



22 July 2014

For immediate release

**ARBUTHNOT BANKING GROUP (“Arbuthnot”, “the Group” or “ABG”)**  
Results for the six months to 30 June 2014  
“Continued Momentum”

Arbuthnot Banking Group is pleased to announce a half yearly profit before tax of £9.5m an increase of 368% compared to the same period in the prior year. Both banks continue to make good progress and with the completion of the £75m institutional placing of shares in Secure Trust Bank PLC, Arbuthnot is well positioned for further growth.

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

**FINANCIAL HIGHLIGHTS**

- Reported profit before tax £9.5m (H1 2013: £2.0m)
- Underlying profit before tax £13.2m (see footnote)
- Customer loans £842m (H1 2013: £673m)
- Customer deposits £1,066m (H1 2013: £840m)
- Interim dividend per share 11p (H1 2013: 11p)

**OPERATIONAL HIGHLIGHTS****Retail Banking - Secure Trust Bank**

- Profit before tax £11.5m (H1 2013: £6.2m)
- Customer loans £448m (H1 2013: £366m)
- Customer deposits £477m (H1 2013: £387m)

**Private Banking - Arbuthnot Latham**

- Profit before tax £1.7m (H1 2013: £1.0m)
- Customer loans £394m (H1 2013: £307m)
- Customer deposits £589m (H1 2013: £453m)

Commenting on the results, Henry Angest, Chairman and Chief Executive of Arbuthnot, said: **“The Group has made good progress and following the successful raising of £75m of new capital is well placed to pursue the opportunities that exist in the banking industry.”**

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.

**Footnote** – Underlying Profit before tax, adjusted for Secure Trust Bank share option scheme costs of £0.8m, acquisition accounting adjustments of £2.7m and acquisition costs of £0.2m.

**ENQUIRIES:****Arbuthnot Banking Group**

020 7012 2400

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

**Canaccord Genuity Ltd (Nominated Advisor)**

020 7665 4500

Lawrence Guthrie  
Sunil Duggal

**Numis Securities Ltd (Broker)**

020 7260 1000

Chris Wilkinson  
Mark Lander

**Bell Pottinger (Financial PR)**

020 7861 3917

Ben Woodford  
Zoë Pocock



## Chairman's Statement

### Arbuthnot Banking Group PLC

I am pleased to report that Arbuthnot Banking Group continued to trade robustly during the first half of 2014. The Group has reported a profit before tax of £9.5m (H1 2013: £2.0m) with underlying profits of £13.2m. I also note that the Group has now exceeded £1bn in customer deposits for the first time.

Both of our banks have continued to deliver attractive products to their customers and have seen good growth in all of their business lines.

Although not included in these results, I am delighted to note that the Institutional share placing carried out by Secure Trust Bank, was successfully completed early in July. As a result, the Group's shareholding in STB now stands at 53.26%. The effect of this transaction is expected to result in an £73.15m increase in the net assets of the Group, which represents an increase of 81% compared to the position at 30 June 2014, all of which is available to support new business.

The Board is maintaining the interim dividend at 11p (gross) which will be paid on 3 October 2014 to shareholders on the register at 5 September 2014.

### Private banking subsidiary – Arbuthnot Latham & Co., Limited

Arbuthnot Latham reported a profit before tax for the half year of £1.7m (H1 2013: £1.0m), which reflects good momentum in the business. The investment in senior and experienced Bankers and Wealth Managers continued to have a positive impact in the development of a broader based business. There has also been a benefit from fluidity in the market that has seen many private banking clients seeking to diversify their existing relationships and move their business to Arbuthnot Latham.

Customer deposits have grown 30% to £588.9m and Customer loans have increased by 28% to £393.8m.

The Bank continued to see good quality lending transactions and supported its client base in the fulfilment of several high quality projects. Where appropriate, the opportunity to support clients in their entrepreneurial ambition and value creation is as much a feature of the Arbuthnot Latham philosophy as is the management of their wealth.

Investment assets under discretionary management grew by 32% from the prior year to £565.9m. The Bank continued to receive good inflows of new investment assets although investment markets generally have traded within a narrow range during the first half of this year.

The Dubai branch will celebrate its first anniversary at the end of July. The early signs for business development have been very positive and a number of new client relationships have been established. Dubai is an important centre for business in the Middle East region and the forecasts for business growth and general economic activity for the years ahead provide the background for an interesting diversification of business opportunities for Arbuthnot Latham.

