



17 March 2011
For immediate release

ARBUTHNOT BANKING GROUP (“Arbuthnot” or “the Group”)
Audited Final Results for the year to 31 December, 2010

YEAR OF CONTINUED PROGRESS

Arbuthnot Banking Group has made good progress in 2010. All of the Group’s core businesses traded profitably and made a positive contribution to the full year results.

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

FINANCIAL HIGHLIGHTS

- Group pre-tax profit £5.1m (2009: £5.1m)
- Group earnings per share (EPS) increased by 7% to 25.0p (2009: 23.4p)
- Dividend per share (DPS) up 1p to 23p (2009: 22p)
- Capital, liquidity and balance sheet remain strong

OPERATIONAL HIGHLIGHTS

Private Banking - Arbuthnot Latham

- Customer deposits grew £57.5m to £349.5m (2009: £292m) and loans grew 19% to £211m (2009: £178m) whilst improving interest margin and asset quality
- Loan to deposit ratio at 60%, maintaining strong liquidity
- Pre-tax profit increased to £1m (2009: £0.2m) as the core Private Banking business began to see the results of the market opportunities that have arisen during the financial crisis

Retail Banking - Secure Trust Bank

- Profit before tax reduced to £8.5m (2009: £10.2m), but underlying profits up 19% after one off items
- Good progress in developing three main lending activities, motor finance loan book grew to £31.3m (2009: £4.7m), point-of sale asset finance (mainly musical & cycle) grew to £21.4m (2009: £6.4m) and personal loans grew to £25.8m (2009: £14.8m)
- Current account with prepaid card re-launched with cash reward scheme, account numbers growing to 9,576 (2009: 2,740)

Investment Banking - Arbuthnot Securities

- Returned to profitability with pre-tax profit of £1m (2009: loss of £0.1m)
- Trading book performed strongly, recording a profit of £4.4m (2009: £3.7m)
- Completed 16 corporate transactions including main market IPO of Shaft Sinkers Holdings PLC

Commenting on the results, Henry Angest, chairman and chief executive of Arbuthnot, said: ***“Arbuthnot Banking Group performed well in 2010 across all its divisions. This is the result of our prudent approach which has served us well throughout the financial crisis. We now have a strong platform on which to make further progress this year and, while maintaining the important caveats of the fragile status of the geopolitical and economic environment, we are optimistic about the outlook for 2011”***

ENQUIRIES:

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

020 7012 2400

Hawkpoint Partners Ltd (Nominated Advisor)
Lawrence Guthrie
Sunil Duggal

020 7665 4500

Numis Securities Ltd (Broker)
Chris Wilkinson
Mark Lander

020 7260 1000

Pelham Bell Pottinger (Financial PR)
Ben Woodford
Zoë Pocock

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The 2010 Annual Report, Notice of Meeting and accompanying letter from the Chairman will be posted and available on the Arbuthnot Banking Group website <http://www.arbuthnotgroup.com/Presentations.aspx> by 8 April 2011. Copies may be obtained from the Company Secretary, Arbuthnot Banking Group PLC, Arbuthnot House, 20 Ropemaker Street, London, EC2Y 9AR.

Consolidated statement of comprehensive income

	Note	Year ended 31 December 2010 £000	Year ended 31 December 2009 £000
Interest and similar income		29,327	22,464
Interest expense and similar charges		(8,189)	(5,548)
Net interest income		21,138	16,916
Fee and commission income	6	29,851	31,816
Fee and commission expense		(558)	(795)
Net fee and commission income		29,293	31,021
Gains less losses from dealing in securities		4,320	3,763
Operating income		54,751	51,700
Net impairment loss on financial assets	17	(3,146)	(2,368)
Other income	7	1,131	2,118
Operating expenses	9	(47,632)	(46,400)
Profit before income tax		5,104	5,050
Income tax expense	11	(1,383)	(1,679)
Profit for the year		3,721	3,371
Foreign currency translation reserve		(300)	41
Revaluation reserve			
- Revaluation of freehold premises		(112)	-
- Amount transferred to profit and loss on sale		-	(108)
Available-for-sale reserve		142	-
Other comprehensive income for the period, net of income tax		(270)	(67)
Total comprehensive income for the period		3,451	3,304
Profit attributable to:			
Equity holders of the Company		3,747	3,507
Non-controlling interests		(26)	(136)
		3,721	3,371
Total comprehensive income attributable to:			
Equity holders of the Company		3,477	3,440
Non-controlling interests		(26)	(136)
		3,451	3,304
Earnings per share for profit attributable to the equity holders of the Company during the year			
(expressed in pence per share):			
- basic and fully diluted	12	25.0	23.4

Consolidated statement of financial position

	Note	At 31 December	
		2010 £000	2009 £000
ASSETS			
Cash	13	73,772	230
Derivative financial instruments	24	-	236
Loans and advances to banks	14	12,080	54,614
Loans and advances to customers	16	300,252	229,722
Trading securities - long positions	15	3,232	2,659
Debt securities held-to-maturity	18	143,119	127,597
Current tax asset		-	1,805
Other assets	22	17,948	18,754
Financial investments	19	4,957	5,057
Intangible assets	20	2,915	2,906
Property, plant and equipment	21	5,903	8,552
Deferred tax asset	28	932	383
Total assets		565,110	452,515
EQUITY AND LIABILITIES			
Equity attributable to owners of the parent			
Share capital	30	150	150
Share premium account	30	21,085	21,085
Retained earnings	31	12,142	11,684
Other reserves	31	(1,347)	(920)
Non-controlling interests		2,118	2,144
Total equity		34,148	34,143
LIABILITIES			
Deposits from banks	23	3,706	2,886
Trading securities - short positions	15	775	959
Derivative financial instruments	24	184	-
Deposits from customers	25	503,257	385,999
Current tax liability		751	2,208
Other liabilities	26	9,533	13,217
Deferred tax liability	28	126	81
Debt securities in issue	27	12,630	13,022
Total liabilities		530,962	418,372
Total equity and liabilities		565,110	452,515

Chairman's statement

Arbuthnot Banking Group recorded a profit before tax of £5.1m for the year ended 31 December 2010 (2009: £5.1m). All of the Group's core businesses traded profitably and made a positive contribution to the full year result. Although Group profit is satisfactory it does not fully reflect the progress that has been made this year in the two banking subsidiaries, which have seen substantial growth in deposits and lending and gained momentum in developing their fee-related businesses.

In keeping with our progressive dividend policy, the final dividend will be increased by 0.5p to 12p per share, making a dividend for the full year of 23p (2009: 22p).

Arbuthnot is one of the few banking groups that came through the biggest financial crisis in living memory unscathed and in good shape. We did not need state support or new equity. It is no accident that we are in this strong position. Our culture and philosophy is to develop sustainable businesses for the long term. The key elements of our strategy involve diversification of businesses and of risk, and maintaining a strong and liquid balance sheet. In other words we sacrifice short-term profits to ensure long-term value and security. In 2010, for example, I estimate that to maintain liquidity we carried surplus deposits (placed in the money market at negligible interest rates rather than lent out to customers) which cost us in excess of £2 million in our Private Bank.

Arbuthnot is in its 178th year and our longevity is due to our culture and philosophy. This, I believe, makes us well qualified to pass comment on the current state of the banking industry. The crisis which began three years ago is not over yet. Many banks still depend on central banks for liquidity. Others may still not have written down their toxic assets or may engage again in risking their solvency by investing in high-yielding sovereign or other debt instruments of doubtful quality.

The most remarkable aspect of this crisis is the way that the blame – often expressed in the most hysterical and vindictive terms – was initiated and placed by the last Government squarely and almost exclusively onto the bankers. They exploited populist noise around some bankers' remuneration to whip up an anti-banker hysteria and in so doing minimise their own responsibility and that of others for the disaster.

This demonisation of bankers has provided politicians with a convenient scapegoat. But, while it is true that some senior bankers behaved with appalling greed and took huge risks to enrich themselves, the vast majority of bankers were simply not in a position to influence the course of events in any meaningful way. They were not well placed to make judgements about the overall level of risk being taken by the national or global economy – that was principally the job of the politicians and the regulators.

The outcry about bonuses epitomises the persecution of bankers. Speaking as perhaps the only senior banker who has never taken a bonus, it seems to me that these constant attacks threaten the whole future of the City of London, and we have to make up our minds. Do we want London to be a global centre of financial excellence, contributing over 11% of total revenue to the UK exchequer, or are we happy for London to be merely a regional player? If the former, we must accept that compensation will be set by global standards. It is interesting to note that the initiative of trying to surround remuneration with petty rules and unnecessary red tape is driven mainly by sclerotic European institutions; successful and growing economies like the USA, India and China seem much more hesitant in following suit. It is easy to forget how mobile financial institutions are and how much they value a welcoming environment.

