



4 August 2010  
For immediate release

**ARBUTHNOT BANKING GROUP (“Arbuthnot” or “the Group”)**  
Results for the six months to 30 June 2010

**Continuing growth**

All three divisions have seen continued growth and in particular the two banking businesses are taking advantage of their strong position in the current environment.

Arbuthnot Banking Group PLC is the holding company for Arbuthnot Latham & Co., Limited, Secure Trust Bank PLC and Arbuthnot Securities Limited.

**FINANCIAL HIGHLIGHTS**

- Group pre-tax profit £2.3m (2009: £0.7m)
- Group earnings per share (EPS) 12.6p (2009:4.5p)
- Dividend per share (DPS) up 0.5p to 11p (2009:10.5p)
- Capital, liquidity and balance sheet remain strong

**OPERATIONAL HIGHLIGHTS**

***Retail Banking Division - Secure Trust Bank***

- Pre-tax profit increased 13% to £4.6m (2009: £4.1m)
- Customer numbers continuing to increase (up 42%)
- Continued growth in lending activity while maintaining margins

***Private Banking Division - Arbuthnot Latham***

- Pre-tax profit reduced to £0.1m (2009: £0.7m)
- Loan to deposit ratio approximately 60%, maintaining strong liquidity
- Customer deposit balances grew £43.5m to £335.5m (2009: £292m)

***Investment Banking Division - Arbuthnot Securities***

- Pre-tax profit of £0.5m (2009: loss £1.3m)
- Corporate finance income increased to £4.4m (2009: £2.7m)
- Entered into joint venture with leading Indian investment bank

Commenting on the results, Henry Angest, chairman and chief executive of Arbuthnot, said: ***“The current environment is presenting good opportunities for Arbuthnot Banking Group, and in the absence of adverse economic developments, we remain optimistic about the remainder of 2010 and beyond.”***

**ENQUIRIES:**

Arbuthnot Banking Group 020 7012 2400  
Henry Angest, Chairman and Chief Executive  
Andrew Salmon, Chief Operating Officer  
James Cobb, Group Finance Director

Hawkpoint Partners Ltd (Nominated Advisor) 020 7665 4500  
Lawrence Guthrie  
Sunil Duggal

Numis Securities Ltd (Broker) 020 7260 1000  
Chris Wilkinson  
Mark Lander

Pelham Bell Pottinger (Financial PR) 020 7861 3923  
Polly Fergusson  
Dan de Belder  
Zoë Pocock

## **Chairman's statement**

Arbuthnot Banking Group recorded a profit before tax of £2.3m for the six months ended 30 June 2010 (2009: £0.7m). This result reflects a continuation of the improving trend in the Group's underlying earnings. All of the Group's core businesses traded profitably in the first half.

The Group's banking subsidiaries, Arbuthnot Latham and Secure Trust Bank, have both seen rapid growth in deposits during the first half of 2010. The Group's total customer deposit base expanded from £386m at 31 December 2009 to £499m at 30 June 2010. Although this puts our two banks in a strong position to take advantage of the attractive lending opportunities currently available, deposit growth has outpaced the growth in the lending book, negatively impacting earnings in the first half. Loan losses remain at satisfactorily low levels.

The Group is committed to returning to a progressive dividend policy as trading conditions improve. Accordingly, the interim dividend will be increased by 0.5p to 11p, and will be paid on 1 October 2010 to shareholders on the register at 3 September 2010.

### **Retail Banking Division – Secure Trust Bank**

Pre-tax profits for Secure Trust Bank increased by 13% to £4.6m (2009: £4.1m) compared with the first half of last year.

The portfolios of loans acquired in 2009 continue to perform in line with expectations, and the company is actively seeking opportunities to buy further loan books if they can be acquired at attractive prices. Our motor finance business began cautiously in the first half of 2009 and is now seeing strong growth with advances totalling £16.7m at 30 June 2010. The market opportunity for this product remains compelling and we intend to continue to grow our motor finance book whilst maintaining credit quality.

