



26 July 2012  
For immediate release

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

Results for the six months to 30 June 2012

Transformation continues

Arbuthnot Banking Group has continued with the transformation of its business and has traded strongly in the first half of 2012. During this period the Group completed the disposal of the securities and Swiss businesses, cancelled the share premium account and considerably expanded the retail banking division through the acquisition of Everyday Loans. It has recorded a profit before tax of £10.8m and both of its Banks have continued to demonstrate strong, controlled organic growth.

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

**FINANCIAL HIGHLIGHTS**

- Group pre-tax profit £10.8m (2011: £0.2m)
- Gain on acquisition £8.5m (net)
- Customer assets £543.4m (2011: £356.2m)
- Group earnings per share (EPS) 50.9p (2011: 8.4p)
- Interim dividend per share (DPS) 11p (2011: 11p)

**OPERATIONAL HIGHLIGHTS**

**Retail Banking - Secure Trust Bank**

- Pre-tax profit increased to £12.5m (2011: £5.0m)
- Acquisition of Everyday Loans has broadened distribution channels and added further diversification to its lending portfolios and contributed a gain on acquisition of £8.5m (net)
- Underlying profit grew by 50%
- Overall loan book increased to £260.3m from £123.9m including £71m from Everyday Loans
- Retail deposits funded loan growth and closed the period at £297.9m (2011: £217m)
- Total customer numbers grew by 58% to 198,767.

**Private Banking - Arbuthnot Latham**

- Pre-tax profits increased to £1.4m (2011: £1.0m)
- James Fleming joined the business as Chief Executive at the end of the first quarter
- Strong capital base and excess liquidity enabled the business to maintain its ability to take advantage of the lending opportunities
- Gilliat Financial Solutions has consistently increased its sales volumes and completed its first overseas product offering

Commenting on the results, Henry Angest, Chairman and Chief Executive of Arbuthnot, said: **“This year has been one of continued transformation where significant milestones across the Group have been achieved. All of these have enabled the Group to make good progress.**

**The current market environment has allowed the Group to attract high calibre people, who along with strong capital and liquidity are enabling it to enhance significantly both its banking businesses. However, we remain cautious and monitor the developments in the wider economy with some concern.”**

The interim results and presentation are available at <http://www.arbuthnotgroup.com>.

Secure Trust Bank PLC is today releasing its interim statement and it should be read in conjunction with these results.

**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

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## Chairman's Statement

### Arbuthnot Banking Group PLC

I am pleased to report that Arbuthnot Banking Group PLC has traded strongly in the first half of 2012. The Group has reported a profit before tax of £10.8m (2011: £0.2m).

In our recent Annual Report I concluded that 2011 had been a year of transformation. This process continued in 2012. Across the Group significant objectives have been achieved. In the first part of the year, the disposals of Arbuthnot Securities and the Swiss subsidiary were completed. Then in June we finalised the cancellation of the share premium account and considerably expanded the business of Secure Trust Bank through the acquisition of Everyday Loans. These transactions enable the Group to take advantage of current market conditions.

The Board is maintaining the interim dividend at 11p (gross) which will be paid on 5 October 2012 to shareholders on the register at 7 September 2012.

### Retail Banking Subsidiary – Secure Trust Bank PLC

Pre-tax profits for Secure Trust Bank rose to £12.5m (2011: £5.0m). This includes £8.5m (net) gain on acquisition, which arose from the accounting required for the purchase of Everyday Loans. We expect most of this will be amortised over the next 2-3 years. Excluding the impact of this the underlying profit before tax rose by 50%.

The acquisition of Everyday Loans continues to broaden Secure Trust Bank's distribution channels and further diversifies its lending portfolios.

As at 30 June 2012, the Bank's overall loan book had increased to £260.3m (2011: £123.9m) as organic lending also contributed significantly to the overall growth. The Management are confident that this growth can be maintained as evidenced by the recent signing of an affinity agreement with Shop Direct.

The loan book continues to be funded by growth in retail deposits which closed the period at £297.9m (2011: £217m), an increase of 37%.

The total customer numbers increased to 198,767 a 58% growth.