Private Banking – Arbuthnot Latham & Co., Limited

Arbuthnot Latham's pre-tax profits were £1.0m (2009: £0.2m). Market conditions for lending in the high net worth segment remain strong and as a result Arbuthnot Latham grew its lending to £211m at the year end (2009: £178m) whilst improving its interest margin and asset quality. This was a strong performance, despite the continuing impact of the cost of the Bank's prudent liquidity policy and the start-up losses recorded by Gilliat Financial Solutions, the structured products business launched in 2009.

The loan to deposit ratio ended the year at 60%, a level the Board believed was appropriate to ensure liquidity for the last year's economic environment. With rates for surplus funds in the money market still at historic lows, Arbuthnot Latham's profits continue to be adversely affected.

Gilliat, having shown improvement in the third quarter, experienced further income shortfalls in the final quarter. Gilliat negatively affected the result for Arbuthnot Latham by £0.6m in 2010 (2009: £0.5m).

Central to Arbuthnot Latham's strategy is the development of its fee-based earnings, and in this regard it is pleasing to report that both asset management and wealth planning performed well in 2010.

Significant progress was also made in improving the take-up by banking clients of non-banking services.

Retail Banking – Secure Trust Bank PLC

Pre-tax profits for Secure Trust Bank were £8.5m (2009: £10.2m). Overall the business made good progress as the previous year's result included a one off gain of £1.1m and this year's result was adversely affected by the cost of carrying surplus deposits (£1.7m), and by the costs associated with restructuring the management team (£0.7m).

During the year the business further developed its three main lending activities. The motor finance loan book grew to £31.3m at the year end (2009: £4.7m). Point-of-sale asset finance, based mainly on musical instrument and bicycle retailers, grew its loan book to £21.4m (2009: £6.4m). Personal loans, mainly to OneBill or broker-introduced customers, grew to £25.8m (2009: £14.8m). All three of these areas remain very attractive markets for further expansion in 2011 and beyond.

The portfolios of books acquired in 2009 continue to be collected out in line with expectations, and with no evidence of deterioration in bad debt experience.

The current account with prepaid card was relaunched late in 2010 with a customer reward scheme arranged in conjunction with a portfolio of well known retailers to offset the monthly charge. Current account numbers have grown to 9,576 (2009: 2,740).

Investment Banking – Arbuthnot Securities Limited

Arbuthnot Securities recorded a profit of £1.0m (2009: loss of £0.1m). Having experienced a very difficult third quarter, trading in the final quarter saw a marked improvement, with corporate finance finishing the year strongly.

In former years, revenues in this business have depended heavily on contributions from the investment funds and natural resources teams. In 2010, these sectors made minimal contributions, and the result was attributable to a doubling in revenues by the remaining parts of the business.

Twelve transactions, including the £30.6m IPO of Shaft Sinkers Holdings PLC, were completed in the second half of the year, compared with four in the first half. For the year as a whole, primary revenue was £9.1m (2009: £9.2m).

Commission income continued to be challenging, with a continuing fall in market volumes and an increasing use by clients of Direct Market Access. Nevertheless, net secondary revenue (commission and trading) increased to £7.2m (2009: £6.9m).

Board Changes and Personnel

We were pleased to announce the appointment to the Board of Paul Lynam on 13 September. Paul joined as Chief Executive of Secure Trust Bank, replacing Gary Jennison, who resigned from the Board on 10 May. Sir Michael Peat resigned from the Board on 11 March 2010 for personal reasons. We are most grateful to him for the contribution he made during his time on the Board and we hope he will rejoin us one day.

These results reflect once again the continuing dedication and commitment of our employees who have done well in the current environment. On behalf of the Board I extend our thanks to all staff for their contribution in 2010. I extend particular thanks to my PA, Pat Tottenham, for her exceptional loyalty and dedication as she completed 50 years of service at Arbuthnot on 16 December 2010.

Dividend

The Board is proposing a final dividend of 12p, an increase of 0.5p on last year, making a total dividend for the year of 23p (2009: 22p). If approved, the dividend will be paid on 13 May 2011 to shareholders on the register as at 15 April 2011.

Outlook

Our retail and private banking businesses are liquid and well-capitalised, and are operating in banking markets which continue to be favourable to us. Both businesses are making good progress in developing their client networks and their fee-based services. Our investment banking business is clearly improving the quality of its franchise. Whilst maintaining the important caveats of the fragile status of the geopolitical and economic environment, we are optimistic about the outlook for 2011.

Business Review

Private Banking - Arbuthnot Latham

	2010	2009
Operating income	£14.4m	£13.1m
Other income	£2.5m	£2.8m
Operating expenses	£14.9m	£14.4m
Profit before tax	£1.0m	£0.2m
Customer loans	£210.8m	£177.7m
Customer deposits	£349.5m	£292.0m
Total assets	£417.9m	£370.1m
Customer net margin	4.0%	3.5%
Loan to deposit ratio	0.60	0.61

Arbuthnot Latham's pre-tax profits were £1m (2009: £0.2m). The bank has two component business lines with a common management team: Arbuthnot Latham, the private bank, which seeks to provide private banking services and wealth management solutions to its clients; and Gilliat Financial Solutions, a business which designs, packages and distributes structured products to the financial intermediary market.

The private banking business performed well, contributing pre-tax profits of £1.7m in 2010 with market conditions for lending in the high net worth segment remaining favourable. Arbuthnot Latham grew its lending by £33m to £211m, a 19% growth on 2009. Both interest margin and the quality of collateral held as security improved during the year. In line with the long-held policy of the Bank, all lending operations were financed by client deposits rather than through the inter-bank market. Deposits increased 20% year-on-year to £349m. The loan to deposit ratio ended the year at 60%, a level the business believe is appropriate to ensure liquidity for the current economic environment. The bad debt experience continued to be favourable, at less than 0.5% of the book.

Arbuthnot Latham's prudent approach to lending and liquidity management entails costs to the business which are incurred in order to ensure the security and stability of the Bank. Surplus funds are mainly invested in the money market where rates remain at historic lows, and significantly below rates paid to depositors.

During 2010 considerable management attention has focused on expanding the asset management and wealth planning offering, and on extending the take-up of these services by private banking clients. As a result discretionary assets under management grew by 26%. Total customer assets including deposits reached approximately £1 billion.

Gilliat Financial Solutions reduced Arbuthnot Latham's profits by £0.6m (2009: £0.5m). This business was a start-up in 2009. The early stage losses were exacerbated by a number of issues arising elsewhere in the structured products industry which undermined public confidence in these products. In response, a major cost reduction exercise was undertaken. In the third quarter of 2010, sales improved substantially and it delivered a break-even result, but further sales shortfalls occurred in the fourth quarter.

Retail Banking - Secure Trust Bank

	2010	2009
Operating income	£23.9m	£22.1m
Operating expenses	£13.2m	£11.8m
Profit before tax	£8.5m	£10.2m
Customer loans - unsecured	£89.2m	£51.4m
Customer deposits	£154.1m	£93.4m
Customer numbers ('000)	83	70
Net interest margin	14.2%	15.1%
Cost income ratio	0.47	0.45

The pre-tax profits of Secure Trust Bank were £8.5m (2009: £10.2m). Overall the business made good progress as the result for 2009 benefitted from the write back of a £1.1m provision carried over from the sale of the insurance business and in 2010 the profits were affected by two adverse factors. When allowance is made for all three items, it becomes evident that the underlying business performed well in 2010.

The first adverse factor which affected profits arose from the carrying of surplus deposits. Having successfully completed the acquisition of two loan portfolios in 2009, Secure Trust Bank was in advanced negotiations to make further such acquisitions and raised sufficient funds to finance them. In the event, it proved unable to complete the acquisitions and, despite reducing headline deposit interest rates, carried a significantly higher level of deposits than it was able to deploy in the business for much of 2010. It is estimated that the cost of those surplus deposits was approximately £1.7m.

The second adverse factor was the cost of restructuring the management team, involving the departure of both the Chief Executive and his deputy. We were very pleased to announce the appointment of Paul Lynam as Chief Executive on 13 September 2010. Overall, the costs associated with restructuring the management team amounted to £0.7m.

During the year the Bank's lending operations achieved very strong, controlled, organic growth. Motor finance, a business which we entered cautiously during 2009, grew to a book of £31.3m at 31 December 2010 (2009: £4.7m). This business, which focuses on the near prime market segment, substantially expanded its network of brokers and dealers to the point where it now has national coverage and a fully independent sales force.

Secure Trust Bank entered the market for point-of-sale asset finance in a small way in 2009 when it took over Arbuthnot Latham's musical instrument finance business. It has doubled the size of the point-of-sale asset finance book in 2010, after adding two new business streams. It entered the cycle finance business when it took over from a clearing bank an arrangement put in place by the Association of Cycle Traders to provide finance to customers of their members. Also, it began to provide point-of-sale finance, in conjunction with RentSmart, to business customers of PC World and Currys. It is now in the process of extending this relationship to their retail customers. Overall, point-of-sale finance balances amounted to £21.4m at the year end (2009: £6.4m).

