



ARBUTHNOT BANKING GROUP PLC

*175th Anniversary*

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# Group Directors and Secretary

## **Directors**

Henry Angest  
Chairman and Chief Executive

Mike Bussey  
Director

Gary Jennison  
Director

Neil Kirton  
Director

Ruth Lea  
Independent non-executive director

Sir Christopher Meyer  
Independent non-executive director

Sir Michael Peat  
Independent non-executive director

Andrew Salmon ACA  
Chief Operating Officer

Paul Sheriff ACA  
Group Finance Director

Atholl Turrell ACA  
Director

Robert Wickham  
Deputy Chairman and senior independent  
non-executive director

## **Secretary**

Jeremy Robin Kaye FCIS

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# Corporate Philosophy

“He whose ranks are united in purpose will be victorious”

Sun Tzu  
The Art of War  
350 BC

Arbuthnot has a 175 year history of serving its customers, as well as a long track record of profitability against the background of a continually changing environment. The ability of Arbuthnot to adapt and grow has come from managing the business through a series of key principles developed over time. These principles, always applied with common sense, govern the activities of the Group, ranging from major strategic issues to smaller day-to-day operational matters.

“The business is to serve its **shareholders**, its **customers** and its **employees** with **integrity** and **high ethical standards**.

Great importance is attached to **good relations** with customers and business partners, and to treating them **fairly and promptly**. **Reciprocity** is encouraged.

The business shall be **independent**, **profitable** and **expanding** while maintaining a **controlled risk profile**.

To achieve its goals the business requires **diversity**, a **long-term view**, **empowerment of management** and a culture of **rewards for achievements**.

It further requires to be conducted in an **innovative**, **flexible** and **entrepreneurial** manner, with an **opportunistic** and **contrarian** attitude.

Ultimately, the success of the business depends on the **teamwork**, **commitment**, and **performance** of its employees, combined with the **determination** to win.”

The continued application of these principles will allow the business to pursue growth in a controlled manner, providing a high quality service to its customers whilst delivering good returns to shareholders and securing the well-being of its employees.

Henry Angest  
Chairman & CEO  
29 July 2008

# Chairman's statement

Arbuthnot Banking Group had a satisfactory first half of 2008 given the very challenging economic environment. The composition of the profit streams of the Group has changed markedly compared to last year with Arbuthnot Securities lower and Secure Trust Bank higher, thus proving again the value of our diversified strategy. Pre tax profits were £0.7 million, compared to £5.4 million in the first half of 2007. The decline in pre tax profits was driven by difficult trading conditions in Arbuthnot Securities and a lack of property transaction fees in Arbuthnot Latham. Secure Trust Bank has made significant progress with profitability turning the corner and increasing by 96%. The results also reflect the increasing rate of investment in the Swiss Bank. Earnings per share fell from 18.0 pence per share to 6.3 pence per share.

The interim dividend is maintained at last year's level of 10.5 pence and will be paid on 3 October 2008 to shareholders on the register at 5 September 2008.

Capital ratios and liquidity remained strong, despite the adverse market conditions.

## Secure Trust Bank

Overall performance for Secure Trust Bank was a first half increase in pre tax profit of 96% to £4.7 million (2007: £2.4 million). Underlying performance, excluding the sale of the insurance broking business, saw a 29% increase to £3.1 million (2007: £2.4 million). Whilst revenues have declined by 7% due to the continued reduction in customer numbers and the lower income from unsecured lending, costs have reduced by 20% due to operational savings and a lower bad debt charge.

A highlight of the first six months was the sale of the insurance broker business together with 13 branches to Swinton, the UK's leading high street insurance retailer. This business has seen declining profitability in recent years due to

increased competition from internet based providers, poor customer renewal rates and the high costs associated with a branch network. The sale of the business assets including the transfer of the branches generated a profit of £1.6 million in the first half of 2008. The transaction is likely to be profit enhancing for Secure Trust Bank on an on-going basis.

In June 2007, Secure Trust Bank started to broke out the majority of its unsecured lending. As a result the business entered the downturn in the economy relatively unexposed to potential bad debt and the bad debt charge has significantly reduced during the last six months. At the appropriate time we intend to increase the volume of our unsecured lending and have made the necessary preparations.

