



ARBUTHNOT BANKING GROUP PLC

Results for the six months to 30 June 2009

Arbuthnot Banking Group PLC ("Arbuthnot") today announces interim results for the six months to 30 June 2009. Arbuthnot is the holding company for Arbuthnot Securities Limited, Arbuthnot Latham & Co., Limited and Secure Trust Bank PLC.

	Six months to 30/06/2009	Six months to 30/06/2008
Operating income	£21.5m	£23.5m
Profit before tax	£702k	£666k
Profit attributable to equity holders of the company	£682k	£940k
Basic earnings per share	4.5p	6.3p
Interim dividend	10.5p	10.5p

Commenting on the results, Henry Angest, Chairman and Chief Executive of Arbuthnot, said:

"Arbuthnot Banking Group had a satisfactory first half of 2009, recording a 5% increase in reported profits. Our capital and liquidity ratios remain strong. Given the signs of momentum in all of our businesses, I am cautiously optimistic about the second half of the year."

Arbuthnot Banking Group PLC:

Henry Angest, Chairman and Chief Executive

Andrew Salmon, Chief Operating Officer

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Operational highlights

Retail Banking – Secure Trust Bank

- Profit before tax £4.1m, up 19% compared to prior year period, excluding prior year sale of insurance business
- Customer deposits up 120% to £78.7m
- Completed purchase of Liverpool Victoria personal loan portfolio
- Successfully launched Prepaid Current Account

Investment Banking - Arbuthnot Securities

- Loss before tax £1.3m reduced by 13% on prior year period
- Trading book has been profitable in each of the six months to June
- Corporate client list grown to 98 (2008: 95)
- Profitability improving in Q2 and transaction pipeline is strengthening

Private Banking – Arbuthnot Latham

- Profit before tax £0.7m up 49% compared to prior year period
- Liquidity remains strong with customer loans to deposit ratio at 60%
- An increasing number of attractive lending propositions in the pipeline
- Launching structured product business in Q3

Arbuthnot Banking Group PLC

Chairman's statement

The economic environment in which Arbuthnot Banking Group's businesses operate remained very challenging in the first half of 2009. In the circumstances, I am pleased to report that the Group produced a satisfactory result, with pre-tax profits for the half rising by 5% to £702,000. However, this result is more pleasing when the impact of exceptional items in the prior year is excluded. This shows an improvement of £1.1m from a pre-exceptional loss of £382,000. The segmental business trend seen in 2008 continued, with a strong performance from Secure Trust Bank, while market conditions had an adverse impact on Arbuthnot Securities.

Earnings per share at 4.5 pence (2008: 6.3 pence) are also impacted by a prior year tax adjustment.

We are pleased to maintain the interim dividend at last year's level of 10.5 pence which will be paid on 2 October 2009 to shareholders on the register at 4 September 2009.

Our strategy of diversification of earnings within financial services has again enabled us to remain profitable throughout this difficult period. For a business of our size it is important to invest at times of cyclical downturn and we have taken advantage of the opportunities that the market has offered to acquire people, assets and new business streams at attractive prices. Our capital ratios remain strong, and our liquidity position has been further strengthened by an increase in the deposits held at both of our banking subsidiaries.

Retail Banking Division

Pre-tax profits for Secure Trust Bank, excluding the sale of the insurance broking business in the first half of 2008, increased by 19% to £4.1m (2008: £3.4m) compared with the same period last year. The efficiency initiatives taken by management over the past 18 months have improved the cost/income ratio to 52% in the period to June 2009.

The reduction of overall lending capacity seen during this year has created a significant opportunity for Secure Trust Bank to re-enter cautiously the UK consumer lending market. A new motor finance business was launched early in the year, targeted at selected motor dealers, to take advantage of the withdrawal of many lenders in this sector. In addition, a portfolio of unsecured loans was acquired from Liverpool Victoria for a consideration of £16.9m which was at a discount to the gross value of the loans. This portfolio is performing in line with expectations and has been earnings enhancing in the first half of the year. It has also brought the further benefit of increasing customer numbers from 40,000 at the end of 2008 to 43,000 at the end of this half year.

