



ARBUTHNOT BANKING GROUP PLC

21 July 2015

For immediate release

**ARBUTHNOT BANKING GROUP (“Arbuthnot”, “the Group” or “ABG”)**  
Results for the six months to 30 June 2015  
“Profitable Growth”

Arbuthnot Banking Group is pleased to announce a half yearly profit before tax of £15.7m, an increase of 65% compared to the same period last year.

Both banks have continued to grow well and invest for the future.

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

**FINANCIAL HIGHLIGHTS**

- Profit before tax an increase of 65% to £15.7m (H1 2014: £9.5m)
- Underlying profit before tax an increase of 30% to £17.1m (H1 2014: £13.2m)
- Customer loans £1.4bn (H1 2014: £842m)
- Customer deposits £1.6bn (H1 2014: £1.1bn)
- Interim dividend per share 12p (H1 2014: 11p)

**OPERATIONAL HIGHLIGHTS**

**Private Banking - Arbuthnot Latham**

- Profit before tax an increase of 111% to £3.7m (H1 2014: £1.7m)
- Customer loans £584m (H1 2014: £394m)
- Customer deposits £770m (H1 2014: £589m)
- Assets Under Management £701m (H1 2014: £566m)

**Retail Banking - Secure Trust Bank**

- Profit before tax an increase of 40% to £16.1m (H1 2014: £11.5m)
- Customer loans £852m (H1 2014: £448m)
- Customer deposits £835m (H1 2014: £477m)

Commenting on the results, Sir Henry Angest, Chairman and Chief Executive of Arbuthnot, said: **“The Group has continued its profitable growth and as a result the Board has decided to increase the interim dividend. Both banks have detected an improvement in customer sentiment following the decisive result of the general election.”**

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 £0.3m and acquisition accounting adjustments of £1m and Arbuthnot Latham transformation project costs of £0.2m.

**ENQUIRIES:**

**Arbuthnot Banking Group**

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

020 7012 2400

**Canaccord Genuity Ltd (Nominated Advisor)**

Sunil Duggal  
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020 7665 4500

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Chris Wilkinson

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## Chairman's Statement

### Arbuthnot Banking Group PLC

I am pleased to report that Arbuthnot Banking Group has continued its profitable growth throughout the first half of 2015. The Group has recorded a profit before tax of £15.7m (H1 2014: £9.5m), which is an increase of 65% compared to the same period last year. Customer loan balances continue to grow and now stand at £1.4bn and customer deposits have exceeded £1.5bn for the first time.

As a result of the growth in profits the Board has decided to increase the interim dividend by 1p to 12p which will be paid on 2 October 2015 to shareholders on the register at 4 September 2015.

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

Arbuthnot Latham has reported a profit before tax for the half year of £3.7m (H1 2014: £1.7m), an increase of nearly 111%. This is a result of the bank's investment by hiring additional private bankers over the past two years, which has now led to a substantial increase in new clients opening accounts.

In addition to recruitment in London, the bank has also developed in its other markets. The South West regional office in Exeter has agreed a lease and will move into its new offices in the second half of 2015. The North West regional office in Manchester has completed further recruitment of both private bankers and a wealth planner. The Dubai office will break even in July 2015, as expected, just two years after opening for business.

The bank has shown good growth, with customer loans increasing to £584m (H1 2014: £394m), deposits up by 31% to £770m (H1 2014: £589m) and assets under management growing to £701m (H1 2014: £566m).

Included in customer loans is £101m of the residential mortgage portfolio that was purchased in December 2014. As planned at the time of acquisition, the bank successfully transferred ownership of the loans into its own name in June and at the same time entered into a servicing agreement with Exact Mortgages.

As the momentum within the business has grown, the bank has embarked on three significant investment initiatives to support its future growth. Firstly, the bank has begun a transformational upgrade of its operations. The programme includes paperless workflow, standardised customer interaction and the implementation of a new banking platform. The work is expected to be completed by the end of 2016. Secondly, Arbuthnot Latham has agreed heads of terms to secure 10,000 square feet of additional office space in the City on a short term lease to be occupied in the second half of 2015. Finally, the bank is embarking on its expansion into Commercial Banking. Initially, the focus will be on providing business banking services to its entrepreneurial private banking clients. Recruitment for the new business stream is already underway with several new bankers expected to join in the remaining months of 2015. This proposition is not expected to launch until 2016.

