



29 July 2011
For immediate release

ARBUTHNOT BANKING GROUP (“Arbuthnot” or “the Group”)

Results for the six months to 30 June 2011

Arbuthnot Banking Group has made a profit before tax of £0.2m for the six months to 30 June 2011 (2010: £2.3m). Both of its Banks have traded strongly and have reported results ahead of expectations, while Arbuthnot Securities made a loss for the period against a background of exceptionally difficult markets conditions.

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 £0.2m (2010: £2.3m)
- Group earnings per share (EPS) 8.4p (2010: 12.6p)
- Dividend per share (DPS) 11p (2010: 11p)

OPERATIONAL HIGHLIGHTS

Retail Banking - Secure Trust Bank

- Pre-tax profit increased to £5.0m (2010: £4.6m)
- Underlying earnings growth of 75%
- Total customer numbers have increased by 47% to 120,000
- Growth has been well spread across three main lending activities of motor finance, point-of-sale asset finance and personal loans
- Significant increase in Bank's overall loan book from £66.5m at 30 June 2010 to £123.9m at 30 June 2011
- In advanced discussions with a joint venture partner regarding the possible acquisition of a portfolio of loans and the origination of further lending, which would make a significant contribution to Group earnings in 2011
- Planning to raise capital for Secure Trust Bank to take advantage of opportunities in the lending market by pursuing a placing of a minority interest of new shares and separate admission on AIM of Secure Trust Bank

Private Banking - Arbuthnot Latham

- Pre-tax profit increased to £1.0m (2010: £0.1m) due to excellent lending opportunities and ability to increase number and average net worth of clients
- Wealth management has performed well with discretionary assets under management rising by 58%
- Loan to deposit ratio maintained at 58%

Investment Banking - Arbuthnot Securities

- Loss before tax of £3.4m (2010: profit of £0.5m)
- Corporate finance fees and secondary income have declined on the back of difficult market conditions
- Restructuring programme underway to create a more focussed business model

Commenting on the results, Henry Angest, Chairman and Chief Executive of Arbuthnot, said: **“Despite the mixed performance in the first half, we remain positive about the rest of the year. The completion of the intended placing of new shares in Secure Trust Bank PLC will mean we can accelerate growth and substantially increase profitability.”**

ENQUIRIES:

Arbuthnot Banking Group
Henry Angest, Chairman and Chief Executive
Andrew Salmon, Chief Operating Officer
James Cobb, Group Finance Director
David Marshall, Director of Communications

020 7012 2400

Hawkpoint Partners Ltd (Nominated Advisor)
Lawrence Guthrie
Sunil Duggal

020 7665 4500

Numis Securities Ltd (Broker)
Chris Wilkinson
Mark Lander

020 7260 1000

Pelham Bell Pottinger (Financial PR)
Ben Woodford
Zoë Pocock

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Chairman's Statement

Arbuthnot Banking Group made a profit before tax of £0.2m for the six months ended 30 June 2011 (2010: £2.3m), resulting, after tax and minority interests, in an Earnings Per Share of 8.4p (2010: 12.6p). As I mentioned in my AGM statement on 11 May, this result reflects a mixed trading performance across the Group's three principal subsidiaries. On the one hand, both Secure Trust Bank and Arbuthnot Latham are trading strongly, capitalising on the lending opportunities the market currently offers. On the other hand, following a strong finish to 2010, Arbuthnot Securities produced a loss for the period against a background of exceptionally difficult conditions in its market.

Retail Banking Subsidiary – Secure Trust Bank PLC

Pre-tax profits for Secure Trust Bank rose to £5.0m (2010: £4.6m). This is a strong performance. Underlying profit before tax, excluding the declining contribution of the acquired loan portfolios from both periods, grew by 75% compared with the first half of 2010.

The Bank's overall loan book has substantially increased, from £66.5m at 30 June 2010, and £89.2m at 31 December 2010, to £123.9m at 30 June 2011. Market conditions for lending remain favourable, and this expansion has been achieved without any adverse impact on margins or credit quality. The growth has been well spread across its three main areas, motor finance, point-of-sale asset finance and personal loans. In addition, Secure Trust Bank is in the advanced stages of negotiating a joint venture with a partner which would involve the acquisition of a portfolio of loans and the origination of further new lending. The transaction would be subject to regulatory approval and if, as is expected, it is completed in the near future, it would make a significant contribution to Group earnings in 2011.