The portfolios of books acquired in 2009 continue to be collected out in line with expectations, with the balance outstanding declining to £10.8m at 31 December 2010 (2009: £25.5m). There has been no evidence of deterioration in the bad debt experience for these books.

Late in 2010 the current account with a prepaid Mastercard product was relaunched. It now comes with the added benefit of a reward scheme which pays a monthly cash sum, of up to 4%, based on a customer's spend on their Mastercard at qualifying retailers. In addition, the account has full online capabilities. As a result, account openings have exceeded 1,000 per month, and the total stock of live accounts at the end of the year was 9,576 (2009: 2,740).

As anticipated, OneBill customer numbers continue to decline over time, however, the growth of profit streams developed over the last two years means that this product is becoming progressively less significant to the profitability of the business.

Investment Banking - Arbuthnot Securities

	2010	2009
Corporate finance fees and retainers	£9.1m	£9.2m
Commission income	£3.7m	£4.1m
Gains less losses from dealing in securities	£4.5m	£3.7m
Operating expenses	£16.0m	£17.0m
Profit / (loss) before tax	£1.0m	(£0.1m)
Corporate clients	75	93
Headcount	72	72

Arbuthnot Securities returned to profit for the first time since 2007. Profits for the year to December 2010 were £1.0m (2009: loss of £0.1m).

In previous years, revenues in our securities business have benefited significantly from contributions from the investment funds and natural resources sector teams, both of which left during 2010. In their absence, the remaining parts of the business showed a dramatic improvement in performance. On an ongoing basis, corporate finance revenues increased by 117%, and secondary revenue (trading and commission) by 83%.

Twelve corporate transactions, including the £30.6m raise associated with the IPO of Shaft Sinkers Holdings PLC, were completed in the second half of the year, compared with four in the first half. For the year as a whole, primary revenue was £9.1m (2009: £9.2m). Those fundraisings completed in the year also generated good returns for investors with all stocks trading at a premium. Taken as a whole, we are delighted that the combined absolute return for all our fundraises completed during 2010 was a gain of 128% at the year end.

The number of corporate clients at the year end was 75 compared with 93 at the prior year end. This reduction is largely attributable to the departure of the investment funds and natural resources teams. Encouragingly, however, a number of good client wins have been reported since the year end. The quality of our AIM client base also improved during the year. The average market capitalisation of the AIM client base increased to £32m by the year end (2009: £17m).

Commission income has remained challenging, with the continuing low market volumes and increasing use of Direct Market Access (DMA) by clients. Excluding the two departed teams, underlying commissions rose by 8%.

For the second successive year the trading book performed very strongly, recording a profit of £4.4m (£3.7m). The book is still managed at the low level to which it was reduced by management actions in 2008.

Since the year end Arbutnot Securities has completed a £25m fund raising for MAM Funds plc, and a number of other significant corporate finance transactions are being worked on (although, as ever, their outcome remains uncertain). Secondary market conditions remain difficult. The business has recruited in the investment funds and natural resources sectors and continues to hire actively where there is an opportunity to upgrade staff or expand the research product. Costs in the business remain carefully controlled, with headcount ending the year unchanged at 72 (2009: 72).

Financial Review

Arbuthnot Banking Group adopts a conservative approach to risk taking and seeks to maximise long term revenues and returns. Given its relative size, it is able to remain entrepreneurial and capable of taking advantage of market opportunities when they arise.

It provides a range of financial services to customers and clients in its three chosen niche markets of Private Banking (Arbuthnot Latham), Investment Banking (Arbuthnot Securities) and Retail Banking (Secure Trust Bank). The Group's revenues are derived from a combination of net interest income from its lending, deposit-taking and money market activities, fees for services provided to customers and clients, commissions earned on the sale of financial instruments and products and equity market-making profits.

Highlights

Summarised Income Statement

£000	2010	2009
Net interest income	21,138	16,916
Net fee and commission income	29,293	31,021
Gains less losses from dealing in securities (Group and Arbuthnot Securities)	4,320	3,763
Operating income	54,751	51,700
Other income	1,131	2,118
Operating expenses	(47,632)	(46,400)
Impairment losses on loans and advances	(3,146)	(2,368)
Profit on continuing activities before tax	5,104	5,050
Basic earnings per share (pence)	25.0	23.4

The Group has experienced two very different types of market conditions across its trading divisions. The lending markets are currently notable for the lack of capacity available to borrowers, which has arisen while the larger banks repair their damaged balance sheets. At the same time, the ability of borrowers to service their commitments seems to be holding up, resulting in the level of bad debts remaining low.

During this time our Private and Retail Banking businesses have taken the opportunity to develop their lending into niche areas and deepen customer relationships. We believe this will allow us to remain competitive when lending capacity returns to the market.

The corporate markets have remained volatile and while the level of IPOs and fundraising has increased during 2010, this activity has been confined to a few sectors. The level and the terms of trade in the secondary market have deteriorated, leading to lower commission throughout the industry. Given these factors it is therefore a creditable performance by our Investment Banking business to return to profitability during 2010. In fact all three businesses have reported a profit and generated good improvement in the quality of their underlying earnings.

Overall the Group made a profit before tax of £5.1m the same as reported in the prior year. However, once the impact of the provisions related to the sale of insurance business released in the prior year (£1.1m), the cost of carrying surplus deposits and management restructuring in the Retail Bank (£1.7m) and (£0.7m) respectively are adjusted for, the underlying profitability improved by 85%

Operating income increased during the year by 6% offset by expense growth of only 3% giving an organic operating leverage improvement of net 3%.

Balance Sheet Strength

Summarised Balance Sheet

£000	2010	2009
Assets		
Loans and advances to customers	300,252	229,722
Liquid assets	228,971	182,441
Other assets	35,887	40,352
Total assets	565,110	452,515
Liabilities		
Customer deposits	503,257	385,999
Other liabilities	27,705	32,373
Total liabilities	530,962	418,372
Equity	34,148	34,143
Total equity and liabilities	565,110	452,515

The total assets of the Group increased by 25% due to the continued growth in our lending businesses and also as a result of the surplus deposits, which are held as liquid assets.

The Group's total assets now exceed half a billion pounds for the first time in its history closing at £565.1m (2009: £452.5m) and customer assets now exceed £300m.

Customer deposits grew by 30% during the year to close at £503.3m. The Group continues with its conservative funding policy, remaining entirely funded by retail deposits and closed with a loan to deposit ratio of 59.7% (2009: 59.5%).

Segmental Analysis

The segmental analysis in Note 36 to the Consolidated Financial Statements of the Annual Report highlights the disclosures required under IFRS 8 'Operating Segments'. The operating segments are Private Banking (Arbuthnot Latham), International Private Banking (Arbuthnot AG), Investment Banking (Arbuthnot Securities) and Retail Banking (Secure Trust Bank). Group costs and intercompany elimination journals are shown separately to reconcile back to the Group consolidated result. The analysis presented below, and in the business reviews, is prior to any consolidation adjustments to remove the impact of intergroup operating activities and also intergroup recharges and is a fair reflection of the way the Directors manage the Group.

Private Banking – Arbuthnot Latham

£000	2010	2009
Net interest income	9,380	8,880
Net fee and commission income	5,049	4,184
Operating income	14,429	13,064
Other income	2,491	2,755
Operating expenses	(14,896)	(14,434)
Impairment losses	(979)	(1,179)
Profit before tax	1,045	206

The profit before tax increased to £1m (2009: £0.2m) as the core Private Banking business began to see the results of the market opportunities that have arisen during the financial crisis. It has been able selectively to lend to a better quality of proposition, while improving yields.

Also the fully rounded customer proposition has continued to be developed, with growth not only in customer deposits, but the successful introduction of these customers to more advisory services and discretionary management as a consequence fees and commission income shows a 21% increase to £5m.

Profitability continues to be reduced as a result of the low returns earned on the surplus deposits that are invested in the interbank market.

Impairment losses declined during the year. As a result, the core banking business closed the year with total profits before tax of £1.7m (2009: £0.7m).

Offsetting this was the continued investment in Gilliat Financial Solutions which cost the Private Banking division a further £0.6m net (the Group also absorbed Gilliat costs of £0.3m during the year).

£000	2010	2009
Assets		
Advances	210,753	178,297
Liquid assets	182,512	164,913
Other assets (including Group companies)	24,588	26,858
Total assets	417,853	370,068
Liabilities		
Customer deposits	349,478	292,026
Other liabilities (including Group companies)	45,452	54,997
Total liabilities	394,930	347,023
Equity	22,923	23,045
Total equity and liabilities	417,853	370,068

Total assets increased by 13% to £417.9m (2009: £370.1m) as the customer lending portfolio increased by 19%. The loan to value on this portfolio remains at an extremely robust level of 47%.