Following a return to profitability of Gilliat Financial Solutions, we have been approached by a third party competitor and have agreed the sale of certain intellectual assets of the business, which will result in the cessation of the business in the third quarter of 2014. The outcome of this is not expected to have a material impact on the full year financial results of the Group.

### Retail banking subsidiary – Secure Trust Bank PLC

The Retail bank has reported a profit before tax of £11.5m (H1 2013: £6.2m) with record underlying profits of £15.2m, an increase of 48%.

The bank has continued to see strong demand for its loan products with the overall loan book closing at £447.8m, which is 22% higher than the prior year.

The Retail Finance business has begun its diversification into new markets. It has already managed to sign up a dozen top football clubs to provide finance to their season ticket holders. This has also been enhanced by take up with a number of rugby clubs and additionally the Welsh Rugby Union. Secure Trust Bank continues to enjoy excellent commercial relationships with the Association of Cycle Traders and Creative United (formerly the Arts Council England). The Association of Cycle Traders have recently renewed their term contract with Secure Trust Bank.

The SME finance proposition has developed as planned. The Real Estate Finance team has already grown its loan balances to £12m and has seen strong demand in the market with a pipeline of over £70m having been established.

The Invoice Finance division continues to build its team having recruited a number of executives and sales directors. The operating platform is being tested with a launch scheduled for the third quarter 2014.



Loan impairments have been well controlled and remain below rates that were anticipated when the loans were originated. The bank has maintained its cautious funding strategy and has no reliance on wholesale funding. Its loan to deposit and capital ratios remain strong.

The deposit book increased to £476.8m which is a year on year growth of 23%. Demand for the deposit product offer remains strong, as does the level of customer loyalty with a high level of reinvestment taking place on the maturity of medium term savings bonds.

### **Outlook**

The UK banking sector has continued to see a rebalancing, with the larger banks deleveraging and the resultant spare capacity being absorbed by those organisations that have strong balance sheets, access to funding and no constraints caused by exposure to legacy issues. Given the position that both of our banks have created in their respective markets, and the completion of the recent share placing, the Group has confidence in its future prospects and is looking forward to taking advantage of opportunities as they arise.

**Consolidated Statement of Comprehensive Income**

	Note	Six months ended 30 June 2014 £000	Six months ended 30 June 2013 £000
Interest income		50,909	40,931
Interest expense		(9,844)	(10,868)
<b>Net interest income</b>		<b>41,065</b>	<b>30,063</b>
Fee and commission income		18,240	14,062
Fee and commission expense		(2,123)	(927)
<b>Net fee and commission income</b>		<b>16,117</b>	<b>13,135</b>
<b>Operating income</b>		<b>57,182</b>	<b>43,198</b>
Net impairment loss on financial assets		(7,502)	(8,150)
Other income	2	-	842
Operating expenses		(40,155)	(33,853)
<b>Profit before income tax</b>		<b>9,525</b>	<b>2,037</b>
Income tax expense		(2,862)	(633)
<b>Profit for the period</b>		<b>6,663</b>	<b>1,404</b>
Revaluation reserve			
- Amount transferred to profit and loss		(2)	48
Cash flow hedging reserve			
- Effective portion of changes in fair value		378	7
<b>Other comprehensive income for the period, net of income tax</b>		<b>376</b>	<b>55</b>
<b>Total comprehensive income for the period</b>		<b>7,039</b>	<b>1,459</b>
<b>Profit attributable to:</b>			
Equity holders of the Company		3,873	5
Non-controlling interests		2,790	1,399
		<b>6,663</b>	<b>1,404</b>
<b>Total comprehensive income attributable to:</b>			
Equity holders of the Company		4,249	60
Non-controlling interests		2,790	1,399
		<b>7,039</b>	<b>1,459</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	25.3	-

