

19 September 2006

For immediate release



ARBUTHNOT BANKING GROUP PLC

Interim results for the six months to 30 June 2006

Key Points

- Profit on continuing activities before tax and exceptional items up 31% to £4.1 million.
- Earnings per share on continuing activities before exceptional items 15.7p (2005: 15.2p).
- Total operating income 13% higher at £29 million.
- Interim dividend maintained at 10.5 pence.
- Board confident of a satisfactory result for the full year

Chairman, Henry Angest, commented:

“This is a very satisfactory result, given that all the Group’s three major businesses are in a transitional phase. The changes that we have made and are now putting in place provide a strong base for future growth.”

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CHAIRMAN'S STATEMENT

I am pleased to report that Arbuthnot Banking Group made further good progress during the first half of 2006, with profits on continuing activities before tax and exceptional items increasing by 31% over the first half of last year to £4.1 million. Total operating income of the Group rose by 13% to £29.2 million, with Arbuthnot Securities achieving a particularly strong performance with an increase of 50% in its operating income.

After exceptional costs of £0.3 million, the profit before tax was £3.8 million (2005: £3.1million).

Reflecting a relatively higher contribution from Arbuthnot Securities, the minority interest charge in the profit and loss account relating to the proportion of the share capital of Arbuthnot Securities now owned by its staff rose to £0.5 million and therefore earnings per share on continuing activities before exceptional items rose by 3% to 15.7 pence. Earnings per share after exceptional items amounted to 14.3 pence.

The interim dividend is maintained at last year's level of 10.5 pence and will be paid on 27 October 2006 to shareholders on the register at 29 September 2006.

Arbuthnot Securities

The profit before tax and exceptional items of Arbuthnot Securities in the first half of the year rose to £2.4 million (2005: £0.5 million). This was achieved from gross revenues of £10.8 million, 50% ahead of the corresponding period last year. We have continued to increase market share in institutional stockbroking and revenues derived from this activity grew by 13% over the first 6 months of 2005 despite more challenging markets in the latter part of the half-year. In corporate finance, we completed 10 transactions during the first half-year and have concluded a further 6 since 1 July. We raised some £225 million for clients during the first six months and have continued to build on our strong position in the launch of closed-end investment funds, having successfully carried out new issues for European Equity Tranche Income Limited, Jupiter Green Investment Trust and Utilico Emerging Markets Utilities Limited. We also successfully placed 18% of Delta, raising £35 million on behalf of an existing shareholder. The number of corporate clients that we are retained by has risen from 60 at the beginning of the year to 69 currently.

Arbuthnot Latham

Our investment in the private banking business has continued and we have been able to attract new hires from a number of major wealth management organisations. We have also added the provision of funding for yachts and overseas residences to our specialist financing activities. The benefits of these investments will take a little time to be fully realised but I am nevertheless encouraged to report that the division's revenues rose by 6% during the period to £6.2 million in spite of the fact that the earnings from profit participating property transactions were lower. Excluding these transactions, revenues were up 11% on a year on

CHAIRMAN’S STATEMENT (continued)

year basis. However, as we invested in the business, costs rose at a faster rate and, as a result, the profit before tax reduced to £0.1 million (2005: £0.4 million). The loan book increased by 20% compared with the first half of 2005, customer deposits rose by 17% and funds under management grew by 23%. This increase in business volumes provides a sound base for the development of the business going forward.

Secure Trust Bank

Reflecting a more difficult credit environment, new lending volumes in Secure Trust Bank have been restrained, as a result of which the division’s net interest income reduced by 11% compared to the first half of 2005. Fees and commissions fell by 3%, reflecting the impact of the withdrawal from two affinity arrangements in our motor insurance business, SecureDirect, during the second half of last year. Responding to these more challenging conditions, overheads in the division have been reduced by 3%. At the same time, I am pleased to be able to report that, after a difficult start to the year, our bad debt experience has shown some improvement in recent months and the division’s bad debt charge increased by only £0.2 million compared with the corresponding period last year. These factors together account for the reduction in the division’s profit before exceptional items to £2.3 million.

Corporate Developments

We raised some £4 million net of expenses in April via a placing and open offers, which has been earmarked to fund our planned development of a private banking operation in Switzerland.

