



18 July 2013

For immediate release

ARBUTHNOT BANKING GROUP (“Arbuthnot”, “the Group” or “ABG”)
Results for the six months to 30 June 2013
“Sustained growth”

Arbuthnot Banking Group has seen good growth in all of its businesses in the first half of 2013. The retail bank has completed the acquisition of V12 Retail Finance Group and the business of Debt Managers Ltd and the private bank is opening an office in Dubai.

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

FINANCIAL HIGHLIGHTS

- Underlying profit before tax £7.2m (see footnote)
- Underlying profit growth 64%
- Reported profit before tax £2.0m (H1 2012: £10.8m)
- Customer loans £673m (H1 2012: £543m)
- Customer deposits £840m (H1 2012: £704m)
- Interim dividend per share 11p (H1 2012: 11p)

OPERATIONAL HIGHLIGHTS

Retail Banking - Secure Trust Bank

- Profit before tax £6.2m (H1 2012: £12.5m)
- Underlying profit growth 37%
- Customer loans £366m (H1 2012: £260m)
- Customer deposits £387m (H1 2012: £298m)
- Successful integration of recent acquisitions
- New loan referral programme agreed with a significant retail bank and scheduled to commence shortly

Private Banking - Arbuthnot Latham

- Profit before tax £1m (H1 2012: £1.4m)
- Customer loans £307m (H1 2012: £283m)
- Customer deposits £453m (H1 2012: £406m)
- Launching wealth management advisory business in Dubai

Commenting on the results, Henry Angest, Chairman and Chief Executive of Arbuthnot, said: **“The Group has made good progress so far this year and continues to exploit the many varied opportunities that currently exist in the markets in which we operate.”**

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 Group Executive share option scheme costs of £1m, Secure Trust Bank share option scheme costs of £1m and acquisition accounting adjustments of £3.2m.

ENQUIRIES:

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

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Chairman's Statement

Arbuthnot Banking Group PLC

I am pleased to report that Arbuthnot Banking Group continued its sustained growth in the first half of 2013. The Group has reported a pre-tax profit of £2.0m (H1 2012: £10.8m) with an underlying profit of £7.2m, which is adjusted for £2.0m in option scheme costs both at the Group level and Secure Trust Bank and £3.2m, being the amortisation of acquired intangibles and other accounting adjustments required as a result of the recent acquisitions.

Both of our banks are increasing the number of customers who they serve, and continue to broaden their distribution channels. I am delighted that Arbuthnot Latham has rekindled our ambitions to operate overseas by launching a wealth management advisory service in Dubai.

I also expect that both banks will finally be able to draw funds under the Funding for Lending Scheme (FLS) during the second half of 2013, as they have either completed or are in the final stages of completing the necessary documentation with the Bank of England.

The Board is maintaining the interim dividend at 11p (gross), which will be paid on 4 October 2013 to shareholders on the register at 6 September 2013.

Private banking subsidiary – Arbuthnot Latham & Co., Limited

Arbuthnot Latham's reported profit before tax is £1.0m (H1 2012: £1.4m) which is consistent with the second half of 2012, where the business took the opportunity to invest in the future by hiring a number of well qualified senior bankers. These favourable hiring conditions continued in the first half and a further three senior executives joined the bank.

The bank continues to see a good flow of attractive lending propositions being presented to it and has grown the loan portfolio by 8% to £307m.

The deposit book has grown by 12% over the past twelve months to £453m. As expected, a large proportion of higher yielding retail deposits have matured. These have been replaced by less expensive deposits. This change in mix is expected to continue during the second half of 2013 as more deposits mature and as the bank is able to access the FLS.

The advisory side of the business has seen a positive reaction to the introduction of the Retail Distribution Review (RDR), with discretionary assets under management increasing by 28% to £430m.

Gilliat Financial Solutions, our provider of structured products, increased its sales volumes by 25% to £74m.

Finally, as part of celebrating its 180th year, Arbuthnot Latham hosted a gala dinner at the Guildhall in May and at the same time published a book that provides a comprehensive record of the bank's history with an entertaining foreword penned by the Mayor of London, Boris Johnson.

Retail banking subsidiary – Secure Trust Bank PLC

Secure Trust Bank has reported a profit before tax of £6.2m (H1 2012: £12.5m). However, the prior year results included the one off bargain purchase gain arising on the acquisition of Everyday Loans. Also, the current year results have been reduced by the subsequent amortisation of intangibles. Once these adjustments are made the business has grown its underlying profit by 37%.