### Private Banking Subsidiary – Arbuthnot Latham & Co., Limited

Arbuthnot Latham's profits grew to £1.4m (2011:£1.0m), a 40% increase over the corresponding period.

James Fleming joined the business as Chief Executive at the end of the first quarter.

The business has maintained its ability to take advantage of good quality lending opportunities, which has been facilitated by the strong capital base and by utilising some of the excess liquidity held at the year end.

Gilliat Financial Solutions, the independent provider of structured products, has consistently increased its sales volumes as it has developed its brand awareness across the UK IFA network. It also completed its first overseas product offering during the period.

### Outlook

The outlook for both banks remains favourable as opportunities for growth continue to present themselves. The current market environment has allowed the Group to attract high calibre people, who along with strong capital and liquidity are significantly enhancing both its banking businesses. However, we remain cautious and monitor the developments in the wider economy with some concern.

## Consolidated Statement of Comprehensive Income

		Six months ended 30 June 2012 £000	Six months ended 30 June 2011 £000
	Note		
Interest and similar income		22,438	16,507
Interest expense and similar charges		(6,840)	(4,673)
<b>Net interest income</b>		<b>15,598</b>	<b>11,834</b>
Fee and commission income		10,857	9,766
Fee and commission expense		(254)	(163)
<b>Net fee and commission income</b>		<b>10,603</b>	<b>9,603</b>
Gains less losses from dealing in securities		(314)	24
<b>Operating income</b>		<b>25,887</b>	<b>21,461</b>
Net impairment loss on financial assets		(3,679)	(1,997)
Other income	2	9,947	408
Operating expenses	3	(21,387)	(16,239)
<b>Profit before income tax from continuing operations</b>		<b>10,768</b>	<b>3,633</b>
Income tax expense		(133)	(1,120)
<b>Profit after income tax from continuing operations</b>		<b>10,635</b>	<b>2,513</b>
Loss from discontinued operations after tax		(210)	(2,429)
<b>Profit for the period</b>		<b>10,425</b>	<b>84</b>
Foreign currency translation reserve		570	(202)
Revaluation reserve			
- Adjustment		-	(2)
Cash flow hedging reserve			
- Effective portion of changes in fair value		(97)	-
Available-for-sale reserve		-	5
<b>Other comprehensive income for the period, net of income tax</b>		<b>473</b>	<b>(199)</b>
<b>Total comprehensive income for the period</b>		<b>10,898</b>	<b>(115)</b>
<b>Profit attributable to:</b>			
Equity holders of the Company		7,783	1,259
Non-controlling interests		2,642	(1,175)
		<b>10,425</b>	<b>84</b>
<b>Total comprehensive income attributable to:</b>			
Equity holders of the Company		8,256	1,060
Non-controlling interests		2,642	(1,175)
		<b>10,898</b>	<b>(115)</b>
<b>Earnings per share for profit attributable to the equity holders of the Company during the period</b> (expressed in pence per share):			
- basic and fully diluted	4	50.9	8.4

## Consolidated Statement of Financial Position

	At 30 June	
	2012	2011
	£000	£000
<b>ASSETS</b>		
Cash	129,137	118,629
Loans and advances to banks	50,249	51,669
Loans and advances to customers	543,379	356,162
Trading securities - long positions	-	2,148
Debt securities held-to-maturity	32,757	125,192
Current tax asset	483	-
Other assets	10,141	16,984
Financial investments	3,269	5,737
Intangible assets	8,618	3,002
Property, plant and equipment	6,055	5,546
Deferred tax asset	5,967	1,303
<b>Total assets</b>	<b>790,055</b>	<b>686,372</b>
<b>EQUITY AND LIABILITIES</b>		
<b>Equity attributable to owners of the parent</b>		
Share capital	153	150
Share premium account	-	21,085
Retained earnings	48,358	11,647
Other reserves	(1,397)	(1,546)
<b>Non-controlling interests</b>	<b>8,640</b>	<b>943</b>
<b>Total equity</b>	<b>55,754</b>	<b>32,279</b>
<b>LIABILITIES</b>		
Deposits from banks	1,113	2,024
Trading securities - short positions	-	999
Derivative financial instruments	1,008	264
Deposits from customers	703,661	624,215
Current tax liability	-	414
Other liabilities	16,727	12,821
Deferred tax liability	-	126
Debt securities in issue	11,792	13,230
<b>Total liabilities</b>	<b>734,301</b>	<b>654,093</b>
<b>Total equity and liabilities</b>	<b>790,055</b>	<b>686,372</b>