Staff and Management

Gary Jennison joins the Board on 25 September and will be Chief Executive of Secure Trust Bank. He was recently Managing Director of Barclays Bank’s branch network and previously has held senior positions at Lex Vehicle Leasing, GE Capital Auto Financial Services Europe and Hitachi Credit (UK) PLC. Paul Sheriff joins the Board on 1 October and will be Group Finance Director. He was previously Commercial Finance Director of the Prudential’s UK and European business. I am delighted to welcome both to the Board and believe their experience and expertise will be a significant contribution to the Group’s development.

As announced in March Stephen Lockley, Group Finance Director, leaves the Group on 30 September after 12 years with the Group. I thank him for his valuable contribution to the Group during this time and my best wishes accompany him in the future.

The progress that the Group has made during the first half of 2006 is due in large part to the contribution of our dedicated staff and I extend thanks to them all on behalf of the Board.

CHAIRMAN’S STATEMENT (continued)

Outlook

Trading since the beginning of July has generally been satisfactory, although market conditions for Arbuthnot Securities have been less buoyant during July and August than was the case earlier in the year. Looking forward, the corporate finance pipeline is healthy but I have to add the usual caveat regarding the unpredictability of both the outcome and timing of such transactions. The same can be said of the pipeline for profit participating property transactions in Arbuthnot Latham. Overall, the Board is confident of a satisfactory result for the full year and believes that the outlook for the Group is very positive.

Henry Angest
Chairman

ARBUTHNOT BANKING GROUP PLC – INTERIMS 5/12

CONSOLIDATED INCOME STATEMENT

	6 months to 30.6.06 £000	6 months to 30.6.05 £000	Year to 31.12.05 £000
Interest and similar income	9,083	8,809	18,070
Interest expense and similar charges	(4,388)	(4,199)	(8,573)
Net interest income	4,695	4,610	9,497
Fee and commission income	23,474	20,667	45,685
Fee and commission expense	(559)	(730)	(1,088)
Net fee and commission income	22,915	19,937	44,597
Net trading income	1,596	1,379	3,069
Operating income	29,206	25,926	57,163
Gain on sale of minority interest in subsidiary	-	-	850
Impairment losses on loans and advances	(838)	(815)	(1,641)
Operating expenses	(24,590)	(21,984)	(48,696)
Profit on continuing activities before tax (Note 1)	3,778	3,127	7,676
Taxation	(1,171)	(974)	(2,197)
Profit on discontinued activity after taxation	-	235	1,405
Profit for the period	2,607	2,388	6,884
Attributable to:			
Equity holders of the Company	2,066	2,384	6,489
Minority interest	541	4	395
	2,607	2,388	6,884
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	14.3p	16.9p	45.8p
- adjusted (Note 3)	15.7p	15.2p	32.6p

ARBUTHNOT BANKING GROUP PLC – INTERIMS 6/12

CONSOLIDATED BALANCE SHEET

	30.6.06	30.6.05	31.12.05
	£000	£000	£000
ASSETS			
Cash	109	203	188
Loans and advances to banks and building societies	32,535	41,028	28,587
Trading securities – long positions	8,189	6,027	5,383
Loans and advances to customers	151,074	137,459	140,151
Debt securities held-to-maturity	87,170	60,823	88,389
Intangible assets	2,917	3,633	3,000
Property, plant and equipment	30,882	31,912	31,458
Current tax asset	-	427	-
Other assets	50,640	34,150	28,948
Total assets	363,516	315,662	326,104
LIABILITIES			
Deposits from banks	23,143	12,550	9,190
Trading securities – short positions	4,340	1,177	2,785
Deposits from customers	246,367	223,827	239,433
Debt securities in issue	10,207	7,817	12,716
Other liabilities	40,405	39,971	26,998
Current tax liabilities	1,171	-	790
Deferred tax liabilities	1,116	1,077	1,116
Total liabilities	326,749	286,419	293,028
EQUITY			
Share capital	150	143	143
Share premium account	21,085	17,115	17,115
Retained earnings	10,117	8,501	11,111
Other reserves	3,395	3,395	3,395
Capital and reserves attributable to the Company's equity holders	34,747	29,154	31,764
Minority interest	2,020	89	1,312
Total equity	36,767	29,243	33,076
Total equity and liabilities	363,516	315,662	326,104