**Consolidated Statement of Financial Position**

	At 30 June	
	2014	2013
	£000	£000
<b>ASSETS</b>		
Cash	172,402	117,724
Loans and advances to banks	98,474	82,168
Debt securities held-to-maturity	49,980	16,477
Derivative financial instruments	101	-
Loans and advances to customers	841,602	673,204
Other assets	18,573	17,110
Financial investments	1,622	3,358
Deferred tax asset	3,080	4,724
Investment in associate	943	-
Intangible assets	12,235	14,014
Property, plant and equipment	5,617	22,352
<b>Total assets</b>	<b>1,204,629</b>	<b>951,131</b>
<b>EQUITY AND LIABILITIES</b>		
<b>Equity attributable to owners of the parent</b>		
Share capital	153	153
Retained earnings	69,739	51,245
Other reserves	(1,091)	(1,198)
<b>Non-controlling interests</b>	<b>20,777</b>	<b>15,805</b>
<b>Total equity</b>	<b>89,578</b>	<b>66,005</b>
<b>LIABILITIES</b>		
Deposits from banks	1,619	1,163
Derivative financial instruments	-	6
Deposits from customers	1,065,678	840,358
Current tax liability	1,145	290
Other liabilities	33,123	29,755
Deferred tax liability	1,720	974
Debt securities in issue	11,766	12,580
<b>Total liabilities</b>	<b>1,115,051</b>	<b>885,126</b>
<b>Total equity and liabilities</b>	<b>1,204,629</b>	<b>951,131</b>



## Consolidated Statement of Changes in Equity

	Attributable to equity holders of the Group								
	Share capital	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
<b>Balance at 1 January 2014</b>	153	191	20	(169)	(378)	(1,131)	67,901	20,327	86,914
<b>Total comprehensive income for the period</b>									
Profit for the six months ended 30 June 2014	-	-	-	-	-	-	3,873	2,790	6,663
<b>Other comprehensive income, net of income tax</b>									
Revaluation reserve									
- Amount transferred to profit and loss	-	(2)	-	-	-	-	2	-	-
Cash flow hedging reserve									
- Effective portion of changes in fair value	-	-	-	-	378	-	-	-	378
<b>Total other comprehensive income</b>	-	(2)	-	-	378	-	2	-	378
<b>Total comprehensive income for the period</b>	-	(2)	-	-	378	-	3,875	2,790	7,041
<b>Transactions with owners, recorded directly in equity</b>									
<b>Contributions by and distributions to owners</b>									
Equity settled share based payment transactions	-	-	-	-	-	-	196	86	282
Final dividend relating to 2013	-	-	-	-	-	-	(2,233)	(2,426)	(4,659)
<b>Total contributions by and distributions to owners</b>	-	-	-	-	-	-	(2,037)	(2,340)	(4,377)
<b>Balance at 30 June 2014</b>	153	189	20	(169)	-	(1,131)	69,739	20,777	89,578

	Attributable to equity holders of the Group								
	Share capital	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
<b>Balance at 1 January 2013</b>	153	140	20	81	(363)	(1,131)	53,372	16,376	68,648
<b>Total comprehensive income for the period</b>									
Profit for the six months ended 30 June 2013	-	-	-	-	-	-	5	1,399	1,404
<b>Other comprehensive income, net of income tax</b>									
Cash flow hedging reserve reserve									
- Adjustment	-	48	-	-	-	-	(48)	-	-
- Effective portion of changes in fair value	-	-	-	-	7	-	-	-	7
<b>Total other comprehensive income</b>	-	48	-	-	7	-	(48)	-	7
<b>Total comprehensive income for the period</b>	-	48	-	-	7	-	(43)	1,399	1,411
<b>Transactions with owners, recorded directly in equity</b>									
<b>Contributions by and distributions to owners</b>									
Final dividend relating to 2012	-	-	-	-	-	-	(2,084)	(1,970)	(4,054)
<b>Total contributions by and distributions to owners</b>	-	-	-	-	-	-	(2,084)	(1,970)	(4,054)
<b>Balance at 30 June 2013</b>	153	188	20	81	(356)	(1,131)	51,245	15,805	66,005