The liability side of the balance sheet continued to see strong net inflows of new deposits growing by 20% to close at £349.5m (2009: £292m) this performance is even better when it is noted that £30m of deposits have been converted to assets under management as the relationships with customers have been deepened.

The Private Bank remains well capitalised maintaining a total capital ratio of 13.1% (2009: 11.2%) and a core tier 1 ratio of 11.1% (2009: 8.8%).

International Private Banking - Arbuthnot AG

Cost associated with the ongoing establishment of the Swiss Bank fell to £0.1m (2009: £0.5m) as the costs have mainly been covered by a third party who, subject to regulatory approval, intends to invest in the Swiss bank.

Retail Banking – Secure Trust Bank

£000	2010	2009
Net interest income	12,464	8,587
Net fee and commission income	11,489	13,505
Operating income	23,953	22,092
Income released relating to sale of business in prior year	-	1,132
Operating expenses	(13,275)	(11,816)
Impairment losses	(2,167)	(1,189)
Profit before tax	8,511	10,219

Profit before tax reduced to £8.5m (2009: £10.2m) however, this does not reflect the improvement in the underlying quantity and quality of the earnings of the business.

If the following items are discounted from the comparisons, a) Release of provisions in the prior year (£1.1m), b) The cost of the surplus liquidity carried in the business (£1.7m) and c) The cost of restructuring the management team (£0.7m) then the underlying business grew by 19%.

This growth is mainly a result of the increased levels of activity in the lending business, which now has three main product areas, asset finance, personal lending and acquired portfolios. It is intended to create diversified and balanced growth in our lending books which will serve the business well, when the market becomes more competitive.

It is important for the business to maintain its sources of fee income and the current account with a pre-paid card is beginning to offset some of the continued decline in revenues from the One Bill account. The current account closed the year with 9,576 open accounts (2009: 2,740) and OneBill closed the year with 31,720 open accounts (2009: 36,104).

£000	2010	2009
Assets		
Asset finance		
Motor vehicles	31,270	4,680
Cycles	8,984	-
Musical instruments	7,274	6,438
Personal computers	5,118	-
	52,646	11,118
Personal lending	25,847	14,841
Acquired portfolios	10,723	25,465
Liquid assets	45,144	16,615
Other assets (including Group companies)	42,647	46,028
Total assets	177,007	114,067
Liabilities		
Customer deposits	153,778	93,350
Other liabilities (including Group companies)	7,212	6,177
Total liabilities	160,990	99,527
Equity	16,017	14,540
Total equity and liabilities	177,007	114,067

During this year the asset finance business increased its portfolio size by 374% to close at a total of £52.6m. This growth was largely due to the Motor vehicle portfolio which closed the year at £31.3m. However, this growth was augmented by the launch of our cycle and personal computer lending portfolios which grew to £9m and £5.1m in respectively.

The personal lending portfolio grew by 74% to close at £25.8m as the business was able to source new business from online brokers and offer new financing to customers from the acquired portfolios. The acquired portfolios reduced to £10.7m as the customers continued to repay their loans according to our expectations.

Customer deposit balances increased by 65% to £153.8m.

Investment Banking - Arbuthnot Securities

£000	2010	2009
Net interest income	(232)	(152)
Net fee and commission income	12,844	13,350
Gains less losses from dealing in securities	4,456	3,662
Operating income	17,068	16,860
Operating expenses	(16,029)	(17,007)
Profit / (loss) before tax	1,039	(147)

The business returned to profitability recording a profit before tax of £1m (2009: £0.1m loss).

As noted in the business review the Investment Banking division has in the past relied heavily on the contributions of two sector teams. These teams departed during 2010 and in their absence the remaining parts of the business were able to generate the same levels of operating income, but with a reduced cost base.

Primary revenues remained unchanged at £9m with the business completing sixteen corporate transactions, twelve of which were finalised in the second half. The secondary revenues also remained at approximately the same levels as in the prior year, but with the slightly different mix between trading and commission revenues.

The non controlling interest remained unchanged at 40.4% and therefore the Group's resultant share is 59.6%.

Group & Other Costs

£000	2010	2009
Operating Income	(75)	302
Other income	227	157
Group costs	(4,039)	(3,590)
Group head office property costs	(1,020)	(973)
Subordinated loan stock interest	(483)	(618)
Total Group & other costs	(5,542)	(5,181)
Loss before tax	(5,390)	(4,722)

The Group costs increased by 14% to £5.4m (2009: £4.7m). This was due to higher salary costs and the reduction in the fair value of securities held. The Group also made a further contribution of £0.3m (2009: £0.5m) to the investment in Gilliat Financial Solutions.

Capital

The Group's capital management policy is focused on optimising shareholder value over the long term. There is a clear focus on delivering organic growth and ensuring capital resources are sufficient to support planned levels of growth. The Board regularly reviews the capital position.

In accordance with the EU's Capital Requirements Directive (CRD) and the required parameters set out in the FSA Handbook (BIPRU 2.2), the Individual Capital Adequacy Assessment Process (ICAAP) is embedded in the risk management framework of the Group and is subject to ongoing updates and revisions when necessary. However, at a minimum, the ICAAP is updated annually as part of the business planning process. The ICAAP is a process that brings together the management framework (i.e. the policies, procedures, strategies, and systems that the Group has implemented to identify, manage and mitigate its risks) and the financial disciplines of business planning and capital management.

The Group's regulated entities are also the principal trading subsidiaries as detailed in Note 35.

Not all material risks can be mitigated by capital, but where capital is appropriate the Board has adopted a "Pillar I plus" approach to determine the level of capital the Group needs to hold. This method takes the Pillar I capital formula calculations (standardised approach for credit, market and operational risk) as a starting point, and then considers whether each of the calculations deliver a sufficient capital sum adequately to cover management's anticipated risks. Where the Board considered that the Pillar I calculations did not reflect the risk, an additional capital add-on in Pillar II is applied.

The Group's regulatory capital is divided into two tiers:

- Tier 1 comprises mainly shareholders' funds and non-controlling interest, after deducting goodwill and other intangible assets.
- Lower Tier 2 comprises qualifying subordinated loan capital and revaluation reserves. Lower Tier 2 capital cannot exceed 50% of tier 1 capital.

The ICAAP includes a summary of the capital required to mitigate the identified risks in its regulated entities and the amount of capital that the Group has available. The latest version of the Group ICAAP was approved by the Board on 11 February 2011. All regulated entities have complied with all of the externally imposed capital requirements to which they are subject.

£000	2010
Core Tier 1 capital	34,002
Tier 1 capital after deductions	31,087
Tier 2	12,776
Total capital	43,863
Core Tier 1 capital ratio (Net Core Tier 1 capital/ Basel 2 RWAs*)	12.7%
Total Capital ratio (Capital/ Basel 2 RWAs)	17.9%

* - Risk Weighted Assets (RWAs)

Risks and Uncertainties

The Group regards the monitoring and controlling of risks and uncertainties as a fundamental part of the management process. Consequently, senior management are involved in the development of risk management policies and in monitoring their application. A detailed description of risk management and their associated policies is set out in note 4 to the financial statements.

The principal risks inherent in the Group's business are credit, market, liquidity, operational and regulatory.

Credit risk, is the risk that a counterparty will be unable to pay amounts in full, when due. This risk exists mainly in Arbutnot Latham & Co., Limited and Secure Trust Bank, who currently have loan books of £210.8 m and £89.2 m respectively.

The lending portfolio in Arbutnot Latham is extended to our Private Banking clients, the majority of which is secured against cash, property or other assets.

The portfolios within Secure Trust are extended to retail customers, and are largely unsecured.

Credit risk is managed through the Credit Committees of each of the two banks with significant exposures also being approved by the Group Risk Committee.

Market risk arises in relation to movement in the interest rates, currencies and equity markets.

Through Arbutnot Securities, the Group is involved in market-making and underwriting UK equities. The market making book is subject to Group approved limits, both in aggregate and in relation to individual stocks. Outstanding positions are monitored against these limits both intraday and overnight. All significant underwriting transactions are individually approved by the Group Risk Committee.

The Group's treasury function operates mainly to provide a service to clients and does not take significant unmatched positions in any market for its own account. Hence, the Group's exposure to adverse movements in interest rates and currencies is limited to interest earnings on its free cash and interest rate re-pricing mismatches.

Liquidity risk is the risk that the Group cannot meet its liabilities as they fall due. The Group takes a conservative approach to managing its liquidity profile. It has placed no reliance on the wholesale lending markets and is entirely funded by retail customer deposits. The loan to deposit ratios are maintained at prudent levels. Following introduction of the new liquidity regime, which came into force on 1 October 2010, the Group now maintains liquidity asset buffers which comprise high quality, unencumbered assets such as Government Securities, which can be called upon to meet the Group's liabilities.

Operational risk is the risk that the Group may be exposed to financial losses from conducting its business. The largest exposure to this risk exists in Arbutnot Latham as mis-selling risk via its wealth management advisory service and its structured product distribution business.