As the bank continues to develop the breadth of its distribution channels, the number of customers that the business now serves has grown to 325,052, which is 64% higher than the previous year. This should be further enhanced by the recent completion of a loan referral agreement with a significant retail bank.

The bank has continued to see strong demand for its loan products with the overall loan book closing at £366m, which is 41% higher than the prior year. The level of loan impairments remains well controlled and is currently below rates that were expected when the loans were originated.

The deposit book increased to £387m, which is a year on year growth of 30%. The strength of the bank's funding base has been further enhanced as the bank accessed the FLS early in the second half of 2013.

A year has now passed since the completion of the acquisition of Everyday Loans and the business has performed well. The integration has been completed and it is now embarking on its own growth strategy. In the first half of 2013, Everyday Loans has opened new branches in Belfast and Ipswich, with further expansion planned in the second half, including a new branch in Edinburgh.



ARBUTHNOT BANKING GROUP PLC

The other acquisitions made earlier in the year have also been smoothly integrated. The combination of V12 Retail Finance Group and the existing retail finance within Secure Trust Bank means that the bank is now the largest provider of finance for cycles and musical instruments in the UK.

Furthermore, Secure Trust Bank is planning to extend its capabilities by entering into SME lending and providing finance to enable sports fans to spread the cost of buying their season tickets.

Outlook

Both businesses have traded as expected in the first half of 2013. We anticipate that a higher profitability run rate will emerge in the second half. This is due to the fact that net margins are improving, with the reduced cost of funding together with the increasing lending volumes. It is for these reasons that we are confident about the prospects for the rest of the year.

**Consolidated Statement of Comprehensive Income**

	Note	Six months ended 30 June 2013 £000	Six months ended 30 June 2012 £000
Interest income		40,931	22,438
Interest expense		(10,868)	(6,840)
Net interest income		30,063	15,598
Fee and commission income		14,062	10,857
Fee and commission expense		(927)	(254)
Net fee and commission income		13,135	10,603
Gains less losses from dealing in securities		-	(314)
Operating income		43,198	25,887
Net impairment loss on financial assets		(8,150)	(3,679)
Other income	2	842	9,947
Operating expenses	3	(33,853)	(21,387)
Profit before income tax from continuing operations		2,037	10,768
Income tax expense		(633)	(133)
Profit after income tax from continuing operations		1,404	10,635
Loss from discontinued operations after tax		-	(210)
Profit for the period		1,404	10,425
Foreign currency translation reserve		-	570
Revaluation reserve			
Cash flow hedging reserve			
- Effective portion of changes in fair value		7	(97)
Other comprehensive income for the period, net of income tax		7	473
Total comprehensive income for the period		1,411	10,898
Profit attributable to:			
Equity holders of the Company		5	7,783
Non-controlling interests		1,399	2,642
		1,404	10,425
Total comprehensive income attributable to:			
Equity holders of the Company		12	8,256
Non-controlling interests		1,399	2,642
		1,411	10,898
Earnings per share for profit attributable to the equity holders of the Company during the period (expressed in pence per share):			
- basic and fully diluted	4	-	50.9

**Consolidated Statement of Financial Position**

	At 30 June	
	2013	2012
	£000	£000
ASSETS		
Cash	117,724	129,137
Loans and advances to banks	82,168	50,249
Debt securities held-to-maturity	16,477	32,757
Loans and advances to customers	673,204	543,379
Current tax asset	-	483
Other assets	17,110	10,141
Financial investments	3,358	3,269
Deferred tax asset	4,724	5,967
Intangible assets	14,014	8,618
Property, plant and equipment	22,352	6,055
Total assets	951,131	790,055
EQUITY AND LIABILITIES		
Equity attributable to owners of the parent		
Share capital	153	153
Retained earnings	51,245	48,358
Other reserves	(1,198)	(1,397)
Non-controlling interests	15,805	8,640
Total equity	66,005	55,754
LIABILITIES		
Deposits from banks	1,163	1,113
Derivative financial instruments	6	1,008
Deposits from customers	840,358	703,661
Current tax liability	290	-
Other liabilities	29,755	16,727
Deferred tax liability	974	-
Debt securities in issue	12,580	11,792
Total liabilities	885,126	734,301
Total equity and liabilities	951,131	790,055