**Consolidated Statement of Cash Flows**

	Six months ended 30 June 2014 £000	Six months ended 30 June 2013 £000
<b>Cash flows from operating activities</b>		
Interest received	53,775	40,471
Interest paid	(11,240)	(11,185)
Fees and commissions received	16,117	13,135
Net trading and other income	-	842
Cash payments to employees and suppliers	(54,805)	(38,252)
Taxation paid	(3,144)	(689)
Cash flows from operating profits before changes in operating assets and liabilities	703	4,322
Changes in operating assets and liabilities:		
- net decrease in derivative financial instruments	36	192
- net increase in loans and advances to customers	(100,071)	(91,678)
- net increase in other assets	(1,306)	(5,444)
- net (decrease)/increase in deposits from banks	(384)	790
- net increase/(decrease) in amounts due to customers	107,887	(54,187)
- net increase in other liabilities	2,106	6,734
<b>Net cash inflow/(outflow) from operating activities</b>	<b>8,971</b>	<b>(139,271)</b>
<b>Cash flows from investing activities</b>		
Purchase of computer software	(765)	(3,631)
Purchase of property, plant and equipment	(306)	(286)
Disposal of property, plant and equipment	-	2,000
Proceeds from sale of property, plant and equipment	42	11
Purchases of debt securities	(37,766)	(6,957)
Proceeds from redemption of debt securities	7,252	4,006
<b>Net cash outflow from investing activities</b>	<b>(31,543)</b>	<b>(4,857)</b>
<b>Cash flows from financing activities</b>		
Dividends paid	(4,659)	(4,054)
<b>Net cash used in financing activities</b>	<b>(4,659)</b>	<b>(4,054)</b>
<b>Net decrease in cash and cash equivalents</b>	<b>(27,231)</b>	<b>(148,182)</b>
Cash and cash equivalents at 1 January	298,107	348,074
<b>Cash and cash equivalents at 30 June</b>	<b>270,876</b>	<b>199,892</b>



## 1. Operating segments

The Group is organised into three main operating segments 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.
- 3) Group Centre – ABG Group Centre 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 balance sheet.

	Retail banking £000	UK Private banking £000	Group Centre £000	Total £000
<b>Six months ended 30 June 2014</b>				
Interest revenue	41,576	9,454	58	<b>51,088</b>
Inter-segment revenue	(31)	(87)	(61)	<b>(179)</b>
Interest revenue from external customers	41,545	9,367	(3)	<b>50,909</b>
Fee and commission income	11,227	7,013	-	<b>18,240</b>
<b>Revenue from external customers</b>	<b>52,772</b>	<b>16,380</b>	<b>(3)</b>	<b>69,149</b>
Interest expense	(7,213)	(2,460)	29	<b>(9,644)</b>
Subordinated loan note interest	-	-	(200)	<b>(200)</b>
Fee and commission expense	(1,825)	(298)	-	<b>(2,123)</b>
Add back inter-segment revenue	31	87	(118)	<b>-</b>
Segment operating income	43,765	13,709	(292)	<b>57,182</b>
Impairment losses	(6,352)	(1,150)	-	<b>(7,502)</b>
Operating expenses	(25,899)	(10,822)	(3,434)	<b>(40,155)</b>
Segment profit / (loss) before tax	11,514	1,737	(3,726)	<b>9,525</b>
Income tax (expense) / income	(3,057)	(88)	283	<b>(2,862)</b>
<b>Segment profit / (loss) after tax</b>	<b>8,457</b>	<b>1,649</b>	<b>(3,443)</b>	<b>6,663</b>
Loans and advances to customers	447,848	393,754	-	<b>841,602</b>
Other assets	122,576	290,903	(50,452)	<b>363,027</b>
<b>Segment total assets</b>	<b>570,424</b>	<b>684,657</b>	<b>(50,452)</b>	<b>1,204,629</b>
Customer deposits	476,783	588,895	-	<b>1,065,678</b>
Other liabilities	30,209	65,752	(46,588)	<b>49,373</b>
<b>Segment total liabilities</b>	<b>506,992</b>	<b>654,647</b>	<b>(46,588)</b>	<b>1,115,051</b>
Other segment items:				
Capital expenditure	(625)	(445)	(1)	<b>(1,071)</b>
Depreciation and amortisation	(1,488)	(308)	(6)	<b>(1,802)</b>

The “Group Centre” segment above includes the parent entity and all intercompany eliminations. Segment profit is shown prior to any intra-group eliminations. The UK private bank opened a branch in Dubai in 2013, the results of which are currently immaterial. All other operations of the Group are conducted wholly within the United Kingdom and therefore geographical information is not presented.





