allowances	(16)	26
	(16)	26
At 1 January	26	8
Profit and loss account	(42)	18
At 31 December	(16)	26

15. CONTINGENT LIABILITIES AND COMMITMENTS

a) Capital commitments
At 31 December 2005, the Company had capital commitments of £160,000 (2004: £nil) in respect of equipment purchases.

b) Credit commitments
The contractual amounts of the Company's off-balance sheet financial instruments that commit it to extend credit to customers are as follows:

	2005 £000	2004 £000
Guarantees and other contingent liabilities		
Commitments to extend credit:		
- Original term to maturity of one year or less	511	411

NOTES TO THE FINANCIAL STATEMENTS (continued)

15. CONTINGENT LIABILITIES AND COMMITMENTS (continued)

c) Operating lease commitments
The future annual lease payments under non-cancellable operating leases are as follows:

	2005 £000	2004 £000
Expiring:		
No later than 1 year	7	43
Later than 1 year and no later than 5 years	87	15
Later than 5 years	386	423
	480	481

16. SHARE CAPITAL

	Number of shares	Ordinary shares £000
AT 1 JANUARY 2004	5,000,000	5,000
AT 31 DECEMBER 2004 AND 31 DECEMBER 2005	5,000,000	5,000

17. RESERVES AND RETAINED EARNINGS

	2005 £000	2004 £000
Movements in retained earnings were as follows:		
At 1 January	444	519
Profit for the year	5,179	4,269
Dividend	(4,000)	(4,344)
AT 31 DECEMBER	1,623	444

18. CASH AND CASH EQUIVALENTS

For the purposes of the cash flow statement, cash and cash equivalents comprises the following balances with less than three months maturity from the date of acquisition.

	2005 £000	2004 £000
Cash and balances with central banks (Note 4)	17	16
Loans and advances to banks and building societies (Note 5)	7,571	9,975
	7,588	9,991

NOTES TO THE FINANCIAL STATEMENTS (continued)

19. RELATED-PARTY TRANSACTIONS

A number of banking transactions are entered into with related parties in the normal course of business on normal commercial terms. These include loans and deposits. The volumes of related-party transactions, outstanding balances at the year end, and relating expense and income for the year are as follows:

	Directors and key management personnel	
	2005	2004
LOANS		
Loans outstanding at 1 January	**665**	579
Loans issued during the year	**1**	86
Loan repayments during the year	**(5)**	-
Loans outstanding at 31 December	**661**	665
Interest income earned	**36**	33

No provisions have been recognised in respect of loans given to related parties (2004: nil).

The loans to directors are secured on property or shares and bear interest at rates linked to base rates.

Directors' remuneration

The Directors' emoluments (including pension contributions and benefits in kind) for the year were as follows:

	2005	2004
	£000	£000
Fees	**-**	21
Other emoluments	**532**	1,647
	532	1,668

With effect from 1 January 2005 the emoluments of Mr Angest, Mr Lockley, Mr Salmon and Mr Wickham are paid by Arbuthnot Banking Group PLC, which makes no recharges to the Company for their services.

20. SHARES IN SUBSIDIARY UNDERTAKINGS

	Shares at cost	Impairment provision	Net book value
	£000	£000	£000
At 1 January 2005 and 31 December 2005	**1,513**	***(1,016)***	**497**

Share 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.

The principal 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

NOTES TO THE FINANCIAL STATEMENTS (continued)

21. 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 1.

22. RECONCILIATION OF UK GAAP TO IFRS

PROFIT

Set out below is the reconciliation of the profit reported under IFRS to the profit reported under UK GAAP for the year ended 31 December 2004:

	Year to 31.12.04 £000
Profit for the period – UK GAAP	4,344
Effect of transition to IFRS:	
- Timing of revenue recognition, net of tax effect	(23)
- Calculation of specific loan loss provisions, net of tax effect	(52)
Profit for the period – IFRS	**4,269**

EQUITY

Set out below is the reconciliation of equity reported under IFRS to equity reported under UK GAAPas at 1 January and 31 December 2004:

	1.1.04 £000	31.12.04 £000
Total equity – UK GAAP	5,848	5,848
- Effect of revenue recognition, net of tax effect	(181)	(204)
- Calculation of specific loan loss provisions, net of tax effect	(148)	(200)
Total equity – IFRS	**5,519**	**5,444**

23. FINANCIAL RISK MANAGEMENT

i) STRATEGY IN USING FINANCIAL INSTRUMENTS

By their nature, the Company's activities are principally related to the use of financial instruments. The Company accepts deposits from customers at both fixed and floating rates, and for various periods, and seeks to earn above-average interest margins by investing these funds in high-quality assets. The Company seeks to increase these margins by consolidating short-term funds and lending for longer periods at higher rates, while maintaining sufficient liquidity to meet all claims that might fall due. The Company also seeks to raise its interest margins by obtaining above-average margins, net of allowances, through lending to commercial and retail borrowers with a range of credit standing.

ii) CREDIT RISK

The Company takes on exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Impairment provisions are provided for losses that have been incurred at the balance sheet date. Significant changes in the economy could result in losses that are different from those provided for at the balance sheet date. Management therefore carefully manages its exposures to credit risk.

The Company structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to individual borrowers or groups of borrowers. Such risks are monitored on a revolving basis and subject to an annual or more frequent review. Limits on the level of credit risk are approved periodically by the Board of Directors.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Company is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards.

iii) MARKET RISK

The Company takes on exposure to market risks. Market risks arise from open positions in interest rate and currency products, all of which are exposed to general and specific market movements. The Board sets limits on the market risk that may be accepted, which is monitored on a regular basis.

iv) CURRENCY RISKS

The Company has no exposures in foreign currencies.