### Retail banking subsidiary – Secure Trust Bank PLC

The retail bank has reported a record level of first half profits at £16.1m (H1 2014: £11.5m), which represents an increase of 40% on the prior year.

The business has continued to implement its strategic plan following the significant capital raising it carried out in 2014. As a result it has seen continued positive trends in its customer lending balances, which overall have grown by 90% compared to the prior year period to stand at £852m (H1 2014: £448m).

Of the more established Consumer Finance businesses, Motor Finance and Retail Finance have performed well. The Motor Finance book has increased to £152m from £128m a year ago, an increase of 19%. The Retail Finance lending has grown to £163m from £91m driven by good lending volumes generated from the sport and leisure and cycle businesses.

The SME Lending growth has exceeded expectations, largely due to the Real Estate and Asset Finance products. The Real Estate Finance loan balances have increased to £266m from £13m at 30 June 2014, which was shortly after we had started this line of business. The Asset Finance portfolio has risen to £30m and invoice finance now stands at £16m, both of which commenced business within the last year and are now fully established.

The growth in the portfolios continues to be controlled according to our strict lending criteria, with impairments at levels well below our expectations at the time the loans were originated.

Secure Trust Bank remains funded from the retail deposit markets. During the first six months of 2015 the bank continued to see a good flow of deposits and has grown the customer deposit balances to £835m (H1 2014: £477m), an increase of 75%.

### Outlook

The economic environment remains favourable, which should allow both banks to continue their growth. With a business friendly government in office for the next five years, we expect the banks will maintain their momentum and continue their long term investment plans. As ever, we remain vigilant as to the political and economic events that are developing in Europe, and elsewhere.

## Consolidated Statement of Comprehensive Income

	Note	Six months ended 30 June 2015 £000	Six months ended 30 June 2014 £000
Interest income		77,374	50,909
Interest expense		(12,925)	(9,844)
<b>Net interest income</b>		<b>64,449</b>	<b>41,065</b>
Fee and commission income		16,373	18,240
Fee and commission expense		(1,815)	(2,123)
<b>Net fee and commission income</b>		<b>14,558</b>	<b>16,117</b>
<b>Operating income</b>		<b>79,007</b>	<b>57,182</b>
Net impairment loss on financial assets		(11,926)	(7,502)
Operating expenses		(51,345)	(40,155)
<b>Profit before income tax</b>		<b>15,736</b>	<b>9,525</b>
Income tax expense		(3,038)	(2,862)
<b>Profit for the period</b>		<b>12,698</b>	<b>6,663</b>
Revaluation reserve			
- Amount transferred to profit and loss		-	(2)
Cash flow hedging reserve			
- Effective portion of changes in fair value		-	378
<b>Other comprehensive income for the period, net of income tax</b>		<b>-</b>	<b>376</b>
<b>Total comprehensive income for the period</b>		<b>12,698</b>	<b>7,039</b>
<b>Profit attributable to:</b>			
Equity holders of the Company		6,507	3,873
Non-controlling interests		6,191	2,790
		<b>12,698</b>	<b>6,663</b>
<b>Total comprehensive income attributable to:</b>			
Equity holders of the Company		6,507	4,249
Non-controlling interests		6,191	2,790
		<b>12,698</b>	<b>7,039</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	3	42.6	25.3
- diluted	3	42.4	25.3