A new lending initiative in the first half of 2010 involved the expansion of our existing niche business in musical instrument finance into other niche point-of-sale financing. We have made a good start in lending for the purchase of bicycles, and other products are being actively considered.

The prepaid current account launched last year is now progressing well. The number of accounts opened tripled during the first half of 2010 to 6,000, and we are actively trialling new distribution channels for this product to accelerate its expansion still further. The overall customer base of the bank has increased significantly despite the continuing decline in One Bill customer numbers and now stands at approximately 82,000.

### **Private Banking Division – Arbuthnot Latham**

Arbuthnot Latham's pre-tax profits were £0.1m (2009: £0.7m). The emphasis remains on strong liquidity and maintaining a customer loan/deposit ratio of approximately 60%. With money market rates for surplus funds remaining at historic lows, Arbuthnot Latham's prudent balance sheet management currently represents a significant sacrifice of profit in favour of liquidity and long term stability.

Arbuthnot Latham continues to see excellent opportunities both for good quality lending and for deposit raising, and has expanded its balance sheet size by approximately £46 million in the first half of 2010, to a footing of £416m at 30 June 2010. It has also been able to take advantage of a more benign hiring environment selectively to upgrade staff in key client-facing roles.

Despite operating in challenging markets, revenues in Arbuthnot Latham's wealth management and financial planning businesses have grown steadily in 2010.

The structured product business, Gilliat Financial Solutions, has experienced slow sales but is now reaching break-even level having contributed a first-half loss. The result was also affected by an impairment charge of £0.2m relating to an equity investment.

### **Investment Banking Division – Arbuthnot Securities**

Arbuthnot Securities recorded a profit before tax of £0.5m (2009: loss of £1.3m). Secondary revenues for the six months were £3.6m up from £2.9m in the equivalent period last year. Corporate Finance revenue, at £4.4m, was also significantly ahead.

New hires continue to make a positive difference in all areas of the Securities business. Sectoral coverage has been added in Real Estate and more recently in Business Services and Strategy. During the first half, Sales and Sales Trading saw quality additions (particularly in larger companies) and more recently, the Securities business has hired two Directors in Corporate Finance. Costs continue to be managed actively. Head count at June was 72 (2009: 75).

In April 2010, the business announced that it had entered into an agreement with Anand Rathi, a leading Indian investment bank. The agreement covers the cross referral of corporate work between UK, Europe and India, and the distribution by Arbuthnot Securities of an Indian equity product into the UK and Europe. Corporate and analyst roadshows have already taken place in the UK and several initiatives are being planned for the coming months.

## **Outlook**

Our investment banking business will naturally be affected by fluctuating market confidence but is focussed on improving the quality of its franchise. Our retail and private banking businesses are liquid, well-capitalised and prudently managed. We have several promising initiatives underway across the Group to take advantage of market opportunities. Any outlook statement made at this time must recognise that economic recovery remains fragile and vulnerable to shocks. However, in the absence of adverse economic developments we remain optimistic about the remainder of 2010 and beyond.

## Consolidated statement of comprehensive income

	Six months ended 30 June	
	2010	2009
	£000	£000
Interest and similar income	12,521	8,512
Interest expense and similar charges	(3,226)	(3,026)
<b>Net interest income</b>	<b>9,295</b>	<b>5,486</b>
Fee and commission income	15,053	15,119
Fee and commission expense	(667)	(474)
<b>Net fee and commission income</b>	<b>14,386</b>	<b>14,645</b>
Gains less losses from dealing in securities	2,008	1,386
<b>Operating income</b>	<b>25,689</b>	<b>21,517</b>
Net impairment loss on financial assets	(1,321)	(749)
Operating expenses	(22,033)	(20,066)
<b>Profit before income tax</b>	<b>2,335</b>	<b>702</b>
Income tax (expense) / credit	(470)	(428)
<b>Profit for the year</b>	<b>1,865</b>	<b>274</b>
Foreign currency translation reserve	(63)	168
Revaluation reserve		
- Revaluation of freehold premises	(112)	-
<b>Other comprehensive income for the period, net of income tax</b>	<b>(175)</b>	<b>168</b>
<b>Total comprehensive income for the period</b>	<b>1,690</b>	<b>442</b>
<b>Profit attributable to:</b>		
Equity holders of the Company	1,890	682
Non-controlling interests	(25)	(408)
	<b>1,865</b>	<b>274</b>
<b>Total comprehensive income attributable to:</b>		
Equity holders of the Company	1,715	850
Non-controlling interests	(25)	(408)
	<b>1,690</b>	<b>442</b>
<b>Earnings per share for profit attributable to the equity holders of the Company during the year</b> (expressed in pence per share):		
- basic and fully diluted	12.6p	4.5p