The Group maintains clear compliance guidelines and provides ongoing training to all staff. Periodic spot checks and internal audits are performed to ensure these guidelines are being maintained. The Group also has insurance policies in place to cover any claims that may arise.

The Group is also exposed to operational risks from its Information Technology and Operations platforms. There are additional internal controls in these processes that are designed to protect the group from these risks. The Group's overall approach to managing internal control and financial reporting is described in the Corporate Governance section of the Annual Report.

Regulatory risk is the risk that the Group will have insufficient capital resources to support the business or does not comply with regulatory requirements. The Group adopts a conservative approach to managing the capital of the Group. The principal regulated entities maintain capital ratios in excess of the minimum level set by the regulator. Capital requirements are forecast as part of the annual budgeting process and these are regularly monitored. Annually the Group Board assesses the robustness of the capital requirements as part of the Individual Capital Adequacy Assessment Process (ICAAP) where stringent stress tests are performed to ensure that capital resources are adequate over a future three year horizon.

Dividend

The Board proposes a final dividend of 12 pence per share to be paid on 13 May 2011, giving a total dividend for the year of 23 pence (2009: 22 pence) per share.

Going Concern

After making appropriate enquiries which assessed strategy, profitability, funding, risk management (see Note 4) and capital resources (see Note 5), the directors are satisfied that the Company and the Group have adequate resources to continue in operation for the foreseeable future. The financial statements are, therefore, prepared on the going concern basis.

Revaluation reserve										
- Adjustment	-	-	-	(112)	-	-	-	-	-	(112)
Available-for-sale reserve	-	-	-	-	-	142	-	-	-	142
Total other comprehensive income	-	-	(300)	(112)	-	142	-	-	-	(270)
Total comprehensive income for the period	-	-	(300)	(112)	-	142	-	3,747	(26)	3,451

Transactions with owners, recorded directly in equity										
Contributions by and distributions to owners										
Purchase of own shares	-	-	-	-	-	-	(157)	-	-	(157)
Final dividend relating to 2009	-	-	-	-	-	-	-	(1,681)	-	(1,681)
Interim dividend relating to 2010	-	-	-	-	-	-	-	(1,608)	-	(1,608)
Total contributions by and distributions to owners	-	-	-	-	-	-	(157)	(3,289)	-	(3,446)
Balance at 31 December 2010	150	21,085	(558)	146	20	142	(1,097)	12,142	2,118	34,148

Attributable to equity holders of the Group

	Share capital £000	Share premium account £000	Foreign currency translation reserve £000	Revaluation reserve £000	Capital redemption reserve £000	Treasury shares £000	Retained earnings £000	Non-controlling interests £000	Total £000
Balance at 1 January 2009	150	21,085	(299)	366	20	(445)	11,257	2,280	34,414
Total comprehensive income for the period									
Profit / (loss) for 2009	-	-	-	-	-	-	3,507	(136)	3,371
Other comprehensive income, net of income tax									
Foreign currency translation reserve	-	-	41	-	-	-	-	-	41
Revaluation reserve - Amount transferred to profit and loss on sale	-	-	-	(108)	-	-	-	-	(108)
Total other comprehensive income	-	-	41	(108)	-	-	-	-	(67)
Total comprehensive income for the period	-	-	41	(108)	-	-	3,507	(136)	3,304

Transactions with owners, recorded directly in equity										
Contributions by and distributions to owners										
Purchase of own shares	-	-	-	-	-	(495)	-	-	-	(495)
Final dividend relating to 2008	-	-	-	-	-	-	(1,541)	-	-	(1,541)
Interim dividend relating to 2009	-	-	-	-	-	-	(1,539)	-	-	(1,539)
Total contributions by and distributions to owners	-	-	-	-	-	(495)	(3,080)	-	-	(3,575)
Balance at 31 December 2009	150	21,085	(258)	258	20	(940)	11,684	2,144	34,143	

Company statement of changes in equity

	Attributable to equity holders of the Company					
	Share capital	Share premium account	Capital redemption reserve	Treasury shares	Retained earnings	Total
	£000	£000	£000	£000	£000	£000
Balance at 1 January 2009	150	21,085	20	(445)	3,927	24,737
Total comprehensive income for the period	-	-	-	-	1,015	1,015
Transactions with owners, recorded directly in equity						
Contributions by and distributions to owners						
Purchase of own shares	-	-	-	(495)	-	(495)
Final dividend relating to 2008	-	-	-	-	(1,541)	(1,541)
Interim dividend relating to 2009	-	-	-	-	(1,539)	(1,539)
Total contributions by and distributions to owners	-	-	-	(495)	(3,080)	(3,575)
Balance at 1 January 2010	150	21,085	20	(940)	1,862	22,177
Total comprehensive income for the period	-	-	-	-	1,842	1,842
Transactions with owners, recorded directly in equity						
Contributions by and distributions to owners						
Purchase of own shares	-	-	-	(157)	-	(157)
Final dividend relating to 2009	-	-	-	-	(1,681)	(1,681)
Interim dividend relating to 2010	-	-	-	-	(1,608)	(1,608)
Total contributions by and distributions to owners	-	-	-	(157)	(3,289)	(3,446)
Balance at 31 December 2010	150	21,085	20	(1,097)	415	20,573

Consolidated statement of cash flows

	Note	Year ended	Year ended
		31 December	31 December
		2010	2009
		£000	£000
Cash flows from operating activities			
Interest and similar income received		27,612	22,972
Interest and similar charges paid		(8,189)	(5,548)
Fees and commissions received		30,310	31,768
Net trading and other income		5,451	5,881
Recoveries on loans previously written off		-	202
Cash payments to employees and suppliers		(46,913)	(47,438)
Taxation (paid)/received		(1,539)	207
Cash flows from operating profits before changes in operating assets and liabilities		6,732	8,044
Changes in operating assets and liabilities:			
- net (increase)/decrease in trading securities		(757)	787
- net decrease/(increase) in derivative financial instruments		420	(1,178)
- net increase in loans and advances to customers		(72,425)	(68,369)
- net decrease/(increase) in other assets		806	(3,701)
- net increase/(decrease) in deposits from banks		820	(12)
- net increase in amounts due to customers		117,258	93,109
- net decrease in other liabilities		(3,684)	(386)
Net cash inflow from operating activities		49,170	28,294
Cash flows from investing activities			
Acquisition of financial investments		(605)	(1,623)

Disposal of financial investments		450	-
Purchase of computer software	20	(426)	(426)
Purchase of property, plant and equipment	21	(286)	(543)
Proceeds from sale of property, plant and equipment		1,673	367
Purchases of debt securities		(452,576)	(248,688)
Proceeds from redemption of debt securities		437,054	253,730
Net cash from investing activities		(14,716)	2,817
Cash flows from financing activities			
Purchase of treasury shares		(157)	(495)
Dividends paid		(3,289)	(3,080)
Net cash used in financing activities		(3,446)	(3,575)
Net increase in cash and cash equivalents		31,008	27,536
Cash and cash equivalents at 1 January		54,844	27,308
Cash and cash equivalents at 31 December	33	85,852	54,844

Company statement of cash flows

		Year ended 31 December 2010 £000	Year ended 31 December 2009 £000
	Note		
Cash flows from operating activities			
Dividends received from subsidiaries		4,150	4,126
Interest and similar income received		342	359
Interest and similar charges paid		(778)	(747)
Net trading and other income		2,921	741
Cash payments to employees and suppliers		(5,949)	(5,549)
Taxation received		775	1,121
Cash flows from operating profits before changes in operating assets and liabilities		1,461	51
Changes in operating assets and liabilities:			
- net decrease in group company balances		2,129	4,923
- net (increase)/decrease in other assets		(683)	384
- net increase/(decrease) in other liabilities		219	(201)
Net cash inflow from operating activities		3,126	5,157
Cash flows from investing activities			
Loans to subsidiary companies		-	(1,400)
Increase investment in subsidiary		(9)	(100)
Disposal/(acquisition) of financial investments		135	(101)
Disposal of property, plant and equipment		-	17
Purchase of computer software	20	(40)	-
Purchase of property, plant and equipment	21	(17)	(7)
Net cash from investing activities		69	(1,591)
Cash flows from financing activities			
Purchase of treasury shares		(157)	(495)
Dividends paid		(3,289)	(3,080)
Net cash used in financing activities		(3,446)	(3,575)
Net decrease in cash and cash equivalents		(251)	(9)
Cash and cash equivalents at 1 January		(2,618)	(2,609)
Cash and cash equivalents at 31 December		(2,869)	(2,618)

Principal accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

1.1. Reporting entity

Arbuthnot Banking Group PLC is a company domiciled in United Kingdom. The registered address of the Arbuthnot Banking Group PLC is One Arlestone Way, Solihull B90 4LH. The consolidated financial statements of the Arbuthnot Banking Group PLC as at and for the year ended 31 December 2010 comprise the Arbuthnot Banking Group PLC and its subsidiaries (together referred to as the "Group" and individually as "subsidiaries"). The Company is primarily involved in banking and financial services.