## 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	Cash flow hedging reserve	Treasury shares	Retained earnings	Non-controlling interests	Total
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
<b>Balance at 1 January 2012</b>	<b>153</b>	<b>21,085</b>	<b>(570)</b>	<b>140</b>	<b>20</b>	<b>-</b>	<b>(329)</b>	<b>(1,097)</b>	<b>21,571</b>	<b>5,998</b>	<b>46,971</b>
<b>Total comprehensive income for the period</b>											
Profit for the six months ended 30 June 2012	-	-	-	-	-	-	-	-	7,783	2,642	10,425
<b>Other comprehensive income, net of income tax</b>											
Foreign currency translation reserve	-	-	570	-	-	-	-	-	-	-	570
Revaluation reserve	-	-	-	-	-	-	-	-	-	-	-
Cash flow hedging reserve - Effective portion of changes in fair value	-	-	-	-	-	-	(97)	-	-	-	(97)
<b>Total other comprehensive income</b>	<b>-</b>	<b>-</b>	<b>570</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(97)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>473</b>
<b>Total comprehensive income for the period</b>	<b>-</b>	<b>-</b>	<b>570</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(97)</b>	<b>-</b>	<b>7,783</b>	<b>2,642</b>	<b>10,898</b>
<b>Transactions with owners, recorded directly in equity</b>											
<b>Contributions by and distributions to owners</b>											
Transfer of share premium	-	(21,085)	-	-	-	-	-	-	21,085	-	-
Purchase of own shares	-	-	-	-	-	-	-	(34)	-	-	(34)
Final dividend relating to 2011	-	-	-	-	-	-	-	-	(2,081)	-	(2,081)
<b>Total contributions by and distributions to owners</b>	<b>-</b>	<b>(21,085)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(34)</b>	<b>19,004</b>	<b>-</b>	<b>(2,115)</b>
<b>Balance at 30 June 2012</b>	<b>153</b>	<b>-</b>	<b>-</b>	<b>140</b>	<b>20</b>	<b>-</b>	<b>(426)</b>	<b>(1,131)</b>	<b>48,358</b>	<b>8,640</b>	<b>55,754</b>

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
<b>Balance at 1 January 2011</b>	<b>150</b>	<b>21,085</b>	<b>(558)</b>	<b>146</b>	<b>20</b>	<b>142</b>	<b>(1,097)</b>	<b>12,142</b>	<b>2,118</b>	<b>34,148</b>
<b>Total comprehensive income for the period</b>										
Profit / (loss) for the six months ended 30 June 2011	-	-	-	-	-	-	-	1,259	(1,175)	84
<b>Other comprehensive income, net of income tax</b>										
Foreign currency translation reserve	-	-	(202)	-	-	-	-	-	-	(202)
Revaluation reserve										
- Adjustment	-	-	-	(2)	-	-	-	-	-	(2)
- Amount transferred to profit and loss on sale	-	-	-	-	-	5	-	-	-	5
<b>Total other comprehensive income</b>	<b>-</b>	<b>-</b>	<b>(202)</b>	<b>(2)</b>	<b>-</b>	<b>5</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(199)</b>
<b>Total comprehensive income for the period</b>	<b>-</b>	<b>-</b>	<b>(202)</b>	<b>(2)</b>	<b>-</b>	<b>5</b>	<b>-</b>	<b>1,259</b>	<b>(1,175)</b>	<b>(115)</b>
<b>Transactions with owners, recorded directly in equity</b>										
<b>Contributions by and distributions to owners</b>										
Final dividend relating to 2010	-	-	-	-	-	-	-	(1,754)	-	(1,754)
<b>Total contributions by and distributions to owners</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(1,754)</b>	<b>-</b>	<b>(1,754)</b>
<b>Balance at 30 June 2011</b>	<b>150</b>	<b>21,085</b>	<b>(760)</b>	<b>144</b>	<b>20</b>	<b>147</b>	<b>(1,097)</b>	<b>11,647</b>	<b>943</b>	<b>32,279</b>