## Consolidated statement of financial position

	At 30 June	
	2010	2009
	£000	£000
<b>ASSETS</b>		
Cash	1,517	260
Derivative financial instruments	501	280
Loans and advances to banks	48,657	19,348
Loans and advances to customers	253,223	189,494
Trading securities - long positions	4,464	2,805
Debt securities held-to-maturity	222,199	168,222
Current tax asset	-	45
Other assets	16,284	17,454
Financial investments	4,712	3,627
Intangible assets	2,767	2,750
Property, plant and equipment	6,585	9,323
Deferred tax asset	1,039	59
<b>Total assets</b>	<b>561,948</b>	<b>413,667</b>
<b>EQUITY AND LIABILITIES</b>		
<b>Equity attributable to owners of the parent</b>		
Share capital	150	150
Share premium account	21,085	21,085
Retained earnings	11,893	10,445
Other reserves	(1,252)	(701)
<b>Non-controlling interests</b>	<b>2,119</b>	<b>1,872</b>
<b>Total equity</b>	<b>33,995</b>	<b>32,851</b>
<b>LIABILITIES</b>		
Deposits from banks	3,725	2,509
Trading securities - short positions	1,072	1,592
Deposits from customers	498,776	351,119
Current tax liability	662	-
Other liabilities	11,693	13,118
Deferred tax liabilities	65	-
Debt securities in issue	11,960	12,478
<b>Total liabilities</b>	<b>527,953</b>	<b>380,816</b>
<b>Total equity and liabilities</b>	<b>561,948</b>	<b>413,667</b>

## Consolidated statement of changes in equity

	Attributable to equity holders of the Company								
	Share capital	Share premium account	Foreign currency translation reserve	Revaluation reserve	Capital redemption reserve	Treasury shares	Retained earnings	Non-controlling interests	Total
	£000	£000	£000	£000	£000	£000	£000	£000	£000
<b>Balance at 1 January 2010</b>	150	21,085	(258)	258	20	(940)	11,684	2,144	34,143
<b>Total comprehensive income for the period</b>									
Profit / (loss) for the six months ended 30 June 2010	-	-	-	-	-	-	1,890	(25)	1,865
<b>Other comprehensive income, net of income tax</b>									
Foreign currency translation reserve	-	-	(63)	-	-	-	-	-	(63)
Revaluation reserve									
- Amount transferred to profit or loss on sale	-	-	-	(112)	-	-	-	-	(112)
<b>Total other comprehensive income, net of income tax</b>	-	-	(63)	(112)	-	-	-	-	(175)
<b>Total comprehensive income for the period</b>	-	-	(63)	(112)	-	-	1,890	(25)	1,690
<b>Transactions with owners, recorded directly in equity</b>									
<b>Contributions by and distributions to owners</b>									
Purchase of own shares	-	-	-	-	-	(157)	-	-	(157)
Final dividend relating to 2009	-	-	-	-	-	-	(1,681)	-	(1,681)
<b>Total contributions by and distributions to owners</b>	-	-	-	-	-	(157)	(1,681)	-	(1,838)
<b>Balance at 30 June 2010</b>	150	21,085	(321)	146	20	(1,097)	11,893	2,119	33,995