	Retail banking £000	UK Private banking £000	Group Centre £000	Total £000
<b>Six months ended 30 June 2013</b>				
Interest revenue	33,171	7,876	50	<b>41,097</b>
Inter-segment revenue	-	(116)	(50)	<b>(166)</b>
Interest revenue from external customers	33,171	7,760	-	<b>40,931</b>
Fee and commission income	8,163	5,899	-	<b>14,062</b>
<b>Revenue from external customers</b>	<b>41,334</b>	<b>13,659</b>	<b>-</b>	<b>54,993</b>
Interest expense	(6,602)	(4,108)	50	<b>(10,660)</b>
Subordinated loan note interest	-	-	(208)	<b>(208)</b>
Fee and commission expense	(743)	(184)	-	<b>(927)</b>
Add back inter-segment revenue	-	116	(116)	<b>-</b>
Segment operating income	33,989	9,483	(274)	<b>43,198</b>
Impairment losses	(7,541)	(609)	-	<b>(8,150)</b>
Other income	17	825	-	<b>842</b>
Operating expenses	(20,258)	(8,729)	(4,866)	<b>(33,853)</b>
Segment profit / (loss) before tax	6,207	970	(5,140)	<b>2,037</b>
Income tax (expense) / income	(1,375)	424	318	<b>(633)</b>
<b>Segment profit / (loss) after tax</b>	<b>4,832</b>	<b>1,394</b>	<b>(4,822)</b>	<b>1,404</b>
Loans and advances to customers	365,786	307,418	-	<b>673,204</b>
Other assets	98,042	205,536	(25,651)	<b>277,927</b>
<b>Segment total assets</b>	<b>463,828</b>	<b>512,954</b>	<b>(25,651)</b>	<b>951,131</b>
Customer deposits	387,291	453,067	-	<b>840,358</b>
Other liabilities	27,317	34,012	(16,561)	<b>44,768</b>
<b>Segment total liabilities</b>	<b>414,608</b>	<b>487,079</b>	<b>(16,561)</b>	<b>885,126</b>
Other segment items:				
Capital expenditure	(347)	(453)	-	<b>(800)</b>
Depreciation and amortisation	(1,524)	(326)	(6)	<b>(1,856)</b>

## 2. Other income

Other income for 2013 mainly consist out of rental income received from the letting of the premises at Wilson Street.

## 3. Underlying profit reconciliation

The profit before tax as reported in the operating segments can be reconciled to the underlying profit for the year as disclosed in the tables below.

	Arbuthnot Latham & Co. £000	Secure Trust Bank £000	Arbuthnot Banking Group £000
<b>Underlying profit reconciliation</b>			
<b>Six months ended 30 June 2014</b>			
Profit before tax	1,737	11,514	9,525
ELL & V12 fair value amortisation	-	2,767	2,767
STB acquisition costs	-	183	183
STB share options	-	754	754
<b>Underlying profit</b>	<b>1,737</b>	<b>15,218</b>	<b>13,229</b>

Basic earnings per share (pence)

38.1

	Arbuthnot Latham & Co. £000	Secure Trust Bank £000	Arbuthnot Banking Group £000
<b>Underlying profit reconciliation</b>			
<b>Six months ended 30 June 2013</b>			
Profit before tax	970	6,207	2,037
ELL & V12 fair value amortisation	-	2,766	2,766
STB acquisition costs	-	384	384



STB share options	-	1,021	1,021
ABG share options	-	-	1,021
<b>Underlying profit</b>	<b>970</b>	<b>10,378</b>	<b>7,229</b>

Basic earnings per share (pence) 20.7

#### 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 £3,873,000 (2013: £5,000) by the weighted average number of ordinary shares 15,279,322 (2013: 15,279,322) 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 2013 statutory accounts as amended by standards and interpretations effective during 2014 and in accordance with IAS 34 "Interim Financial Reporting". The directors do not consider the fair value of the assets and liabilities presented in these financial statements to be materially different from their carrying value.

The statements were approved by the Board of Directors on 21 July 2014 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.

#### 6. Events after the balance sheet date

On 19 June 2014 Secure Trust Bank PLC announced a proposed placing to institutional investors of 3,125,000 Ordinary Shares in aggregate, comprising 2,083,333 new Ordinary Shares to be issued by Secure Trust Bank PLC and 1,041,667 existing Ordinary Shares to be sold by Arbuthnot Banking Group PLC.

On 9 July 2014 the new and existing shares were placed at a price of £24.00 per share following approval of the Resolutions for the issue and allotment of the new Ordinary Shares at a General Meeting. The placing of the shares raised £73.15 million, net of estimated expenses, whilst the shareholding of Ordinary Shares by Arbuthnot Banking Group PLC post-placing reduced from 67.0% to 53.3% of the new enlarged issued share capital of Secure Trust Bank PLC.