## Consolidated Statement of Cash Flows

	Six months ended 30 June 2012 £000	Six months ended 30 June 2011 £000
<b>Cash flows from operating activities</b>		
Interest and similar income received	22,540	16,445
Interest and similar charges paid	(7,302)	(4,668)
Fees and commissions received	10,603	13,430
Net trading and other income	9,516	693
Cash payments to employees and suppliers	(29,061)	(23,649)
Taxation paid	(159)	(866)
Cash flows from operating profits before changes in operating assets and liabilities	6,137	1,385
Changes in operating assets and liabilities:		
- net decrease in trading securities	-	1,308
- net decrease in derivative financial instruments	1,959	80
- net increase in loans and advances to customers	(156,946)	(57,724)
- net decrease in other assets	2,178	964
- net increase/(decrease) in deposits from banks	1,105	(1,682)
- net increase in amounts due to customers	9,861	120,958
- net increase in other liabilities	543	3,288
<b>Net cash (outflow)/inflow from operating activities</b>	<b>(135,163)</b>	<b>68,577</b>
<b>Cash flows from investing activities</b>		
Disposal of financial investments	567	-
Purchase of computer software	(152)	(260)
Purchase of property, plant and equipment	(1,251)	(66)
Proceeds from sale of property, plant and equipment	-	23
Purchases of debt securities	(43,127)	(159,847)
Proceeds from redemption of debt securities	50,449	177,772
<b>Net cash from investing activities</b>	<b>6,486</b>	<b>17,622</b>
<b>Cash flows from financing activities</b>		
Dividends paid	(2,081)	(1,754)
<b>Net cash used in financing activities</b>	<b>(2,081)</b>	<b>(1,754)</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>(130,758)</b>	<b>84,445</b>
Cash and cash equivalents at 1 January	310,144	85,853
<b>Cash and cash equivalents at 30 June</b>	<b>179,386</b>	<b>170,298</b>



## 1. Operating segments

The Group is organised into two main operating segments, arranged over two 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) UK Private banking — incorporating private banking and wealth management.

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.

	Discontinued operations	Continuing operations				Group Total £000
	Investment banking £000	Retail banking £000	UK Private banking £000	Group (reconciling items) £000	Total £000	
Six months ended 30 June 2012						
Interest revenue	-	15,647	6,943	162	22,752	
Inter-segment revenue	-	(73)	(79)	(162)	(314)	
Interest revenue from external customers	-	15,574	6,864	-	22,438	
Fee and commission income	-	5,390	5,467	-	10,857	
Revenue from external customers	-	<b>20,964</b>	<b>12,331</b>	-	<b>33,295</b>	
Interest expense	-	(4,222)	(2,573)	217	(6,578)	
Subordinated loan note interest	-	-	-	(262)	(262)	
Segment operating income	-	16,815	9,583	(511)	25,887	
Impairment losses	-	(3,070)	(609)	-	(3,679)	
Segment profit / (loss) before tax	(210)	12,523	1,437	(3,192)	10,768	
Income tax (expense) / income	-	(717)	-	584	(133)	
Segment profit / (loss) after tax	<b>(210)</b>	<b>11,806</b>	<b>1,437</b>	<b>(2,608)</b>	<b>10,635</b>	<b>10,425</b>
Segment total assets	-	342,162	480,438	(32,545)	790,055	790,055
Segment total liabilities	-	312,480	457,346	(35,525)	734,301	734,301
Other segment items:						
Capital expenditure	-	(975)	(379)	(12)	(1,366)	(1,366)
Depreciation and amortisation	-	(324)	(172)	(8)	(504)	(504)