	Attributable to equity holders of the Company								
	Share capital	Share premium account	Foreign currency translation reserve	Revaluation reserve	Capital redemption reserve	Treasury shares	Retained earnings	Non-controlling interests	Total
	£000	£000	£000	£000	£000	£000	£000	£000	£000
<b>Balance at 1 January 2009</b>	150	21,085	(299)	366	20	(445)	11,257	2,280	34,414
<b>Total comprehensive income for the period</b>									
Profit / (loss) for the six months ended 30 June 2009	-	-	-	-	-	-	682	(408)	274
<b>Other comprehensive income, net of income tax</b>									
Foreign currency translation reserve	-	-	168	-	-	-	-	-	168
Revaluation reserve									
- Amount transferred to profit or loss on sale	-	-	-	(47)	-	-	47	-	-
<b>Total other comprehensive income, net of income tax</b>	-	-	168	(47)	-	-	47	-	168
<b>Total comprehensive income for the period</b>	-	-	168	(47)	-	-	729	(408)	442
<b>Transactions with owners, recorded directly in equity</b>									
<b>Contributions by and distributions to owners</b>									
Purchase of own shares	-	-	-	-	-	(464)	-	-	(464)
Final dividend relating to 2008	-	-	-	-	-	-	(1,541)	-	(1,541)
<b>Total contributions by and distributions to owners</b>	-	-	-	-	-	(464)	(1,541)	-	(2,005)
<b>Balance at 30 June 2009</b>	150	21,085	(131)	319	20	(909)	10,445	1,872	32,851

## Consolidated statement of cash flows

	Six months ended 30 June	
	2010	2009
	£000	£000
<b>Cash flows from operating activities</b>		
Interest and similar income received	12,893	9,740
Interest and similar charges paid	(3,125)	(3,032)
Fees and commissions received	14,386	14,645
Net trading and other income	2,008	1,386
Cash payments to employees and suppliers	(22,902)	(22,086)
Taxation received	(883)	1,253
Cash flows from operating profits before changes in operating assets and liabilities	2,377	1,906
Changes in operating assets and liabilities:		
- net (increase) / decrease in trading securities	(1,692)	1,274
- net increase in loans and advances to customers	(24,822)	(26,894)
- net decrease in other assets	2,470	715
- net increase / (decrease) in deposits from other banks	839	(389)
- net increase in amounts due to customers	112,777	59,377
- net decrease in other liabilities	(1,524)	(2,855)
<b>Net cash inflow from operating activities</b>	<b>90,425</b>	<b>33,134</b>
<b>Cash flows from investing activities</b>		
Purchase of computer software	(90)	(87)
Purchase of property, plant and equipment	(210)	(569)
Proceeds from sale of property, plant and equipment	1,645	142
Purchases of debt securities	(249,685)	(148,662)
Proceeds from sale of debt securities	155,083	173,543
<b>Net cash from investing activities</b>	<b>(93,257)</b>	<b>24,367</b>
<b>Cash flows from financing activities</b>		
Purchase of treasury shares	(157)	(464)
Dividends paid	(1,681)	(1,541)
<b>Net cash used in financing activities</b>	<b>(1,838)</b>	<b>(2,005)</b>
<b>Net increase / (decrease) in cash and cash equivalents</b>	<b>(4,670)</b>	<b>55,496</b>
Cash and cash equivalents at 1 January	54,844	27,299
<b>Cash and cash equivalents at 30 June</b>	<b>50,174</b>	<b>82,795</b>

## 1.1. Operating segments

The Group is organised into four main operating segments, arranged over four separate companies with each having its own specialised banking service, as disclosed below:

- 1) Retail banking — incorporating household cash management, personal lending and banking and insurance services.
- 2) International Private banking — incorporating private banking and wealth management outside the UK.
- 3) UK Private banking — incorporating private banking and wealth management.
- 4) Investment banking — incorporating institutional stockbroking, equity trading and corporate finance advice.

Transactions between the operating segments are on normal commercial terms. Centrally incurred expenses are charged to operating segments on an appropriate pro-rata basis. Segment assets and liabilities comprise operating assets and liabilities, being the majority of the balance sheet.