1.2. Basis of presentation

The Group's consolidated financial statements and the Company's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs as adopted and endorsed by the EU) and the Companies Act 2006 applicable to companies reporting under IFRS. They have been prepared under the historical cost convention, as modified by the revaluation of land and buildings, available-for-sale financial assets, and financial assets and financial liabilities at fair value through profit or loss.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 2.

The Group's business activities and financial position, the factors likely to affect its future development and performance, and its objectives and policies in managing the financial risks to which it is exposed and its capital are discussed in the Financial Review. The Directors have assessed, in the light of current and anticipated economic conditions, the Group's ability to continue as a going concern. The Directors confirm they are satisfied that the Company and the Group have adequate resources to continue in business for the foreseeable future. For this reason, they continue to adopt the 'going concern' basis for preparing accounts.

(a) Standards, interpretations and amendments effective in 2010 - relevant to the Group

- IFRS 2 (Revised), 'Share-based payments'. The revised standard clarifies the scope and accounting for group cash-settled share-based payments in the separate financial statements of the entity receiving the goods or services when that entity has no obligation to settle the share-based payment transaction.
- IFRS 3 (Revised), 'Business combinations'. The revised standard continues to apply the acquisition method to business combinations, however, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the income statement. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed.
- IAS 24 (Revised), 'Related party disclosures' (effective from 1 January 2011 - early adopted). The revised standard includes an exemption from the disclosure requirements for related party transactions between "state controlled" entities and includes a revised definition for related parties.
- IAS 27 (Revised), 'Consolidated and separate financial statements'. The revised standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control. Any remaining interest in an investee is re-measured to fair value in determining the gain or loss recognised in profit or loss where control over the investee is lost.
- Improvements to IFRSs. Sets out minor amendments to IFRS standards as part of annual improvements process.

The above changes did not have any material impact on the financial statements.

(b) Standards, interpretations and amendments to existing standards that are not yet effective and have not been early adopted by the Group

The following standards, interpretations and amendments to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2011 or later periods, but the Group has not early adopted them:

- IFRS 7 (Revised), 'Disclosures - Transfers of Financial Assets' (effective from 1 July 2011). The revised standard require additional disclosures for transfers of financial assets and where there are a disproportionate amount of transactions undertaken around the period end. The revised standard will not have any material impact on the Group's financial accounts.*

- IFRS 9, 'Financial instruments' (effective from 1 January 2013). This standard deals with the classification and measurement of financial assets and will replace IAS 39. The requirements of this standard represent a significant change from the existing requirements in IAS 39. The standard contains two primary measurement categories for financial assets: amortised cost and fair value. The standard eliminates the existing IAS 39 categories of 'held to maturity', 'available for sale' and 'loans and receivables'. The potential effect of this standard is currently being evaluated but it is expected to have a pervasive impact on the Group's financial statements, due to the nature of the Group's operations.*

* - The revised IFRS 7 and IFRS 9 have not yet been endorsed by the EU.

1.3. Consolidation

(a) Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest. The excess of the cost of acquisition over the fair value of the Group's shares of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(b) Special purpose entities

Special purpose entities (SPEs) are entities that are created to accomplish a narrow and well-defined objective such as the securitisation of particular assets, or the execution of a specific borrowing or lending transaction. SPEs are consolidated when the substance of the relationship between the Group and the entity and the evaluation of the Group's exposure to the risks and rewards of the SPE indicates control. The following circumstances may indicate control by the Group and would therefore require consolidation of the SPE:

- in substance, the activities of the SPE are being conducted on behalf of the entity according to its specific business needs so that the entity obtains benefits from the SPE's operation;
- in substance, the entity has the decision-making powers to obtain the majority of the benefits of the activities of the SPE or, by setting up an 'autopilot' mechanism, the entity has delegated these decision-making powers;
- in substance, the entity has rights to obtain the majority of the benefits of the SPE and therefore may be exposed to risks incident to the activities of the SPE; or
- in substance, the entity retains the majority of the residual or ownership risks related to the SPE or its assets in order to obtain benefits from its activities.

The assessment of whether the Group has control over an SPE is carried out at inception and the initial assessment is only reconsidered at a later date if there were any changes to the structure or terms of the SPE, or there were additional transactions between the Group and the SPE.

(c) Transactions and non-controlling interests

Changes in ownership interest in a subsidiary that do not result in the loss of control are accounted for as equity transactions and no gain or loss is recognised.

1.4. Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the Group Board. The Group Board, which is responsible for allocating resources and assessing performance of the operating segments, has been identified as the chief operating decision maker. All transactions between segments are conducted on an arm's length basis. Income and expenses directly associated with each segment are included in determining segment performance. There are four main operating segments:

- Retail Banking
- International Private Banking
- UK Private Banking
- Investment Banking

1.5. Foreign currency translation

(a) Functional and presentational currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in pounds sterling, which is the Company's functional and the Group's presentational currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

(c) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentational currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognised in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

1.6. Interest income and expense

Interest income and expense are recognised in the statement of comprehensive income for all instruments measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group takes into account all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

1.7. Fee and commission income

Fees and commissions which are not considered integral to the effective interest rate are generally recognised on an accrual basis when the service has been provided. Loan commitment fees are deferred and recognised as an adjustment to the effective interest rate on the loan.

Commission and fees arising from negotiating, or participating in the negotiation of, a transaction for a third party — such as the issue or the acquisition of shares or other securities or the purchase or sale of businesses — are recognised on completion of the underlying transaction. Asset and other management, advisory and service fees are recognised based on the applicable service contracts, usually on a time apportioned basis. The same principle is applied for financial planning and insurance services that are continuously provided over an extended period of time. Commissions arising from the sale of structured products are recognised at the point of sale as there are no further services provided or due.

1.8. Gains less losses arising from dealing in securities

This includes the net gains arising from both buying and selling securities and from positions held in securities, including related interest income and dividends, recognised on trade-date - the date on which the Group commits to purchase or sell the asset.

1.9. Financial assets and financial liabilities

The Group classifies its financial assets and financial liabilities in the following categories: financial assets and financial liabilities at fair value through profit or loss; loans and receivables; held-to-maturity investments; available-for-sale financial assets and other financial liabilities. Management determines the classification of its investments at initial recognition. A financial asset or financial liability is measured initially at fair value. At inception transaction costs that are directly attributable to its acquisition or issue, for an item not at fair value through profit or loss, is added to the fair value of the financial asset and deducted from the fair value of the financial liability.

(a) Financial assets and financial liabilities at fair value through profit or loss

This category comprises financial assets and financial liabilities held for trading and listed securities. All listed securities are held for trading. Financial assets and liabilities at fair value through profit or loss are initially recognised on trade-date — the date on which the Group becomes a party to the contractual provisions of the instrument. Subsequent measurement of financial assets and financial liabilities held in this category are carried at fair value through profit or loss.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable. Loans are recognised when cash is advanced to the borrowers. Loans and receivables are carried at amortised cost using the effective interest method.

(c) Held-to-maturity

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. Held-to-maturity investments are carried at amortised cost using the effective interest method.

(d) Available-for-sale

Available-for-sale investments are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. Included in available-for-sale are equity investments in special purpose vehicles set up to acquire and enhance the value of commercial properties and equity investments in unquoted vehicles. These investments are of a medium term nature. There is no open market for these assets and there are no available-for-sale debt securities. Unquoted equity securities whose fair value cannot reliably be measured are carried at cost. All other available-for-sale investments are carried at fair value. Fair value changes on the equity securities are recognised in other comprehensive income (fair value reserve) until the investment is sold or impaired. Once sold or impaired the cumulative gains or losses previously recognised in other comprehensive income is reclassified to profit or loss.

(e) Other financial liabilities

Other financial liabilities are non-derivative financial liabilities with fixed or determinable payments. Other financial liabilities are recognised when cash is received from the depositors. Other financial liabilities are carried at amortised cost using the effective interest method. The fair value of other liabilities repayable on demand is assumed to be the amount payable on demand at the balance sheet date.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Group has transferred substantially all risks and rewards of ownership. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Group is recognised as a separate asset or liability in the

statement of financial position. In transactions in which the Group neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset and it retains control over the asset, the Group continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset. There have not been any instances where assets have only been partially derecognised.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

Amortised cost measurement

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition, minus principal payments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

Fair value measurement

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction on the measurement date. The fair value of assets and liabilities traded in active markets are based on current bid and offer prices respectively. If the market is not active the Group establishes a fair value by using appropriate valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same for which market observable prices exist, net present value and discounted cash flow analysis.