The current account, which was relaunched late in 2010 with a customer reward scheme, has grown strongly and now has approximately 14,000 customers. The organic growth of the business is further demonstrated by total customer numbers of the bank, which have increased 47% to 120,000 over the last year.

Current market conditions present Secure Trust Bank with an outstanding opportunity to expand its loan book significantly at highly attractive rates, and lock in a stream of profits for the next three to five years. To raise the new capital required to support this expansion, the Board is pursuing a placing of new Secure Trust Bank shares, thereby creating a small minority interest, and obtaining a separate listing for Secure Trust Bank on AIM. We consider the success of Secure Trust Bank, its growth opportunity and its strong return on capital should be attractive to the market. In connection with this Hawkpoint and Collins Stewart will be appointed as financial adviser and broker to the admission and placing.

Private Banking Subsidiary – Arbuthnot Latham & Co., Limited

Arbuthnot Latham's profits increased to £1.0m (2010: £0.1m). Arbuthnot Latham continues to see excellent lending opportunities and has been able to increase both the number and the average net worth of its clients. The balance sheet has expanded to £489m at 30 June 2011 (2010: £419m). The loan-to-deposit ratio at the half-year was 58%.

Wealth management, which encompasses financial planning and discretionary investment management has performed well and has seen a substantial increase in revenue and business scale over the last year. Discretionary assets under management have risen by 58% since 30 June 2010.

Gilliat experienced a difficult first quarter, but sales improved in the second quarter and the business broke even for the half year.

Investment Banking Subsidiary – Arbuthnot Securities Limited

Arbuthnot Securities made a loss before tax of £3.4m (2010: profit of £0.5m).

The difficult market conditions, which have affected this business intermittently since 2008, deteriorated further in the first half of this year. As the number of IPOs on AIM decreased and corporate transactions generally became scarcer, corporate finance fees fell to £1.2m (2010: £2.6m). Commission income, which is under structural pressure as institutions increasingly use direct access routes to market, fell by 32% to £1.3m (2010: £1.9m). With fewer corporate transactions, opportunities to achieve trading profits were reduced, leading to a fall in trading income to £0.3m (2010: £2.1m).

Notwithstanding recent press speculation the Board does not intend to sell the business. Whilst in common with competitors Arbuthnot Securities has experienced a difficult first half, the Board remains committed to this business and considers that the management action taken in July to lower its overheads, will place this business on a more sustainable footing for the longer term.

We have completed the initial rebuilding of our Closed End Fund team, who have developed an online integrated Exchange Traded and Closed End Fund product. This has been launched and commenced trading in one hundred Investment Trusts. A number of corporate opportunities continue to be mandated including our first Indian IPO.

Interim Dividend and Scrip Alternative

In view of the positive outlook for the Group's two banks, the interim dividend will be maintained at 11p (gross) and will be paid on 2 November 2011 to shareholders on the register at 2 September 2011. In previous years the Company has offered shareholders the opportunity to acquire further shares in the Company by taking their final dividend in the form of scrip, and this offer is now being extended in respect of the interim dividend. Shareholders on the register at 2 September 2011 will be able to elect to receive either a cash dividend or shares subject to approval in General Meeting, and demand for scrip shares under the offer will be satisfied by the issue of new Arbutnot Banking Group PLC shares. As things stand at present, I intend to elect for the scrip alternative in respect of the whole of my shareholding, currently amounting to 52.8% of the issued share capital.

Outlook

The management of Arbutnot Securities will focus on efficiency and on our core areas of market strength. Despite difficult market conditions, concentration on these fundamentals should produce a marked improvement on the first half performance.

The outlook for the two banks is very favourable. They are generating strong organic growth in both lending and fee-based businesses. Also, both banks have excellent opportunities to accelerate growth through diversification into new products and by entering into arrangements with new counterparties or partners. Raising additional capital for Secure Trust Bank should enable the bank to accelerate its lending growth substantially and lock in a stream of profits for the medium term.

Taking all of these factors into account, the Board remains positive about the outlook for the remainder of 2011.