NOTES TO THE FINANCIAL STATEMENTS (continued)

v) INTEREST RATE RISK

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Company takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise.

The table below summarises the Company's exposure to interest rate risks. Included in the table are the Company's assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

At 31 December 2005

	Not more than 3 months	More than 3 months but less than 6 months	More than 6 months but less than 1 year	More than 1 year but less than 5 years	More than 5 years	Non- interest bearing	Total
ASSETS							
Loans and advances to banks	7,571	-	-	-	-	-	7,571
Loans and advances to customers	9,336	3,757	3,795	8,866	3,834	12,408	41,996
Other assets						4,269	4,269
TOTAL ASSETS	16,907	3,757	3,795	8,866	3,834	16,677	53,836
LIABILITIES							
Deposits from customers	21,167	177	3,312	-	-	20,297	44,953
Other liabilities				-	-	2,260	2,260
Equity				-	-	6,623	6,623
TOTAL LIABILITIES	21,167	177	3,312	-	-	29,180	53,836
Interest rate sensitivity gap	(4,260)	3,580	483	8,866	3,834	(12,503)	
Cumulative gap	(4,260)	(680)	(197)	8,669	12,503	-	

The table below summarises the effective interest rate by major currencies for monetary financial instruments not carried at fair value through profit or loss.

At 31 December 2005

	£ %
ASSETS	
Loans and advances to banks	4.45
Loans and advances to customers	18.60
LIABILITIES	
Customer accounts	3.65

NOTES TO THE FINANCIAL STATEMENTS (continued)

v) INTEREST RATE RISK (continued)

At 31 December 2004

	Not more than 3 months	More than 3 months but less than 6 months	More than 6 months but less than 1 year	More than 1 year but less than 5 years	More than 5 years	Non- interest bearing	Total
ASSETS							
Loans and advances to banks	9,975	-	-	-	-	-	9,975
Loans and advances to customers	9,851	4,216	4,017	8,534	3,167	13,856	43,641
Other assets	-	-	-	-	-	4,242	4,242
TOTAL ASSETS	19,826	4,216	4,017	8,534	3,167	18,098	57,858
LIABILITIES							
Deposits from customers	14,443	147	7,183	-	-	28,658	50,431
Other liabilities	-	-	-	-	-	1,983	1,983
Equity	-	-	-	-	-	5,444	5,444
TOTAL LIABILITIES	**14,443**	**147**	**7,183**	**0**	**0**	**36,085**	**57,858**
Interest rate sensitivity gap	5,383	4,069	(3,166)	8,534	3,167	(17,987)	
Cumulative gap	5,383	9,452	6,286	14,820	17,987	-	

The table below summarises the effective interest rate by major currencies for monetary financial instruments:

At 31 December 2004	£ %
ASSETS	
Loans and advances to banks	4.16
Loans and advances to customers	19.00
LIABILITIES	
Customer accounts	3.82

vi) LIQUIDITY RISK

The Company is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan draw-downs and guarantees. The Company does not maintain cash resources to meet all of these needs, as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. The Board sets limits on the minimum proportion of maturing funds available to meet such calls and on the minimum level of inter-bank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Company. It is unusual for banks to be completely matched, as transacted business is often of uncertain term and of different types. An unmatched position potentially enhances profitability, but also increases the risk of losses.

The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature are important factors in assessing the liquidity of the Company and its exposure to changes in interest rates and exchange rates.

The table below analyses the Company's assets and liabilities into relevant maturing groupings based on the remaining period at balance sheet date to the contractual maturity date.

NOTES TO THE FINANCIAL STATEMENTS (continued)

vi) LIQUIDITY RISK (continued)

At 31 December 2005

	Not more than 3 months	More than 3 months but less than 1 year	More than 1 year but less than 5 years	More than 5 years	Total
ASSETS					
Loans and advances to banks	7,571	-	-	-	7,571
Loans and advances to customers	21,744	7,552	12,700	-	41,996
Other assets	1,511	-	506	2,252	4,269
TOTAL ASSETS	30,826	7,552	13,206	2,252	53,836
LIABILITIES					
Customer accounts	21,623	23,330	-	-	44,953
Other liabilities	2,244	-	-	16	2,260
TOTAL LIABILITIES	23,867	23,330	-	16	47,213
Net liquidity gap	6,959	(15,778)	13,206	2,236	6,623
AT 31 DECEMBER 2004					
Total assets	34,923	8,233	12,126	2,576	57,858
Total liabilities	23,171	29,217	-	26	52,414
Net liquidity gap	11,752	(20,984)	12,126	2,550	5,444

vii) FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

The carrying amounts of those assets and liabilities not presented on the Company's balance sheet at fair value are not materially different from their fair values.

24. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

The Company makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

a) IMPAIRMENT LOSSES ON LOANS AND ADVANCES

The Company reviews its loan portfolios to assess impairment at least on a half-yearly basis. In determining whether an impairment loss should be recorded in the income statement, the Company makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a Company, or national or local economic conditions that correlate with defaults on assets in the Company. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

b) TAXATION

Significant estimates are required in determining the provision for taxation. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Company recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current tax and deferred tax provisions in the period in which such determination is made.

25 ULTIMATE PARENT COMPANY

The directors regard Arbuthnot 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 Arbuthnot Banking Group PLC may be obtained from the Secretary, Arbuthnot Banking Group PLC, One Arleston Way, Solihull, B90 4LH.