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



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

**Consolidated Statement of Cash Flows**

	Six months ended 30 June 2013 £000	Six months ended 30 June 2012 £000
Cash flows from operating activities		
Interest and similar income received	40,471	22,540
Interest and similar charges paid	(11,185)	(7,302)
Fees and commissions received	13,135	10,603
Net trading and other income	842	9,516
Cash payments to employees and suppliers	(38,252)	(29,061)
Taxation paid	(689)	(159)
Cash flows from operating profits before changes in operating assets and liabilities	4,322	6,137
Changes in operating assets and liabilities:		
- net decrease in derivative financial instruments	192	1,959
- net increase in loans and advances to customers	(91,678)	(156,946)
- net (increase)/decrease in other assets	(5,444)	2,178
- net increase in deposits from banks	790	1,105
- net (decrease)/increase in amounts due to customers	(54,187)	9,861
- net increase in other liabilities	6,734	543
Net cash outflow from operating activities	(139,271)	(135,163)
Cash flows from investing activities		
Disposal of financial investments	-	567
Purchase of computer software	(3,631)	(152)
Purchase of property, plant and equipment	(286)	(1,251)
Disposal of property, plant and equipment	2,000	-
Proceeds from sale of property, plant and equipment	11	-
Purchases of debt securities	(6,957)	(43,127)
Proceeds from redemption of debt securities	4,006	50,449
Net cash from investing activities	(4,857)	6,486
Cash flows from financing activities		
Dividends paid	(4,054)	(2,081)
Net cash used in financing activities	(4,054)	(2,081)
Net decrease in cash and cash equivalents	(148,182)	(130,758)
Cash and cash equivalents at 1 January	348,074	310,144
Cash and cash equivalents at 30 June	199,892	179,386



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 2013						
Interest revenue	-	33,171	7,876	50	41,097	
Inter-segment revenue	-	-	(116)	(50)	(166)	
Interest revenue from external customers	-	33,171	7,760	-	40,931	
Fee and commission income	-	8,163	5,899	-	14,062	
Revenue from external customers	-	41,334	13,659	-	54,993	
Interest expense	-	(6,602)	(4,108)	50	(10,660)	
Subordinated loan note interest	-	-	-	(208)	(208)	
Segment operating income	-	33,989	9,483	(274)	43,198	
Segment profit / (loss) before tax	-	6,207	970	(5,140)	2,037	
Income tax (expense) / income	-	(1,375)	424	318	(633)	
Segment profit / (loss) after tax	-	4,832	1,394	(4,822)	1,404	1,404
Segment total assets	-	463,828	512,954	(25,651)	951,131	951,131
Segment total liabilities	-	414,608	487,079	(16,671)	885,016	885,016
Other segment items:						
Capital expenditure	-	(347)	(453)	-	(800)	(800)
Depreciation and amortisation	-	(1,524)	(326)	(6)	(1,856)	(1,856)

The "Group" segment above includes the parent entity and all intercompany eliminations.



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	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	-	20,964	12,331	-	33,295	
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	(210)	11,806	1,437	(2,608)	10,635	10,425
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)

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

All the Group's operations are currently conducted wholly within the United Kingdom and geographical information is therefore not presented.

2. Other income

On 3 August 2012 the Group acquired freehold premises at 7-21 Wilson Street, London, EC2M 2TD for £15.7 million plus acquisition costs (including stamp duty) of £1.1m. It is intended that in due course the building will become the head office for Arbuthnot Banking Group PLC ("ABG"), the principal location for Arbuthnot Latham & Co., Limited ("AL") and London offices for Secure Trust Bank PLC. 7-21 Wilson Street is currently let at a rent of £1.65 million per annum. The lease is due to expire on 1 October 2013 and as the building will be 25 years old it is planned that a renovation and fit out programme will be undertaken. The lease on the Group's current premises at 20 Ropemaker Street, London, EC2Y 9AR has a break option in June 2015. The Group has exercised the break option and will move together with AL to Wilson Street in June 2015. As it is intended to use this building as the principal office for AL, the building has been classified as freehold land and buildings in these financial statements. Other income for 2013 mainly consist out of rental income received (£825k) from the letting of the premises at Wilson Street.

On 20 March 2012 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 in 2012. Up to the date of sale, the purchaser funded most of the running costs for this entity. This is also included in other income in 2012, 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 "ELL"). STB acquired ELL for consideration of £1. Upon acquisition STB provided funding so that ELL could redeem the remaining £34 million of subordinated debt and also provided a loan facility of £37 million to refinance ELL's existing bank debt and to fund future loans. Included in other income in 2012 is a gain on acquisition of £8.9m, which arose from fair value adjustments and the recognition of intangible assets. This is expected to amortise through the profit and loss account over the next 2 to 3 years.



3. Operating expenses

Included in operating expenses are £2.0m of share option scheme costs and £3.2m of costs relating to the amortisation of acquired intangibles and other accounting adjustments required as a result of the recent acquisitions.