## Arbuthnot Securities

The loss before tax of Arbuthnot Securities in the first half of the year was £1.5 million (2007: profit before tax £4.0 million). This result reflects the severe deterioration in market conditions affecting all investment banking businesses, particularly those exposed mainly to the AIM and smaller company segments of the stock market during the first half of this year.

During the first six months, corporate finance revenues shrank significantly. This reflects a lower level of secondary fund raisings than in the corresponding period of last year. Our secondary market activities were also affected, particularly in January, by the rapid deterioration in market conditions at the time. During the first half, headcount was reduced from 74 to 68.

After a difficult first quarter, the business has recovered and operating profitability was achieved in the second quarter. Encouragingly, Arbuthnot Securities is now retained by 95 corporate clients, an increase from 74 at 30 June 2007, and 85 at 31 December 2007. The average market capitalisation of corporate clients was £131 million at 30 June 2008.

We remain convinced that our approach of managing a diversified group makes us a more stable organisation compared to single business companies

#### **Arbuthnot Latham**

The credit crunch has had little impact on the balance sheet of Arbuthnot Latham. Liquidity remains strong, with a customer deposits to loan ratio of 180%. The bank has maintained its committed external banking lines of £40 million, which remain undrawn. Despite market conditions, margins have held up well, and total assets have grown by 11%, driven largely by growth in customer deposits.

Arbuthnot Latham's pre tax profits fell to £0.5 million (2007: £1.4 million). This result reflects the non-recurrence of property transaction fees, which benefited the first half of 2007. It also reflects the fact that a good deal of management attention was focused on dealing with non-core or loss-making divisions within Arbuthnot Latham. Arbuthnot Latham's pension administration business has been disposed of and Arbuthnot Commercial Finance was sold in July 2008. The profit from the latter will be recognised in the second half.

Challenges for the second half include addressing revenue growth and improving the cost/income ratio of the bank.

#### **Switzerland**

Progress in establishing the Swiss operation continues. The regulatory submission was made at the end of 2007 and it is expected that regulatory approval will be forthcoming in the second half of 2008.

#### **Staff and Management**

I am delighted to welcome to the Board Sir Michael Peat who joined on 15 January and believe his experience and expertise will be a significant contribution to the Group's development. Neil Kirton joined the Board on 1 June as Chief Executive of Arbuthnot Securities, having previously been Deputy Chief Executive of the business.

Mark Brown and John Reed left the Board on 1 June and retain executive roles in the business. Paul Sheriff will leave the Board on 31 October to become Chief Financial Officer of a larger company, quoted on the main market. I thank them for their valuable contribution as Directors to the progress of the Group and our best wishes go with Paul in his new role.

The progress that the Group has made during the first half of 2008 is due in large part to the contribution of our dedicated staff and I extend thanks to them all on behalf of the Board.

#### **Outlook**

It is expected that the trading performance for Secure Trust Bank should be broadly similar in the second half of 2008. Within Arbuthnot Latham, following management action, the profitability of the business should improve progressively. We are also pleased to report that in July Arbuthnot Commercial Finance, a business that did not make a significant contribution to group profits, was sold for a profit of approximately £1.6 million. Whilst the performance of Arbuthnot Securities improved in the second quarter, the visibility of results for this business is particularly difficult in the current environment and depends very much on market conditions. It is therefore too early to give an indication of the likely overall trading performance in the second half. We remain convinced that our approach of managing a diversified group makes us a more stable organisation compared to single business companies.