1.10. Derivative financial instruments

All derivatives are recognised at their fair value. Fair values are obtained from quoted market prices in active markets, including recent arm's length transactions. Derivatives are shown in the statement of financial position as assets when their fair value is positive and as liabilities when their fair value is negative. Changes in the fair value of derivatives are recognised immediately in the statement of comprehensive income.

1.11. Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

1.12. Impairment of financial assets

(a) Assets carried at amortised cost

On an ongoing basis the Group assesses whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria that the Group uses to determine that there is objective evidence of an impairment loss include, but are not limited to, the following:

- Delinquency in contractual payments of principal or interest;
- Cash flow difficulties experienced by the borrower;
- Initiation of bankruptcy proceedings;
- Deterioration in the value of collateral;
- Deterioration of the borrower's competitive position;

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. When a loan is uncollectible, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of the provision for loan impairment in the income statement.

(b) Assets classified as available for sale

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the

acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

(c) Renegotiated loans

Loans that are either subject to collective impairment assessment or individually significant and whose terms have been renegotiated are no longer considered to be past due but are treated as new loans.

1.13. Intangible assets

(a) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in 'intangible assets'. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

The Group reviews the goodwill for impairment at least annually or when events or changes in economic circumstances indicate that impairment may have taken place and carry goodwill at cost less accumulated impairment losses. Assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit" or "CGU"). For impairment testing purposes goodwill cannot be allocated to a CGU that is greater than a reported operating segment. CGUs to which goodwill has been allocated are aggregated so that the level at which impairment is tested reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the synergies of the combination.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. There are currently two CGU's with goodwill attached to it; the core Arbuthnot Latham CGU and the Music Finance CGU.

Management considers the value in use for the core Arbuthnot Latham CGU to be the discounted cash flows over 5 years with a terminal value (2009: 5 years with a terminal value). The 5 year plan with a terminal value is considered to be appropriate as the goodwill relates to an ongoing well established business and not underlying assets with finite lives. The terminal value is calculated by applying a discounted perpetual growth model to the profit expected in 2013 as per the approved 3 year plan. A growth rate of 8% (2009: 7%) was used for income and 9% (2009: 4%) for expenditure from 2011 to 2013 (these rates were the best estimate of future forecasted performance), while a 4% (2009: 4%) percent growth rate for income and expenditure (a more conservative approach was taken for latter years as these were not budgeted for in detail as per the three year plan approved by the Board of Directors) was used for cash flows after the approved three year plan.

Management considers the value in use for the Music Finance CGU to be the discounted cash flows over 5 years (2009: 5 years). Income and expenditure were kept flat (2009: 0%) over the 5 year period.

Cash flows were discounted at a pre-tax rate of 12% (2009: 12%) to their net present value. The discount rate of 12% is considered to be appropriate after evaluating current market assessments of the time value of money and the risks specific to the assets or CGUs. Currently the value in use and fair value less costs to sell far exceeds the carrying value and as such no sensitivity analysis was done.

Impairment losses are recognised in profit and loss if the carrying amounts exceed the recoverable amounts.

(b) Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised on the basis of the expected useful lives (three to five years).

Costs associated with developing or maintaining computer software programs are recognised as an expense as incurred.

1.14. Property, plant and equipment

Land and buildings comprise mainly branches and offices and are stated at the latest valuation with subsequent additions at cost less depreciation. Plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, applying the following annual rates, which are subject to regular review:

Freehold buildings	50 years
Office equipment	6 to 20 years
Computer equipment	3 to 5 years
Motor vehicles	4 years

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement. Depreciation on revalued freehold buildings is calculated using the straight-line method over the remaining useful life. Revaluation of assets and any subsequent disposals are addressed through the revaluation reserve and any changes are transferred to retained earnings.

1.15. Leases

(a) As a lessor

Assets leased to customers under agreements which transfer substantially all the risks and rewards of ownership, with or without ultimate legal title, are classified as finance leases. When assets are held subject to finance leases, the present value of the lease payments is recognised as a receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. Lease income is recognised over the term of the lease using the net investment method, which reflects a constant periodic rate of return.

Assets leased to customers under agreements which do not transfer substantially all the risks and rewards of ownership are classified as operating leases. When assets are held subject to operating leases, the underlying assets are held at cost less accumulated depreciation. The assets are depreciated down to their estimated residual values on a straight line basis over the lease term. Lease rental income is recognised on a straight line basis over the lease term.

(b) As a lessee

Rentals made under operating leases are recognised in the income statement on a straight line basis over the term of the lease.

1.16. Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprises cash on hand and demand deposits, and cash equivalents comprise highly liquid investments that are convertible into cash with an insignificant risk of changes in value with a maturity of three months or less at the date of acquisition, including certain loans and advances to banks and building societies and short-term highly liquid debt securities.

1.17. Employee benefits

(a) Post-retirement obligations

The Group contributes to a defined contribution scheme and to individual defined contribution schemes for the benefit of certain employees. The schemes are funded through payments to insurance companies or trustee-administered funds at the contribution rates agreed with individual employees.

The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as an employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

There are no post-retirement benefits other than pensions.

(b) Share-based compensation

As set out in note 34, in 2008 and 2009 the Group awarded share options to three directors under an equity settled share-based compensation plan. No options were awarded in 2010. The fair value of the services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted. At each balance sheet date, the Group revises its estimates of the number of options that are expected to vest and recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

1.18. Taxation

Current income tax which is payable on taxable profits is recognised as an expense in the period in which the profits arise. Income tax recoverable on tax allowable losses is recognised as an asset only to the extent that it is regarded as recoverable by offset against current or future taxable profits.

Deferred tax is provided in full on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax is not accounted for if it arises from the initial recognition of goodwill, the initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries to the extent that they probably will not reverse in the foreseeable future. Deferred tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the statement of financial position date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets are recognised where it is probable that future taxable profits will be available against which the temporary differences can be utilised.

1.19. Issued debt and equity securities

Issued financial instruments or their components are classified as liabilities where the contractual arrangement results in the Group having a present obligation to either deliver cash or another financial asset to the holder, to exchange financial instruments on terms that are potentially unfavourable. Issued financial instruments, or their components, are classified as equity where they meet the definition of equity and confer on the holder a residual interest in the assets of the Company. The components of issued financial instruments that contain both liability and equity elements are accounted for separately with the equity component being assigned the residual amount after deducting from the instrument as a whole the amount separately determined as the fair value of the liability component.

Financial liabilities, other than trading liabilities at fair value, are carried at amortised cost using the effective interest method as set out in policy 1.5. Equity instruments, including share capital, are initially recognised at net proceeds, after deducting transaction costs and any related income tax. Dividend and other payments to equity holders are deducted from equity, net of any related tax.

1.20. Share capital

(a) Share issue costs

Incremental costs directly attributable to the issue of new shares or options or to the acquisition of a business are shown in equity as a deduction, net of tax, from the proceeds.

(b) Dividends on ordinary shares

Dividends on ordinary shares are recognised in equity in the period in which they are approved.

(c) Share buybacks

Where any group company purchases the company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the company's equity holders until the shares are cancelled or reissued.

1.21. Fiduciary activities

The Group commonly acts as trustees and in other fiduciary capacities that result in the holding or placing of assets on behalf of individuals, trusts, retirement benefit plans and other institutions. These assets and income arising thereon are excluded from these financial statements, as they are not assets of the Group.

1.22. Financial guarantee contracts

Financial guarantees represent undertakings that the Group will meet a customer's obligation to third parties if the customer fails to do so. Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. The Group is theoretically exposed to loss in an amount equal to the total guarantees or unused commitments, however, the likely amount of loss is expected to be significantly less; most commitments to extend credit are contingent upon customers maintaining specific credit standards. Liabilities under financial guarantee contracts are initially recorded at their fair value, and the initial fair value is amortised over the life of the financial guarantee. Subsequently, the financial guarantee liabilities are measured at the higher of the initial fair value, less cumulative amortisation, and the best estimate of the expenditure to settle obligations.

Notes to the consolidated financial statements

2. Critical accounting estimates and judgements in applying accounting policies

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

2.1. Estimation uncertainty

Credit losses

The Group reviews its loan portfolios and held-to-maturity investments to assess impairment at least on a half-yearly basis. The basis for evaluating impairment losses is described in accounting policy 1.12. Where financial assets are individually evaluated for impairment, management uses their best estimates in calculating the net present value of future cash flows. Management has to make judgements on the financial position of the counterparty and the net realisable value of collateral, in determining the expected future cash flows.