## Consolidated Statement of Financial Position

	At 30 June	
	2015	2014
	£000	£000
<b>ASSETS</b>		
Cash	224,678	172,402
Loans and advances to banks	35,865	98,474
Debt securities held-to-maturity	98,143	49,980
Derivative financial instruments	1,634	101
Loans and advances to customers	1,436,381	841,602
Other assets	17,269	18,573
Financial investments	1,108	1,622
Deferred tax asset	1,770	3,080
Investment in associate	943	943
Intangible assets	11,100	12,235
Property, plant and equipment	13,475	5,617
<b>Total assets</b>	<b>1,842,366</b>	<b>1,204,629</b>
<b>EQUITY AND LIABILITIES</b>		
<b>Equity attributable to owners of the parent</b>		
Share capital	153	153
Retained earnings	118,822	69,739
Other reserves	(1,263)	(1,091)
<b>Non-controlling interests</b>	<b>61,716</b>	<b>20,777</b>
<b>Total equity</b>	<b>179,428</b>	<b>89,578</b>
<b>LIABILITIES</b>		
Deposits from banks	10,871	1,619
Deposits from customers	1,604,929	1,065,678
Current tax liability	5,487	1,145
Other liabilities	31,256	33,123
Deferred tax liability	-	1,720
Debt securities in issue	10,395	11,766
<b>Total liabilities</b>	<b>1,662,938</b>	<b>1,115,051</b>
<b>Total equity and liabilities</b>	<b>1,842,366</b>	<b>1,204,629</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 2015</b>	153	98	20	(250)	-	(1,131)	114,641	60,038	173,569
<b>Total comprehensive income for the period</b>									
Profit for the six months ended 30 June 2015	-	-	-	-	-	-	6,507	6,191	12,698
<b>Other comprehensive income, net of income tax</b>									
Revaluation reserve									
Cash flow hedging reserve									
<b>Total comprehensive income for the period</b>	-	-	-	-	-	-	6,507	6,191	12,698
<b>Transactions with owners, recorded directly in equity</b>									
<b>Contributions by and distributions to owners</b>									
Equity settled share based payment transactions	-	-	-	-	-	-	56	36	92
Final dividend relating to 2014	-	-	-	-	-	-	(2,382)	(4,549)	(6,931)
<b>Total contributions by and distributions to owners</b>	-	-	-	-	-	-	(2,326)	(4,513)	(6,839)
<b>Balance at 30 June 2015</b>	153	98	20	(250)	-	(1,131)	118,822	61,716	179,428

	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>									
Cash flow hedging reserve									
- Adjustment	-	(2)	-	-	-	-	2	-	-
- 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