**Henry Angest**  
Chairman  
29 July 2008

## Consolidated income statement

	<i>Profit/(loss) before exceptional items</i>	<i>Exceptional items</i>	<i>Profit before exceptional items</i>	<i>Exceptional items</i>	<i>Profit before exceptional items</i>	<i>Exceptional items</i>	<i>Profit before exceptional items</i>	<i>Exceptional items</i>	<i>Year to</i>
	<i>6 months to</i>	<i>6 months to</i>	<i>6 months to</i>	<i>6 months to</i>	<i>6 months to</i>	<i>6 months to</i>	<i>6 months to</i>	<i>6 months to</i>	<i>Year to</i>
	<i>30.06.08</i>	<i>30.06.08</i>	<i>30.06.08</i>	<i>30.06.07</i>	<i>30.06.07</i>	<i>30.06.07</i>	<i>30.06.07</i>	<i>31.12.07</i>	<i>31.12.07</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Interest and similar income	12,471	-	12,471	11,186	-	11,186	23,758	-	23,758
Interest expense and similar charges	(6,277)	-	(6,277)	(5,455)	-	(5,455)	(12,314)	-	(12,314)
<b>Net interest income</b>	<b>6,194</b>	<b>-</b>	<b>6,194</b>	<b>5,731</b>	<b>-</b>	<b>5,731</b>	<b>11,444</b>	<b>-</b>	<b>11,444</b>
Fee and commission income	19,340	-	19,340	26,554	-	26,554	54,014	-	54,014
Fee and commission expense	(267)	-	(267)	(213)	-	(213)	(1,107)	-	(1,107)
<b>Net fee and commission income</b>	<b>19,073</b>	<b>-</b>	<b>19,073</b>	<b>26,341</b>	<b>-</b>	<b>26,341</b>	<b>52,907</b>	<b>-</b>	<b>52,907</b>
Gains less losses from dealing in securities	(1,786)	-	(1,786)	2,707	-	2,707	4,442	-	4,442
<b>Operating income</b>	<b>23,481</b>	<b>-</b>	<b>23,481</b>	<b>34,779</b>	<b>-</b>	<b>34,779</b>	<b>68,793</b>	<b>-</b>	<b>68,793</b>
Impairment losses on loans and advances	(253)	-	(253)	(1,019)	-	(1,019)	(2,237)	-	(2,237)
Gain on sale of business assets	-	3,110	3,110	-	-	-	-	-	-
Operating expenses	(23,610)	(2,062)	(25,672)	(28,351)	-	(28,351)	(57,977)	-	(57,977)
<b>(Loss)/Profit before income tax</b>	<b>(382)</b>	<b>1,048</b>	<b>666</b>	<b>5,409</b>	<b>-</b>	<b>5,409</b>	<b>8,579</b>	<b>-</b>	<b>8,579</b>
Income tax expense	(96)	(64)	(160)	(1,623)	-	(1,623)	(2,792)	-	(2,792)
<b>(Loss)/Profit for the period</b>	<b>(478)</b>	<b>984</b>	<b>506</b>	<b>3,786</b>	<b>-</b>	<b>3,786</b>	<b>5,787</b>	<b>-</b>	<b>5,787</b>
<b>Attributable to:</b>									
Equity holders of the Company	(177)	1,117	940	2,691	-	2,691	3,555	-	3,555
Minority interest	(301)	(133)	(434)	1,095	-	1,095	2,232	-	2,232
	(478)	984	506	3,786	-	3,786	5,787	-	5,787
<b>Earnings per share for profit attributable to the equity holders of the Company during the period (expressed in pence per share):</b>									
- basic and fully diluted	(1.2)p	7.5p	6.3p	18.0p	-	18.0p	23.8p	-	23.8p