ARBUTHNOT BANKING GROUP PLC – INTERIMS 7/12

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to equity holders of the Company				Minority Interest	Total
	Share capital	Share Premium Account	Other Reserves	Retained earnings		
	£000	£000	£000	£000		
Balance at 1 January 2005	130	13,370	3,395	9,106	89	26,090
Issue of shares	13	3,745	-	-	-	3,758
Profit for 6 months ended 30 June 2005	-	-	-	2,384	4	2,388
Final dividend relating to 2004	-	-	-	(2,989)	(4)	(2,993)
At 30 June 2005	143	17,115	3,395	8,501	89	29,243
Sale of minority interest in Arbuthnot Securities Limited	-	-	-	-	832	832
Profit for 6 months ended 31 December 2005	-	-	-	4,105	391	4,496
Interim dividend relating to 2005	-	-	-	(1,495)	-	(1,495)
At 31 December 2005/ 1 January 2006	143	17,115	3,395	11,111	1,312	33,076
Sale of minority interest in Arbuthnot Securities Limited	-	-	-	-	171	171
Issue of shares	7	3,970	-	-	-	3,977
Profit for 6 months ended 30 June 2006	-	-	-	2,066	541	2,607
Final dividend relating to 2005	-	-	-	(3,060)	(4)	(3,064)
At 30 June 2006	150	21,085	3,395	10,117	2,020	36,767

ARBUTHNOT BANKING GROUP PLC – INTERIMS 8/12

CONSOLIDATED CASH FLOW STATEMENT

	6 months to 30.6.06 £000	6 months to 30.6.05 £000	Year to 31.12.05 £000
Cash flows from operating activities			
Interest received	9,083	8,809	18,099
Interest paid	(4,388)	(4,199)	(8,573)
Fees and commissions received	22,915	20,978	46,009
Net trading and other income	1,596	1,379	3,069
Recoveries on loans previously written off	7	19	178
Cash payments to employees and suppliers	(23,621)	(21,645)	(47,878)
Taxation paid	(790)	(277)	(226)
Cash flows from operating profits before changes in operating assets and liabilities	4,802	5,064	10,678
Changes in operating assets and liabilities:			
- net increase in trading securities	(1,251)	(110)	2,142
- net increase in loans and advances to customers	(11,768)	(8,484)	(11,328)
- net increase in other assets	(21,692)	(19,470)	(16,604)
- net increase in deposits from other banks	13,953	(18,280)	(21,640)
- net increase in amounts due to customers	6,934	20,831	36,437
- net increase in other liabilities	13,407	19,660	10,269
Net cash from operating activities:			
Continuing activities	4,385	(1,363)	9,086
Discontinued activity	-	574	868
	4,385	(789)	9,954
Cash flows from investing activities			
Investment in subsidiary	-	-	(1,093)
Disposal of subsidiary, net of cash disposed	-	-	926
Disposal of minority interest	171	-	1,682
Purchase of property, plant and equipment	(598)	(652)	(1,273)
Purchase of computer software	(43)	(182)	(310)
Proceeds from sale of property, plant and equipment	331	12	209
Net sales of debt securities	18,956	19,880	(782)
Net cash from investing activities	18,817	19,058	(641)
Cash flows from financing activities			
Issue of shares	3,977	3,758	3,758
Issue of debt securities	-	-	10,149
Repayment of debt securities	(2,509)	(106)	(5,356)
Dividends paid	(3,064)	(2,993)	(4,488)
Net cash used in financing activities	(1,596)	659	4,063
Net increase in cash and cash equivalents:			
Continuing activities	21,606	18,354	11,582
Discontinued activity	-	574	1,794
	21,606	18,928	13,376
Cash and cash equivalents at beginning of period	85,146	71,770	71,770
Cash and cash equivalents at end of period	106,752	90,698	85,146

NOTES

1. Adjusted Profit Before Tax

The profit before tax on a statutory reporting basis includes certain items that do not relate to the profitability of the Group on an ongoing basis. The Board believes that a truer reflection of the performance of the Group’s ongoing operating business is better presented by the measures “Adjusted profit before tax” and “Adjusted earnings per share”, as set out below:-

	6 months to 30.6.06 £000	6 months to 30.6.05 £000	Year to 31.12.05 £000
Profit before tax as reported	3,778	3,127	7,676
Less: Gain on sale of minority interest in subsidiary	-	-	(850)
Add: Exceptional operating expenses	304	-	541
Adjusted profit before tax	<u>4,082</u>	<u>3,127</u>	<u>7,367</u>
Adjusted earnings per share (Note 3)	15.7p	15.2p	32.6p

These figures are also referred to in the Chairman’s Statement as “profit on continuing activities before tax and exceptional items” and “earnings per share on continuing activities before exceptional items”.