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 £5,000 (2012: profit of £7,783,000) by the weighted average number of ordinary shares 15,279,322 (2012: 15,279,322) in issue during the year. There is no difference between basic and fully diluted earnings per ordinary share.

5. Acquisition of V12 Finance Group Limited

On 2 January 2013 Secure Trust Bank acquired 100% of the ordinary share capital of V12 Finance Group Limited, which along with its wholly owned subsidiaries V12 Retail Finance Limited and V12 Personal Finance Limited provide retail loans, typically for 12 months on an unsecured basis to consumers who are predominantly classified as prime borrowers. The cash consideration for the companies of £3.5 million was paid on completion. The acquisition is complementary to the Group's existing retail finance proposition and the V12 management team will continue in the business.

As part of the acquisition Secure Trust Bank provided funding such that the V12 Finance Group could redeem £7.0 million of subordinated debt and repay existing bank finance amounting to £28.1 million.

The acquisition of V12 Finance Group Limited is accounted for in accordance with IFRS 3 'Business Combinations', which requires the recognition of the identifiable assets acquired and liabilities assumed at their acquisition date fair values. As part of this process, it is also necessary to identify and recognise certain assets and liabilities which are not included on the acquiree's balance sheet, for example intangible assets. The exercise to fair value the balance sheet is inherently subjective and required management to make a number of assumptions and estimates.

The following unaudited assets were acquired as part of the acquisition of the V12 Finance Group Limited and its wholly owned subsidiary entities:

	Acquired assets / liabilities £000	Fair value adjustments £000	Recognised values on acquisition £000
Cash at bank	150	-	150
Loans and advances to customers	32,744	-	32,744
Property, plant and equipment	176	-	176
Intangible assets	17	5,443	5,460
Deferred tax assets	292	-	292
Prepayments and accrued income	546	-	546
Other assets	73	-	73
Total assets	33,998	5,443	39,441
Loans and debt securities	35,076	-	35,076
Deferred tax liability	34	1,252	1,286
Accruals and deferred income	126	-	126
Other liabilities	150	-	150
Total liabilities	35,386	1,252	36,638
Net identifiable (liabilities)/assets	(1,388)	4,191	2,803
Consideration			3,507
Goodwill arising on acquisition			704



6. Acquisition of Debt Managers

On 15 January 2013 Debt Managers (Services) Limited (DMS), a wholly owned subsidiary of Secure Trust Bank PLC, acquired certain trade and assets from Debt Managers Holdings Ltd, Debt Managers (AB) Limited and Debt Managers Limited (together "Debt Managers"). Debt Managers collects debt on behalf of a range of clients including banks and utility companies.

Key benefits of this acquisition to Secure Trust Bank PLC include:

- Broadening the income base of Secure Trust Bank PLC without the requirement for large amounts of capital;
- The acquisition of a scalable collections platform through which Secure Trust Bank PLC intends to channel its delinquent debt; and
- The acquisition of the latest call centre and collections technology, including market leading dialler capability, IVR technology and payment websites.

DMS acquired Debt Managers for an initial cash payment of £0.4 million paid on completion of the transaction. In addition deferred consideration of up to £0.3 million in cash is payable by the Secure Trust Bank PLC one year after completion subject in part to the business achieving certain income criteria. It is the opinion of the management of DMS that only £0.1 million of this deferred consideration is likely to be paid out.

The acquired assets included a software platform jointly developed with a third party. Upon completion the rights to this software were sold to that third party for consideration of £2 million. DMS then proceeded to lease back the internal rights to use this software. On completion Secure Trust Bank PLC provided DMS with £2.2 million of funding to clear an outstanding overdraft of £1.8 million and to fund the working capital requirements of DMS.

	Acquired assets / liabilities £000	Fair value adjustments £000	Recognised values on acquisition £000
Clients cash at bank	1,362	-	1,362
Trade debtors	664	-	664
Property, plant and equipment	67	-	67
Intangible assets	1,250	750	2,000
Prepayments and accrued income	246	-	246
Other assets	207	-	207
Total assets	3,796	750	4,546
Bank overdraft	1,846	-	1,846
Client account	1,301	-	1,301
Deferred tax liabilities	-	173	173
Accruals and deferred income	194	-	194
Other liabilities	535	-	535
Total liabilities	3,876	173	4,049
Net identifiable (liabilities)/assets	(80)	577	497
Consideration			519
Goodwill			22

7. Basis of reporting

The interim financial statements have been prepared on the basis of accounting policies set out in the Group's 2012 statutory accounts as amended by standards and interpretations effective during 2013. The statements were approved by the Board of Directors on 17 July 2013 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.