## Consolidated balance sheet

	Note	30.06.08 £000	30.06.07 £000	31.12.07 £000
<b>Assets</b>				
Cash		251	173	520
Loans and advances to banks		42,442	21,163	39,708
Trading securities - long positions		14,304	14,316	23,070
Loans and advances to customers	4	158,463	174,277	171,953
Debt securities held-to-maturity		134,471	120,315	122,306
Assets held for sale		25,416	-	-
Current tax asset	4	461	437	2,198
Financial investments		3,512	4,360	6,201
Intangible assets		2,897	3,091	3,138
Property, plant and equipment		10,995	10,304	11,451
Other assets		46,626	31,354	33,558
<b>Total assets</b>		<b>439,838</b>	<b>379,790</b>	<b>414,103</b>
<b>Liabilities</b>				
Deposits from banks		8,309	7,195	12,726
Trading securities - short positions		6,338	5,667	5,105
Deposits from customers		314,369	281,648	300,920
Liabilities associated with assets held for sale		22,022	-	-
Other liabilities		37,662	32,932	41,884
Debt securities in issue		11,551	10,106	10,708
Deferred tax liabilities		350	252	274
<b>Total liabilities</b>		<b>400,601</b>	<b>337,800</b>	<b>371,617</b>
<b>Equity</b>				
Share capital		150	150	150
Share premium account		21,085	21,085	21,085
Retained earnings	4	13,211	16,125	15,419
Other reserves		1,402	1,402	1,402
<b>Capital and reserves attributable to equity holders of the parent</b>		<b>35,848</b>	<b>38,762</b>	<b>38,056</b>
Minority interest		3,389	3,228	4,430
<b>Total equity</b>		<b>39,237</b>	<b>41,990</b>	<b>42,486</b>
<b>Total equity and liabilities</b>		<b>439,838</b>	<b>379,790</b>	<b>414,103</b>

## Consolidated statement of changes in equity

	Note	Attributable to equity holders of the Company					Total £000
		Share capital £000	Share premium account £000	Other reserves £000	Retained earnings £000	Minority interest £000	
<b>Balance at 1 January 2007</b>	4	150	21,085	1,402	16,721	2,798	42,156
Purchase of minority interest in Arbuthnot Commercial Finance Limited		-	-	-	-	(74)	(74)
Profit for 6 months ended 30 June 2007		-	-	-	2,691	1,095	3,786
Final dividend relating to 2006		-	-	-	(3,287)	(591)	(3,878)
<b>At 30 June 2007</b>		150	21,085	1,402	16,125	3,228	41,990
Sale of minority interest in Arbuthnot Securities Limited		-	-	-	-	65	65
Profit for 6 months ended 31 December 2007		-	-	-	864	1,137	2,001
Interim dividend relating to 2007		-	-	-	(1,570)	-	(1,570)
<b>At 1 January 2008</b>		150	21,085	1,402	15,419	4,430	42,486
Profit/(loss) for 6 months ended 30 June 2008		-	-	-	940	(434)	506
Final dividend 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	-	-
<b>At 30 June 2008</b>		150	21,085	1,402	13,211	3,389	39,237

## Consolidated cash flow statement

	6 months to 30.06.08 £000	6 months to 30.06.07 £000	Year to 31.12.07 £000
<b>Cash flows from operating activities</b>			
Interest and similar income received	12,471	11,186	23,758
Interest and similar charges paid	(6,277)	(5,455)	(12,314)
Fees and commissions received	19,073	26,341	52,907
Net trading and other income	(1,786)	2,707	4,442
Recoveries on loans previously written off	236	-	500
Cash payments to employees and suppliers	(24,920)	(28,351)	(58,104)
Taxation received/(paid)	1,653	(4,418)	(6,996)
Cash flows from operating profits before changes in operating assets and liabilities	450	2,010	4,193
Changes in operating assets and liabilities:			
- net (decrease)/increase in trading securities	9,999	(1,857)	(11,173)
- net (decrease)/increase in loans and advances to customers	14,027	(21,758)	(18,414)
- net increase in other assets	(38,400)	(8,661)	(11,149)
- net (decrease)/increase in deposits from other banks	(4,417)	(534)	4,997
- net increase in amounts due to customers	13,449	11,200	30,472
- net increase in other liabilities	17,800	3,046	11,870
Net cash from operating activities	12,908	(16,554)	10,796
<b>Cash flows from investing activities</b>			
Disposal of financial investments	2,492	1,496	3,772
Purchase of financial investments	-	-	(4,429)
Purchase of minority interest	-	(74)	(110)
Disposal of minority interest	-	-	118
Purchase of property, plant and equipment	(689)	(448)	(2,529)
Purchase of computer software	(109)	(221)	(493)
Proceeds from disposal of businesses	3,565	-	-
Proceeds from sale of property, plant and equipment	7	434	501
Purchases of debt securities	(131,142)	(150,362)	(301,560)
Proceeds from sale of debt securities	138,751	185,272	271,597
Net cash from investing activities	12,875	36,097	(33,133)
<b>Cash flows from financing activities</b>			
Dividends paid	(3,544)	(3,338)	(5,448)
Net cash used in financing activities	(3,544)	(3,338)	(5,448)
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>22,239</b>	<b>16,205</b>	<b>(27,785)</b>
Cash and cash equivalents at beginning of period	55,933	83,718	83,718
Cash and cash equivalents at end of period	78,172	99,923	55,933