In order to finance these lending opportunities, Secure Trust Bank actively recommenced deposit-taking early in the first half with an attractively priced 60-day notice product. As at 30 June, Secure Trust Bank's deposits stood at £78.7m, up 120% from 31 December 2008.

Although the decline in OneBill customer numbers continues, Secure Trust Bank is pursuing additional fee-based income opportunities. A new, market-leading Prepaid Current Account was piloted in April with the Paymex Group and is now being rolled out to other leading UK debt management companies.

Investment Banking Division

Arbuthnot Securities recorded a loss before tax for the first half of £1.3m (2008: loss before tax of £1.5m). Market conditions remain challenging, particularly for its corporate finance and fund-raising operations.

The trading book, which was significantly reduced in the second half of last year, returned to profitability. Overall the secondary market business (commission and trading) is ahead of last year.

However, the results for Arbuthnot Securities reflect the reduction in corporate finance fee income, which fell by £1.4m compared to the first half of last year. Corporate Finance operated with a weak pipeline for much of the first half, but it is pleasing to report that the pipeline strengthened towards the end of the second quarter and two transactions were completed in June. Client numbers remain strong, having grown to 98 at 30 June, from 95 at the same stage last year.

Although Arbuthnot Securities made a loss, the trend in the business is positive, with the second quarter showing a marked improvement over the first quarter in all revenue sources. In addition a number of important new appointments have been made including Nick Tulloch as head of corporate finance and Simon Wickham as head of sales.

Arbuthnot Banking Group PLC

Chairman's statement

Private Banking Division

Arbuthnot Latham's pre-tax profits increased to £0.7m (2008: £0.5m). The bank remained focused on maintaining strong liquidity, with the customer loan to deposit ratio remaining at approximately 60%. Although the interest rate spread between customer loans and deposits improved during the first half, the rates earned on surplus liquidity, which is invested in the money market, declined rapidly during the same period and had a negative effect on profitability. Arbuthnot Latham, in line with the Group policy, has been prepared to forego short-term profitability to maintain its liquidity and balance sheet strength. The bank is seeing a consistent inflow of high net worth clients in each of its key business areas.

A key part of Arbuthnot Latham's strategy is to increase the proportion of its revenues which arises from fees rather than from balance sheet utilisation. To help achieve this Dean Proctor has been recruited as Deputy Chief Executive with overall responsibility for all front office operations. In June this year, it was announced that we had hired Adrian Neave to start a structured product business and it is expected that distribution to financial intermediaries will have started by the fourth quarter.

Discussions with potential partners are taking place in relation to our International Private Banking business. In the meantime, ongoing costs have been substantially reduced.

Outlook

In the first half, the Group embarked on a number of initiatives across our businesses which we expect will contribute to future profitability. However some will not make a material contribution until 2010.

The market for Arbuthnot Securities remains challenging, although there are encouraging signs that the corporate finance pipeline is improving, visibility of results for this business is still limited. Our two banking businesses are well-capitalised, enjoy strong liquidity and are operating in markets which are providing attractive lending opportunities. We are cautiously optimistic about the full year outturn.

A trading update will be provided in October on the third quarter performance, together with an outlook statement for the remaining months of 2009.

Henry Angest
Chairman & CEO
28 July 2009

Arbuthnot Banking Group PLC

Statement of financial position

	As at 30 June	
	2009	2008
	£000	£000
ASSETS		
Cash	260	251
Loans and advances to banks	19,348	42,442
Trading securities - long positions	2,805	14,304
Loans and advances to customers	189,494	158,463
Debt securities held-to-maturity	168,222	134,471
Assets held for sale	-	25,416
Current tax asset	45	461
Financial investments	3,627	3,512
Deferred tax assets	59	-
Intangible assets	2,750	2,897
Property, plant and equipment	9,323	10,995
Other assets	17,454	46,626
Total assets	413,387	439,838
EQUITY AND LIABILITIES		
Equity attributable to owners of the parent		
Share capital	150	150
Share premium account	21,085	21,085
Retained earnings	9,536	13,211
Other reserves	208	1,402
Minority interest	1,872	3,389
Total equity	32,851	39,237
LIABILITIES		
Deposits from banks	2,509	8,309
Trading securities - short positions	1,592	6,338
Deposits from customers	351,119	314,369
Liabilities associated with assets held for sale	-	22,022
Other liabilities	12,838	37,662
Debt securities in issue	12,478	11,551
Deferred tax liabilities	-	350
Total liabilities	380,536	400,601
Total equity and liabilities	413,387	439,838