Consolidated Statement of Comprehensive Income

	Six months ended 30 June 2011 £000	Six months ended 30 June 2010 £000
Interest and similar income	16,511	12,521
Interest expense and similar charges	(4,736)	(3,226)
Net interest income	11,775	9,295
Fee and commission income	13,757	15,053
Fee and commission expense	(327)	(667)
Net fee and commission income	13,430	14,386
Gains less losses from dealing in securities	285	2,008
Operating income	25,490	25,689
Net impairment loss on financial assets	(1,997)	(1,321)
Other income	408	-
Operating expenses	(23,659)	(22,033)
Profit before income tax	242	2,335
Income tax expense	(158)	(470)
Profit for the year	84	1,865
Foreign currency translation reserve	(202)	(63)
Revaluation reserve		
- Adjustment	(2)	(112)
Available-for-sale reserve	5	-
Other comprehensive income for the period, net of income tax	(199)	(175)
Total comprehensive income for the period	(115)	1,690
Profit attributable to:		
Equity holders of the Company	1,259	1,890
Non-controlling interests	(1,175)	(25)
	84	1,865
Total comprehensive income attributable to:		
Equity holders of the Company	1,060	1,715
Non-controlling interests	(1,175)	(25)
	(115)	1,690
Earnings per share for profit attributable to the equity holders of the Company during the year (expressed in pence per share):		
- basic and fully diluted	8.4	12.6

Consolidated Statement of Financial Position

	At 30 June	
	2011	2010
	£000	£000
ASSETS		
Cash	118,629	1,517
Derivative financial instruments	-	501
Loans and advances to banks	51,669	48,657
Loans and advances to customers	356,162	253,223
Trading securities - long positions	2,148	4,464
Debt securities held-to-maturity	125,192	222,199
Other assets	16,984	16,284
Financial investments	5,737	4,712
Intangible assets	3,002	2,767
Property, plant and equipment	5,546	6,585
Deferred tax asset	1,303	1,039
Total assets	686,372	561,948
EQUITY AND LIABILITIES		
Equity attributable to owners of the parent		
Share capital	150	150
Share premium account	21,085	21,085
Retained earnings	11,648	11,893
Other reserves	(1,546)	(1,252)
Non-controlling interests	942	2,119
Total equity	32,279	33,995
LIABILITIES		
Deposits from banks	2,024	3,725
Trading securities - short positions	999	1,072
Derivative financial instruments	264	-
Deposits from customers	624,215	498,776
Current tax liability	414	662
Other liabilities	12,821	11,693
Deferred tax liability	126	65
Debt securities in issue	13,230	11,960
Total liabilities	654,093	527,953
Total equity and liabilities	686,372	561,948

Consolidated Statement of Changes in Equity

Attributable to equity holders of the Group

	Share capital	Share premium account	Foreign currency translation reserve	Revaluation reserve	Capital redemption reserve	Available-for-sale reserve	Treasury shares	Retained earnings	Non-controlling interests	Total
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Balance at 1 January 2011	150	21,085	(558)	146	20	142	(1,097)	12,142	2,118	34,148
Total comprehensive income for the period										
Profit / (loss) for the six months ended 30 June 2011	-	-	-	-	-	-	-	1,259	(1,175)	84
Other comprehensive income, net of income tax										
Foreign currency translation reserve	-	-	(202)	-	-	-	-	-	-	(202)
Revaluation reserve - Adjustment	-	-	-	(2)	-	-	-	-	-	(2)
Available-for-sale reserve	-	-	-	-	-	5	-	-	-	5
Total other comprehensive income	-	-	(202)	(2)	-	5	-	-	-	(199)
Total comprehensive income for the period	-	-	(202)	(2)	-	5	-	1,259	(1,175)	(115)
Transactions with owners, recorded directly in equity										
Contributions by and distributions to owners										
Final dividend relating to 2010	-	-	-	-	-	-	-	(1,754)	-	(1,754)
Total contributions by and distributions to owners	-	-	-	-	-	-	-	(1,754)	-	(1,754)
Balance at 30 June 2011	150	21,085	(760)	144	20	147	(1,097)	11,647	943	32,279

Attributable to equity holders of the Group

	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
Balance at 1 January 2010	150	21,085	(258)	258	20	(940)	11,684	2,144	34,143
Total comprehensive income for the period									
Profit / (loss) for the six months ended 30 June 2010	-	-	-	-	-	-	1,890	(25)	1,865
Other comprehensive income, net of income tax									
Foreign currency translation reserve	-	-	(63)	-	-	-	-	-	(63)
Revaluation reserve - Adjustment	-	-	-	(112)	-	-	-	-	(112)
Total other comprehensive income	-	-	(63)	(112)	-	-	-	-	(175)
Total comprehensive	-	-	(63)	(112)	-	-	1,890	(25)	1,690

income for the period									
Transactions with owners, recorded directly in equity									
Contributions by and distributions to owners									
Purchase of own shares	-	-	-	-	-	(157)	-	-	(157)
Final dividend relating to 2009	-	-	-	-	-	-	(1,681)	-	(1,681)
Total contributions by and distributions to owners	-	-	-	-	-	(157)	(1,681)	-	(1,838)
Balance at 30 June 2010	150	21,085	(321)	146	20	(1,097)	11,893	2,119	33,995