## Consolidated Statement of Cash Flows

	Six months ended 30 June 2015 £000	Six months ended 30 June 2014 £000
<b>Cash flows from operating activities</b>		
Interest received	73,555	53,775
Interest paid	(12,512)	(11,240)
Fees and commissions received	11,482	16,117
Cash payments to employees and suppliers	(49,020)	(54,804)
Taxation paid	(1,163)	(3,144)
Cash flows from operating profits before changes in operating assets and liabilities	22,342	704
Changes in operating assets and liabilities:		
- net decrease in derivative financial instruments	6	36
- net increase in loans and advances to customers	(283,097)	(100,072)
- net increase in other assets	(403)	(1,306)
- net decrease in deposits from banks	(16,786)	(384)
- net increase in amounts due to customers	410,644	107,887
- net (decrease)/increase in other liabilities	(3,728)	2,106
<b>Net cash inflow from operating activities</b>	<b>128,978</b>	<b>8,971</b>
<b>Cash flows from investing activities</b>		
Purchase of financial investments	(1,580)	-
Disposal of financial investments	1,602	-
Purchase of computer software	(1,200)	(765)
Purchase of property, plant and equipment	(1,648)	(306)
Proceeds from sale of property, plant and equipment	-	42
Purchases of debt securities	(152,243)	(37,766)
Proceeds from redemption of debt securities	145,783	7,252
<b>Net cash outflow from investing activities</b>	<b>(9,286)</b>	<b>(31,543)</b>
<b>Cash flows from financing activities</b>		
Dividends paid	(6,931)	(4,659)
<b>Net cash used in financing activities</b>	<b>(6,931)</b>	<b>(4,659)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>112,761</b>	<b>(27,231)</b>
Cash and cash equivalents at 1 January	147,782	298,107
<b>Cash and cash equivalents at 30 June</b>	<b>260,543</b>	<b>270,876</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 2015</b>				
Interest revenue	64,162	13,460	60	<b>77,682</b>
Inter-segment revenue	(159)	(89)	(60)	<b>(308)</b>
Interest revenue from external customers	64,003	13,371	-	<b>77,374</b>
Fee and commission income	9,482	6,891	-	<b>16,373</b>
<b>Revenue from external customers</b>	<b>73,485</b>	<b>20,262</b>	<b>-</b>	<b>93,747</b>
Interest expense	(9,769)	(3,162)	172	<b>(12,759)</b>
Subordinated loan note interest	-	-	(166)	<b>(166)</b>
Fee and commission expense	(1,635)	(180)	-	<b>(1,815)</b>
Add back inter-segment revenue	159	89	(248)	<b>-</b>
Segment operating income	62,240	17,009	(242)	<b>79,007</b>
Impairment losses	(11,218)	(708)	-	<b>(11,926)</b>
Operating expenses	(34,873)	(12,640)	(3,832)	<b>(51,345)</b>
Segment profit / (loss) before tax	16,149	3,661	(4,074)	<b>15,736</b>
Income tax (expense) / income	(3,132)	-	94	<b>(3,038)</b>
<b>Segment profit / (loss) after tax</b>	<b>13,017</b>	<b>3,661</b>	<b>(3,980)</b>	<b>12,698</b>
Loans and advances to customers	852,291	584,090	-	<b>1,436,381</b>
Other assets	149,701	281,135	(24,851)	<b>405,985</b>
<b>Segment total assets</b>	<b>1,001,992</b>	<b>865,225</b>	<b>(24,851)</b>	<b>1,842,366</b>
Customer deposits	835,083	769,846	-	<b>1,604,929</b>
Other liabilities	38,555	52,495	(33,041)	<b>58,009</b>
<b>Segment total liabilities</b>	<b>873,638</b>	<b>822,341</b>	<b>(33,041)</b>	<b>1,662,938</b>
Other segment items:				
Capital expenditure	(1,435)	(1,313)	-	<b>(2,748)</b>
Depreciation and amortisation	(799)	(587)	(5)	<b>(1,391)</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, which generated £807k (2014: £225k) fee income and had operating costs of £873k (2014: £745k). Other than the Dubai branch, 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 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)	-
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>

## 2. 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.

Underlying profit reconciliation	Arbuthnot Latham & Co. £000	Secure Trust Bank £000	Arbuthnot Banking Group £000
<b>Six months ended 30 June 2015</b>			
Profit before tax	3,661	16,149	15,736
ELL & V12 fair value amortisation	-	950	950
STB acquisition costs	-	4	4
STB share options	-	271	271
AL transformation project	170	-	170
<b>Underlying profit</b>	<b>3,831</b>	<b>17,374</b>	<b>17,131</b>
Basic earnings per share (pence)			46.8
Underlying profit reconciliation	Arbuthnot Latham & Co. £000	Secure Trust Bank £000	Arbuthnot Banking Group £000
<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

### **3. Earnings per ordinary share**

#### *Basic*

Earnings per ordinary share are calculated on the net basis by dividing the profit attributable to equity holders of the Company of £6,507,000 (H1 2014: £3,873,000) by the weighted average number of ordinary shares 15,279,322 (H1 2014: 15,279,322) in issue during the year.

#### *Diluted*

Diluted earnings per ordinary share are calculated on the net basis by dividing the profit attributable to equity holders of the Company of £6,507,000 (H1 2014: £3,873,000) by the weighted average number of ordinary shares 15,279,322 (H1 2014: 15,279,322) in issue during the year, as noted above, as well as the number of dilutive share options in issue during the year. The number of dilutive shares in issue at the half year was 53,699 (H1 2014: 42,533), being based on the number of options granted of 200,000 (H1 2014: 200,000), the weighted exercise price of 994 pence (H1 2014: 994 pence) per option and the average share price during the year of 1359 pence (H1 2014: 1300 pence).

### **4. Basis of reporting**

The interim financial statements have been prepared on the basis of accounting policies set out in the Group's 2014 statutory accounts as amended by standards and interpretations effective during 2015 and in accordance with IAS 34 "Interim Financial Reporting" (except for the comparatives in the statement of financial position). 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 20 July 2015 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, 7 Wilson Street, London EC2M 2SN.