# Notes to the consolidated financial statements

## 1. Business segments

	Retail banking £000	International private banking £000	UK private banking £000	Investment banking £000	Group costs £000	Subordinated loan stock £000	Group Total £000
<b>6 months to 30.06.08</b>							
Net interest income / (expense)	2,299	-	4,121	220	-	(446)	6,194
Net fee and commission income	8,495	-	3,626	6,952	-	-	19,073
Gains less losses from dealing in securities	-	-	-	(1,676)	(110)	-	(1,786)
Segment operating income	10,794	-	7,747	5,496	(110)	(446)	23,481
Segment profit / (loss)	3,422	(525)	263	(1,054)	(2,042)	-	64
Subordinated loan note interest	-	-	-	-	-	(446)	(446)
Profit / (loss) before exceptional items	3,422	(525)	263	(1,054)	(2,042)	(446)	(382)
Exceptional items	1,286	-	227	(465)	-	-	1,048
Profit / (loss) before income tax	4,708	(525)	490	(1,519)	(2,042)	(446)	666
<b>6 months to 30.06.07</b>							
Net interest income / (expense)	2,074	-	3,632	367	-	(342)	5,731
Net fee and commission income	9,499	-	5,627	11,215	-	-	26,341
Gains less losses from dealing in securities	-	-	-	2,614	93	-	2,707
Segment operating income	11,573	-	9,259	14,196	93	(342)	34,779
Segment profit / (loss)	2,371	-	1,386	3,965	(1,971)	-	5,751
Subordinated loan note interest	-	-	-	-	-	(342)	(342)
Profit / (loss) before exceptional items	2,371	-	1,386	3,965	(1,971)	(342)	5,409
Exceptional items	-	-	-	-	-	-	-
Profit / (loss) before income tax	2,371	-	1,386	3,965	(1,971)	(342)	5,409
<b>Year to 31.12.07</b>							
Net interest income / (expense)	4,600	-	7,921	(324)	-	(753)	11,444
Net fee and commission income	18,236	-	9,343	25,328	-	-	52,907
Gains less losses from dealing in securities	-	-	-	4,342	100	-	4,442
Segment operating income	22,836	-	17,264	29,346	100	(753)	68,793
Segment profit / (loss)	4,550	(266)	1,454	8,076	(4,482)	-	9,332
Subordinated loan note interest	-	-	-	-	-	(753)	(753)
Profit / (loss) before exceptional items	4,550	(266)	1,454	8,076	(4,482)	(753)	8,579
Exceptional items	-	-	-	-	-	-	-
Profit / (loss) before income tax	4,550	(266)	1,454	8,076	(4,482)	(753)	8,579

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

## 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 £940,000 (30.06.07: £2,691,000; 31.12.07: £3,555,000) by the weighted number of ordinary shares 14,954,039 (30.06.07 14,943,944; 31.12.07: 14,943,944) 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 2007 statutory accounts. The statements were approved by the Board of Directors on 29 July 2008 and are unaudited. The auditors have not carried out a review of the interim financial statements. The interim financial statements will be posted to shareholders and copies may be obtained from The Company Secretary, Arbutnot Banking Group PLC, Arbutnot House, 20 Ropemaker Street, London EC2Y 9AR.

## 4. Prior year adjustments

Certain comparatives for the period ending 30 June 2007 have been restated as set out in the Group's 2007 statutory accounts.

## 5. Results for the year ended 31 December 2007

The figures for the year ended 31 December 2007 are derived from the Group's 2007 statutory accounts for the year. A copy of the Group's 2007 statutory accounts, on which the auditors gave an unqualified opinion, has been delivered to the Registrar of Companies.

# Corporate Contacts & Advisers

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