Arbuthnot Banking Group PLC

Statement of comprehensive income

	Six months ended 30 June	
	2009	2008
	£000	£000
Interest and similar income	8,512	12,471
Interest expense and similar charges	(3,026)	(6,277)
Net interest income	5,486	6,194
Fee and commission income	15,119	19,340
Fee and commission expense	(474)	(267)
Net fee and commission income	14,645	19,073
Gains less losses from dealing in securities	1,386	(1,786)
Operating income	21,517	23,481
Impairment losses on loans and advances	(749)	(253)
Gain on sale of business assets	-	3,110
Operating expenses	(20,066)	(25,672)
Profit before income tax	702	666
Income tax expense	(428)	(160)
Profit for the period	274	506
Profit for the period	274	506
Foreign currency translation reserve	168	-
Total comprehensive income for the period	442	506
Profit attributable to:		
Equity holders of the Company	682	940
Minority interest	(408)	(434)
	274	506
Total comprehensive income attributable to:		
Equity holders of the Company	850	940
Minority interest	(408)	(434)
	442	506
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	4.5p	6.3p

Arbuthnot Banking Group PLC

Consolidated statement of changes in equity

	Attributable to equity holders of the Company					Total £000
	Share capital	Share premium account	Other reserves	Retained earnings	Minority interest	
	£000	£000	£000	£000	£000	
Balance at 1 January 2008	150	21,085	1,402	15,419	4,430	42,486
Total comprehensive income for the six months ended 30 June 2008	-	-	-	940	(434)	506
Final dividend paid to ordinary shareholders relating to 2007	-	-	-	(3,361)	(607)	(3,968)
New share capital subscribed	-	213	-	-	-	213
Transfer to retained earnings in lieu of cash dividends	-	(213)	-	213	-	-
At 30 June 2008	150	21,085	1,402	13,211	3,389	39,237
Balance at 1 January 2009	150	21,085	87	10,812	2,280	34,414
Revaluation reserve realised on disposal of freehold premises	-	-	(47)	47	-	-
Total comprehensive income for the six months ended 30 June 2009	-	-	168	682	(408)	442
Purchase of own shares	-	-	-	(464)	-	(464)
Final dividend paid to ordinary shareholders relating to 2008	-	-	-	(1,541)	-	(1,541)
At 30 June 2009	150	21,085	208	9,536	1,872	32,851

Arbutnot Banking Group PLC

Consolidated statement of cash flows

	Six months ended 30 June	
	2009	2008
	£000	£000
Cash flows from operating activities		
Interest and similar income received	9,740	12,471
Interest and similar charges paid	(3,032)	(6,277)
Fees and commissions received	14,645	19,073
Net trading and other income	1,386	(1,786)
Recoveries on loans previously written off	-	236
Cash payments to employees and suppliers	(22,086)	(24,920)
Taxation received	1,253	1,653
Cash flows from operating profits before changes in operating assets and liabilities	1,906	450
Changes in operating assets and liabilities:		
- net decrease in trading securities	1,274	9,999
- net (increase) / decrease in loans and advances to customers	(26,894)	14,027
- net decrease / (increase) in other assets	715	(38,400)
- net (decrease) in deposits from other banks	(389)	(4,417)
- net increase in amounts due to customers	59,377	13,449
- net (decrease) / increase in other liabilities	(2,855)	17,800
Net cash inflow from operating activities	33,134	12,908
Cash flows from investing activities		
Disposal of financial investments	-	2,492
Purchase of computer software	(87)	(109)
Purchase of property, plant and equipment	(569)	(689)
Proceeds from disposal of businesses	-	3,565
Proceeds from sale of property, plant and equipment	142	7
Purchases of debt securities	(148,662)	(131,142)
Proceeds from sale of debt securities	173,543	138,751
Net cash from investing activities	24,367	12,875
Cash flows from financing activities		
Purchase of treasury shares	(464)	-
Dividends paid	(1,541)	(3,544)
Net cash used in financing activities	(2,005)	(3,544)
Net increase in cash and cash equivalents	55,496	22,239
Cash and cash equivalents at beginning of period	27,299	55,933
Cash and cash equivalents at end of period	82,795	78,172