2. Business Segments

The Group is organised into three main business segments:

- 1) Retail banking –incorporating household cash management, personal lending and banking and insurance services.
- 2) Private banking – incorporating private banking, wealth management and invoice factoring services.
- 3) Investment banking – incorporating institutional stockbroking, equity trading and corporate finance advice.

Transactions between the business segments are on normal commercial terms.

ARBUTHNOT BANKING GROUP PLC – INTERIMS 10/12

NOTES (continued)

	6 months to 30.6.06					
	Retail banking	Private banking	Investment banking	Subordinated loan stock	Head office property	Group total
	£000	£000	£000	£000	£000	£000
Segmental operating income	12,495	6,246	10,808	(343)	-	29,206
Segment profit	2,317	113	2,376	-	(381)	4,425
Subordinated loan note interest	-	-	-	(343)	-	(343)
Profit before exceptional items	2,317	113	2,376	(343)	(381)	4,082
Exceptional items	(99)	-	(205)	-	-	(304)
Profit before tax	2,218	113	2,171	(343)	(381)	3,778

	6 months to 30.6.05					
	Retail banking	Private banking	Investment banking	Subordinated loan stock	Head office property	Group total
	£000	£000	£000	£000	£000	£000
Segmental operating income	13,146	5,881	7,215	(316)	-	25,926
Segment profit	2,871	391	492	-	(311)	3,443
Subordinated loan note interest	-	-	-	(316)	-	(316)
Profit before exceptional items	2,871	391	492	(316)	(311)	3,127
Exceptional items	-	-	-	-	-	-
Profit before tax	2,871	391	492	(316)	(311)	3,127
Discontinued activity	-	335	-	-	-	335

ARBUTHNOT BANKING GROUP PLC – INTERIMS 11/12

NOTES (continued)

	Year to 31.12.05					
	Retail banking	Private banking	Investment banking	Subordinated loan stock	Head office property	Group total
	£000	£000	£000	£000	£000	£000
Segmental operating income	25,938	12,377	19,466	(618)	-	57,163
Segment profit	5,549	449	2,801	-	(814)	7,985
Subordinated loan note interest	-	-	-	(618)	-	(618)
Profit before exceptional items	5,549	449	2,801	(618)	(814)	7,367
Exceptional items	(218)	(171)	698	-	-	309
Profit before tax	5,331	278	3,499	(618)	(814)	7,676
Discontinued activity	-	1,405	-	-	-	1,405

The profit before tax figures exclude the results of Arbutnot Insurance Brokers Limited (“AIB”) which was sold in October 2005 and the profits of which (up to the date of sale) are shown as a discontinued activity in the income statement. AIB was previously included within the private banking division.

The Group’s operations are conducted wholly within the United Kingdom and geographical information is therefore not presented.

3. Earnings Per Ordinary Share

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 £2,066,000 (30.6.05: £2,384,000; 31.12.05: £6,489,000) by the weighted average number of ordinary shares 14,485,171 (30.6.05: 14,099,619; 31.12.05: 14,167,472) in issue during the period.

Adjusted

The gain on sale of minority interest in subsidiary, profit on discontinued activity and exceptional operating expenses do not relate to the profitability of the Group on an ongoing basis. Therefore, an adjusted basic and fully diluted earnings per share is presented as follows:

ARBUTHNOT BANKING GROUP PLC – INTERIMS 12/12

NOTES (continued)

	6 months to 30.6.06		6 months to 30.6.05		Year to 31.12.05	
	£000	pence	£000	pence	£000	pence
Basic and fully diluted	2,066	14.3	2,384	16.9	6,489	45.8
Exceptional items after tax	213	1.4	-	-	(471)	(3.3)
Discontinued activity	-	-	(235)	(1.7)	(1,405)	(9.9)
Earnings excluding exceptional items and adjusted earnings per share	2,279	15.7	2,149	15.2	4,613	32.6

4. Basis of Reporting

The interim financial statements have been prepared on the basis of accounting policies set out in the Group's 2005 statutory accounts. The statements were approved by the Board of Directors on 18 September 2006 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, Arbuthnot Banking Group PLC, Arbuthnot House, 20 Ropemaker Street, London EC2Y 9AR.

5. Results for the Year Ended 31 December 2005

The figures for the year ended 31 December 2005 are derived from the Group Accounts for the year. A copy of the Group Accounts for that year, on which the auditors gave an unqualified opinion, has been delivered to the Registrar of Companies.