	Retail banking	International Private banking	UK Private banking	Investment banking	Group (reconciling items)	Group Total
<b>Six months ended 30 June 2010</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Interest revenue	7,089	-	5,630	-	141	12,860
Inter-segment revenue	(126)	-	(72)	-	(141)	(339)
Interest revenue from external customers	6,963	-	5,558	-	-	12,521
Fee and commission income	5,706	-	2,997	6,350	-	15,053
Revenue from external customers	12,669	-	8,555	6,350	-	27,574
Interest expense	(1,325)	-	(1,595)	(35)	(34)	(2,989)
Subordinated loan note interest	-	-	-	-	(237)	(237)
Segment operating income	11,469	-	6,561	7,996	(337)	25,689
Impairment losses	(811)	-	(510)	-	-	(1,321)
Segment profit / (loss) before exceptional items	4,599	(60)	78	451	(2,733)	2,335
Exceptional items	-	-	-	-	-	-
Segment profit / (loss) before tax	4,599	(60)	78	451	(2,733)	2,335
Income tax (expense) / income	(1,042)	-	113	(33)	492	(470)
Segment profit / (loss) after tax	3,557	(60)	191	418	(2,241)	1,865
Segment total assets	182,710	102	416,401	12,143	(49,408)	561,948
Segment total liabilities	167,374	2,129	392,644	5,751	(39,945)	527,953
Other segment items:						
Capital expenditure	(55)	-	(204)	(28)	(13)	(300)
Depreciation and amortisation	(367)	(36)	(314)	(41)	(3)	(761)

The "Group" segment above includes the parent entity and all intercompany eliminations and fulfils the requirement of IFRS8.28.

## 1.1. Operating segments continued

Six months ended 30 June 2009	Retail banking	International Private banking	UK Private banking	Investment banking	Group (reconciling items)	Group Total
	£000	£000	£000	£000	£000	£000
Interest revenue	2,692	-	6,016	-	212	8,920
Inter-segment revenue	(81)	-	(115)	-	(212)	(408)
Interest revenue from external customers	2,611	-	5,901	-	-	8,512
Fee and commission income	7,773	-	2,539	4,800	-	15,119
Revenue from external customers	10,384	-	8,440	4,800	-	23,631
Interest expense	(430)	(12)	(2,016)	(179)	(32)	(2,669)
Subordinated loan note interest	-	-	-	-	(357)	(357)
Segment operating income	10,019	(12)	6,246	5,464	(200)	21,517
Impairment losses	(459)	-	(290)	-	-	(749)
Segment profit / (loss) before exceptional items	4,061	(490)	731	(1,316)	(2,284)	702
Exceptional items	-	-	-	-	-	-
Segment profit / (loss) before tax	4,061	(490)	731	(1,316)	(2,284)	702
Income tax (expense) / income	(1,153)	-	(174)	305	594	(428)
Segment profit / (loss) after tax	2,908	(490)	557	(1,011)	(1,690)	274
Segment total assets	96,131	193	349,777	12,808	(45,242)	413,667
Segment total liabilities	83,160	1,943	325,863	7,031	(37,181)	380,816
Other segment items:						
Capital expenditure	(166)	-	(474)	(15)	(1)	(656)
Depreciation and amortisation	(348)	(36)	(341)	(28)	(1)	(754)

Segment profit is shown prior to any inter-group eliminations.

Other than the international private banking operations which are in Switzerland, all the Group's other operations are conducted wholly within the United Kingdom and geographical information is therefore not presented.

## 1.2. Basic and fully diluted

Earnings per ordinary share are calculated on the net basis by dividing the profit attributable to the equity holders of the Company of £1,890,000 (2009: £682,000) by the weighted number of ordinary shares 14,999,619 (2009: 14,999,619) in issue during the period.

## 1.3. Basis of reporting

The interim financial statements have been prepared on the basis of accounting policies set out in the Group's 2009 statutory accounts as amended by standards and interpretations effective during 2010. The statements were approved by the Board of Directors on 4 August 2010 and are unaudited. The interim financial statements will be posted to shareholders and copies may be obtained from The Company Secretary, Arbutnot Banking Group PLC, Arbutnot House, 20 Ropemaker Street, London EC2Y 9AR.