Arbuthnot Banking Group PLC

1. Business segments

The group is organised into four main business segments:

- 1) Retail banking — incorporating household cash management, personal lending and retail banking and insurance services.
- 2) International Private banking — incorporating development of private banking and wealth management outside the UK.
- 3) UK Private banking — incorporating private banking and wealth management.
- 4) Investment banking — incorporating institutional stock broking, equity trading, equity research and corporate finance advice.

Transactions between the business segments are on normal commercial terms. Centrally incurred expenses are charged to business 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	International Private banking	UK Private banking	Investment banking	Group	Group Total
Six months ended 30 June 2009	£000	£000	£000	£000	£000	£000
Interest revenue	2,692	-	6,016	-	212	8,920
Inter-segment revenue	(81)	-	(115)	-	(212)	(408)
Interest revenue from external customers	2,611	-	5,901	-	-	8,512
Interest expense	(430)	(12)	(2,016)	(179)	(32)	(2,669)
Subordinated loan note interest	-	-	-	-	(357)	(357)
Segment operating income	10,019	(12)	6,246	5,464	(200)	21,517
Impairment losses	(459)	-	(290)	-	-	(749)
Segment profit / (loss) before exceptional items	4,061	(490)	731	(1,316)	(2,284)	702
Exceptional items	-	-	-	-	-	-
Segment profit / (loss) before tax	4,061	(490)	731	(1,316)	(2,284)	702
Income tax (expense) / income	(1,153)	-	(174)	305	594	(428)
Segment profit / (loss) after tax	2,908	(490)	557	(1,011)	(1,690)	274
Segment total assets	96,131	193	349,497	12,808	(45,242)	413,387
Segment total liabilities	83,160	1,943	325,583	7,031	(37,181)	380,536
Other segment items:						
Capital expenditure	(166)	-	(474)	(15)	(1)	(656)
Depreciation and amortisation	(348)	(36)	(341)	(28)	(1)	(754)
Six months ended 30 June 2008	£000	£000	£000	£000	£000	£000
Interest revenue	2,684	-	9,701	316	504	13,205
Inter-segment revenue	-	-	(230)	-	(504)	(734)
Interest revenue from external customers	2,684	-	9,471	316	-	12,471
Interest expense	(385)	-	(5,350)	(96)	-	(5,831)
Subordinated loan note interest	-	-	-	-	(446)	(446)
Segment operating income	10,794	-	7,747	5,496	(556)	23,481
Impairment losses	(182)	-	(71)	-	-	(253)
Segment profit / (loss) before exceptional items	3,422	(525)	263	(1,054)	(2,488)	(382)
Exceptional items	1,286	-	227	(465)	-	1,048
Segment profit / (loss) before tax	4,708	(525)	490	(1,519)	(2,488)	666
Income tax (expense) / income	(1,143)	-	(1)	307	677	(160)
Segment profit / (loss) after tax	3,565	(525)	489	(1,212)	(1,811)	506
Segment total assets	51,005	264	341,739	51,496	(4,666)	439,838
Segment total liabilities	43,740	81	302,113	40,763	13,904	400,601
Other segment items:						
Capital expenditure	(453)	-	(315)	(30)	-	(798)
Depreciation and amortisation	(363)	-	(376)	(54)	(9)	(802)

Other than the International Private Banking operations which are being developed in Switzerland, all the group's operations are conducted wholly within the United Kingdom and geographical information is therefore not presented.

Arbuthnot Banking Group PLC

2. Basic and fully diluted

Earnings per ordinary share are calculated on the net basis by dividing the profit attributable to the equity holders of the Company of £682,000 (2008: £940,000) by the weighted number of ordinary shares 14,999,619 (2008: 14,954,039) in issue during the period.

3. Basis of reporting

The interim financial statements have been prepared on the basis of accounting policies set out in the Group's 2008 statutory accounts as amended by standards and interpretations effective during 2009. The statements were approved by the Board of Directors on 28 July 2009 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.