Consolidated Statement of Cash Flows

	Six months ended 30 June 2011	Six months ended 30 June 2010
	£000	£000
Cash flows from operating activities		
Interest and similar income received	16,445	12,893
Interest and similar charges paid	(4,668)	(3,125)
Fees and commissions received	13,430	14,386
Net trading and other income	693	2,008
Cash payments to employees and suppliers	(23,649)	(22,902)
Taxation paid	(866)	(883)
Cash flows from operating profits before changes in operating assets and liabilities	1,385	2,377
Changes in operating assets and liabilities:		
- net decrease/(increase) in trading securities	1,308	(1,692)
- net decrease in derivative financial instruments	80	-
- net increase in loans and advances to customers	(57,724)	(24,822)
- net decrease in other assets	964	2,470
- net (decrease)/increase in deposits from banks	(1,682)	839
- net increase in amounts due to customers	120,958	112,777
- net increase/(decrease) in other liabilities	3,288	(1,524)
Net cash inflow from operating activities	68,577	90,425
Cash flows from investing activities		
Purchase of computer software	(260)	(90)
Purchase of property, plant and equipment	(66)	(210)
Proceeds from sale of property, plant and equipment	23	1,645
Purchases of debt securities	(159,847)	(249,685)
Proceeds from redemption of debt securities	177,772	155,083
Net cash from investing activities	17,622	(93,257)
Cash flows from financing activities		
Purchase of treasury shares	-	(157)
Dividends paid	(1,754)	(1,681)
Net cash used in financing activities	(1,754)	(1,838)
Net increase/(decrease) in cash and cash equivalents	84,445	(4,670)
Cash and cash equivalents at 1 January	85,853	54,844
Cash and cash equivalents at 30 June	170,298	50,174

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 statement of financial position.

Six months ended 30 June 2011	Retail banking £000	International Private banking £000	UK Private banking £000	Investment banking £000	Group (reconciling items) £000	Group Total £000
Interest revenue	9,895	-	6,720	4	131	16,750
Inter-segment revenue	(32)	-	(72)	-	(135)	(239)
Interest revenue from external customers	9,863	-	6,648	4	(4)	16,511
Fee and commission income	5,560	-	4,206	3,991	-	13,757
Revenue from external customers	15,423	-	10,854	3,995	(4)	30,268
Interest expense	(1,903)	(27)	(2,576)	(63)	103	(4,466)
Subordinated loan note interest	-	-	-	-	(270)	(270)
Segment operating income	13,552	(27)	8,187	4,025	(247)	25,490
Impairment losses	(1,548)	-	(449)	-	-	(1,997)
Segment profit / (loss) before tax	5,020	(20)	983	(3,391)	(2,350)	242
Income tax (expense) / income	(1,222)	-	(133)	962	235	(158)
Segment profit / (loss) after tax	3,798	(20)	850	(2,429)	(2,115)	84
Segment total assets	237,473	85	489,170	12,851	(53,207)	686,372
Segment total liabilities	219,538	2,634	465,974	9,373	(43,426)	654,093
Other segment items:						
Capital expenditure	(65)	-	(240)	(10)	(12)	(327)
Depreciation and amortisation	(303)	(5)	(220)	(38)	(7)	(573)

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

Six months ended 30 June 2010	Retail banking £000	International Private banking £000	UK Private banking £000	Investment banking £000	Group (reconciling items) £000	Group Total £000
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 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)

Segment profit is shown prior to any intra-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.

2. Earnings per ordinary share

Basic and fully diluted

Earnings per ordinary share are calculated on the net basis by dividing the profit attributable to equity holders of the Company of £1,259,000 (2010: £1,890,000) by the weighted average number of ordinary shares 14,999,619 (2010: 14,999,619) in issue during the year. There is no difference between basic and fully diluted earnings per ordinary share.

3. Basis of reporting

The interim financial statements have been prepared on the basis of accounting policies set out in the Group's 2010 statutory accounts as amended by standards and interpretations effective during 2011. The statements were approved by the Board of Directors on 28 July 2011 and are unaudited. The interim financial statements will be posted to shareholders and copies may be obtained from The Company Secretary, Arbuthnot Banking Group PLC, Arbuthnot House, 20 Ropemaker Street, London EC2Y 9AR.