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

	Discontinued operations	Continuing operations					Group Total £000
	Investment banking £000	Retail banking £000	International Private banking £000	UK Private banking £000	Group (reconciling items) £000	Total £000	
Six months ended 30 June 2011							
Interest revenue	4	9,895	-	6,720	131	16,746	
Inter-segment revenue	-	(32)	-	(72)	(135)	(239)	
Interest revenue from external customers	4	9,863	-	6,648	(4)	16,507	
Fee and commission income	3,991	5,560	-	4,206	-	9,766	
Revenue from external customers	<b>3,995</b>	<b>15,423</b>	<b>-</b>	<b>10,854</b>	<b>(4)</b>	<b>26,273</b>	
Interest expense	(63)	(1,903)	(27)	(2,576)	103	(4,403)	
Subordinated loan note interest	-	-	-	-	(270)	(270)	
Segment operating income	4,025	13,552	(27)	8,187	(247)	21,465	
Impairment losses	-	(1,548)	-	(449)	-	(1,997)	
Segment profit / (loss) before tax	(3,391)	5,020	(20)	983	(2,350)	3,633	242
Income tax (expense) / income	962	(1,222)	-	(133)	235	(1,120)	
Segment profit / (loss) after tax	<b>(2,429)</b>	<b>3,798</b>	<b>(20)</b>	<b>850</b>	<b>(2,115)</b>	<b>2,513</b>	<b>84</b>
Segment total assets	12,851	237,473	85	489,170	(53,207)	673,521	686,372
Segment total liabilities	9,373	219,538	2,634	465,974	(43,426)	644,720	654,093
Other segment items:							
Capital expenditure	(10)	(65)	-	(240)	(12)	(317)	(327)
Depreciation and amortisation	(38)	(303)	(5)	(220)	(7)	(535)	(573)

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

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

## 2. Other income

On 20 March 2012 Arbuthnot Banking Group PLC (“ABG”) agreed terms for the sale of Arbuthnot AG. The company was sold to Ducartis Holding AG for a total cash consideration of CHF 2.0m which resulted in a profit for the Group of approximately £0.7m, which is recorded in other income. Up to the date of sale, the purchaser funded most of the running costs for this entity. This is also included in other income, and amounted to £0.3m.

On 8 June 2012 Secure Trust Bank PLC (“STB”) acquired 100% of the shares in Everyday Loans Holdings Limited and its wholly owned subsidiaries Everyday Loans Limited and Everyday Lending Limited (together “EDL”). STB acquired EDL for consideration of £1. Upon acquisition STB provided funding so that EDL could redeem the remaining £34 million of subordinated debt and also provided a loan facility of £37 million to refinance EDL’s existing bank debt and to fund future loans. A payment of up to a maximum of £1.5 million will be made to the management team of EDL in March 2013, subject to achieving certain performance targets in 2012. Included in other income is a gain on acquisition of £8.9m, which arose from fair value adjustments and the recognition of intangibles assets. This is expected to amortise through the profit and loss account over the next 2 to 3 years.

	Acquired assets / liabilities	Fair value adjustments	Recognised values on acquisition
	£000	£000	£000
Intangible assets	50	5,115	5,165
Property, plant and equipment	491	-	491
Loans and advances to customers	63,720	7,545	71,265
Cash at bank	991	-	991
Other assets	24	-	24
Prepayments and accrued income	2,939	-	2,939
Deferred tax asset	-	5,400	5,400
Total assets	68,215	18,060	86,275
Loans and debt securities	71,618	-	71,618
Other liabilities	960	-	960
Accruals and deferred income	1,741	-	1,741
Deferred tax liabilities	-	3,039	3,039
Total liabilities	74,319	3,039	77,358
Net identifiable (liabilities) / assets	(6,104)	15,021	8,917
Consideration - £1			-
Gain on acquisition			<b>8,917</b>

## 3. Operating expenses

Included in operating expenses are £0.5m acquisition costs, £0.1m amortisation cost, £0.3m management incentive provisions and £0.7m normal operating costs relating to EDL. Also included in operating expenses are £0.5m increased property costs due to excess floor space after the sale of Arbuthnot Securities and £0.3m of unrealised losses on equity securities.

## 4. 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 £7,783,000 (2011: £1,259,000) by the weighted average number of ordinary shares 15,279,322 (2011: 14,999,619) in issue during the year. There is no difference between basic and fully diluted earnings per ordinary share.

## 5. Basis of reporting

The interim financial statements have been prepared on the basis of accounting policies set out in the Group’s 2011 statutory accounts as amended by standards and interpretations effective during 2012. The statements were approved by the Board of Directors on 25 July 2012 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.