In determining whether an impairment loss should be recorded in the income statement, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans or held-to-maturity investments with similar credit characteristics, before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the Group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Goodwill impairment

The accounting policy for goodwill is described in note 1.13 (a). The Company reviews the goodwill for impairment at least annually or when events or changes in economic circumstances indicate that impairment may have taken place. Significant management judgements are made in estimations, to evaluate whether an impairment of goodwill is necessary. Impairment testing is done at CGU level and the following two items, with judgements surrounding them, have a significant impact on the estimations used in determining the necessity of an impairment charge:

- Future cash flows - Cash flow forecasts reflect managements view of future business forecasts at the time of the assessment. A detailed three year budget is done every year and management also uses judgement in applying a growth rate. The accuracy of future cash flows is subject to a high degree of uncertainty in volatile market conditions. During such conditions, management would do impairment testing more frequently than annually to ensure that the assumptions applied are still valid in the current market conditions.
- Discount rate - Management also apply judgement in determining the discount rate used to discount future expected cash flows. The discount rate is derived from the cost of capital for each CGU.

At the time of the impairment testing, if the future expected cash flows decline and/or the cost of capital has increased, then the recoverable amount will reduce.

Taxation

The group is subject to direct and indirect taxation in a number of jurisdictions. There may be some transactions and calculations for which the ultimate tax determination has an element of uncertainty during the ordinary course of business. The Group recognises liabilities based on estimates of the quantum of taxes that may be due. Where the final tax determination is different from the amounts that were initially recorded, such differences will impact the income tax as a deferred tax expense in the year in which the determination is made.

2.2. Judgements

Impairment of equity securities

A significant or prolonged decline in the fair value of an equity security is objective evidence of impairment. The Group regards a decline of more than 20 percent in fair value as "significant" and a decline in the quoted market price that persists for nine months or longer as "prolonged".

Valuation of financial instruments

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices. If the market is not active the Group establishes a fair value by using appropriate valuation techniques. These include the

use of recent arm's length transactions, reference to other instruments that are substantially the same for which market observable prices exist, net present value and discounted cash flow analysis. The objective of valuation techniques is to determine the fair value of the financial instrument at the reporting date as the price that would have been agreed between active market participants in an arm's length transaction.

The Group measures fair value using the following fair value hierarchy that reflects the significance of the inputs used in making measurements:

- Level 1: Quoted prices in active markets for identical assets or liabilities
- Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The consideration of factors such as the magnitude and frequency of trading activity, the availability of prices and the size of bid/offer spreads, assist in the judgement as to whether a market is active. If in the opinion of management, a significant proportion of the instrument's carrying amount is driven by unobservable inputs, the instrument in its entirety is classified as valued using significant unobservable inputs. 'Unobservable' in this context means that there is little or no current market data available from which to determine the level at which an arm's length transaction would be likely to occur. It generally does not mean that there is no market data available at all upon which to base a determination of fair value (consensus pricing data may, for example, be used).

The tables below analyses financial instruments measured at fair value by the level in the fair value hierarchy into which the measurement is categorised:

	Level 1	Level 2	Level 3	Total
	£000	£000	£000	£000
At 31 December 2010				
Trading securities - long positions	3,232	-	-	3,232
Financial investments	2,070	-	2,887	4,957
	5,302	-	2,887	8,189
Trading securities - short positions	775	-	-	775
Derivative financial instruments	-	184	-	184
	775	184	-	959

	Level 1	Level 2	Level 3	Total
	£000	£000	£000	£000
At 31 December 2009				
Trading securities - long positions	2,633	26	-	2,659
Derivative financial instruments	-	236	-	236
Financial investments	1,533	-	3,524	5,057
	4,166	262	3,524	7,952
Trading securities - short positions	959	-	-	959
	959	-	-	959

There were no significant transfers between level 1 and level 2 during the year.

The following table reconciles the movement in level 3 financial instruments during the year:

	2010	2009
	£000	£000
Movement in level 3		
At 1 January	3,524	3,285
Purchases	130	600
Disposals	(450)	-
Losses recognised in the profit and loss	(317)	(361)
At 31 December	2,887	3,524

3. Maturity analysis of assets and liabilities

The table below shows the maturity analysis of assets and liabilities as at 31 December 2010:

	Due within one year £000	Due after more than one year £000	Total £000
At 31 December 2010			
ASSETS			
Cash	73,772	-	73,772
Loans and advances to banks	12,080	-	12,080
Loans and advances to customers	211,063	89,189	300,252
Trading securities - long positions	3,232	-	3,232
Debt securities held-to-maturity	127,114	16,005	143,119
Other assets	14,284	3,664	17,948
Financial investments	-	4,957	4,957
Intangible assets	-	2,915	2,915
Property, plant and equipment	-	5,903	5,903
Deferred tax asset	-	932	932
Total assets	441,545	123,565	565,110
LIABILITIES			
Deposits from banks	3,706	-	3,706
Trading securities - short positions	775	-	775
Derivative financial instruments	184	-	184
Deposits from customers	496,964	6,293	503,257
Current tax liability	751	-	751
Other liabilities	9,387	146	9,533
Deferred tax liability	-	126	126
Debt securities in issue	-	12,630	12,630
Total liabilities	511,767	19,195	530,962

The table below shows the maturity analysis of assets and liabilities as at 31 December 2009:

	Due within one year £000	Due after more than one year £000	Total £000
At 31 December 2009			
ASSETS			
Cash	230	-	230
Derivative financial instruments	236	-	236
Loans and advances to banks	54,614	-	54,614
Loans and advances to customers	203,751	25,971	229,722
Trading securities - long positions	2,659	-	2,659
Debt securities held-to-maturity	119,559	8,038	127,597
Current tax asset	1,805	-	1,805
Other assets	16,674	2,080	18,754
Financial investments	1,533	3,524	5,057
Intangible assets	-	2,906	2,906
Property, plant and equipment	-	8,552	8,552
Deferred tax asset	-	383	383
Total assets	401,061	51,454	452,515
LIABILITIES			
Deposits from banks	2,886	-	2,886
Trading securities - short positions	959	-	959
Deposits from customers	384,583	1,416	385,999
Current tax liability	2,208	-	2,208
Other liabilities	13,214	3	13,217

Deferred tax liability	81	-	81
Debt securities in issue	-	13,022	13,022
Total liabilities	403,931	14,441	418,372

4. Financial risk management

Strategy

By their nature, the Group's activities are principally related to the use of financial instruments. The Directors and senior management of the Group have formally adopted a group Risk and Controls Policy which sets out the Board's attitude to risk and internal controls. Key risks identified by the Directors are formally reviewed and assessed at least once a year by the Board, in addition to which key business risks are identified, evaluated and managed by operating management on an ongoing basis by means of procedures such as physical controls, credit and other authorisation limits and segregation of duties. The Board also receives regular reports on any risk matters that need to be brought to its attention. Significant risks identified in connection with the development of new activities are subject to consideration by the Board. There are budgeting procedures in place and reports are presented regularly to the Board detailing the results of each principal business unit, variances against budget and prior year, and other performance data.

The principal non-operational risks inherent in the Group's business are credit, market and liquidity risks.

(a) Credit risk

The Company and Group take on exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Impairment provisions are provided for losses that have been incurred at the balance sheet date. Significant changes in the economy, or in the health of a particular industry segment that represents a concentration in the Company and Group's portfolio, could result in losses that are different from those provided for at the balance sheet date. Credit risk is managed through the Credit Committees of the banking subsidiaries, with significant exposures also being approved by the Group Risk Committee.

The Company and Group structure the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower or groups of borrowers. Such risks are monitored on a revolving basis and subject to an annual or more frequent review. The limits are approved periodically by the Board of Directors and actual exposures against limits are monitored daily.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees.

The Group employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of collateral to secure advances, which is common practice. The principal collateral types for loans and advances include, but are not limited to:

- Charges over residential and commercial properties;
- Charges over business assets such as premises, inventory and accounts receivable;
- Charges over financial instruments such as debt securities and equities;
- Personal guarantees; and
- Charges over other chattels

Upon initial recognition of loans and advances, the fair value of collateral is based on valuation techniques commonly used for the corresponding assets. In order to minimise any potential credit loss the Group will seek additional collateral from the counterparty as soon as impairment indicators are noticed for the relevant individual loans and advances. Repossessed collateral, not readily convertible into cash, is made available for sale in an orderly fashion, with the proceeds used to reduce or repay the outstanding indebtedness. Where excess funds are available after the debt has been repaid, they are available either for other secured lenders with lower priority or are returned to the customer.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards.

The Group's maximum exposure to credit risk before collateral held or other credit enhancements is as follows:

	2010	2009
	£000	£000
Credit risk exposures relating to on-balance sheet assets are as follows:		
Cash	73,772	230
Derivative financial instruments	-	236
Loans and advances to banks	12,080	54,614
Loans and advances to customers - Arbuthnot Latham	210,753	178,297
Loan and advances to customers - Secure Trust Bank	89,499	51,425
Trading securities - long positions	3,232	2,659
Debt securities held-to-maturity	143,119	127,597
Financial investments	4,957	5,057
Other assets	8,727	15,090
Credit risk exposures relating to off-balance sheet assets are as follows:		
Guarantees	485	1,135
Loan commitments and other credit related liabilities	23,469	14,163
At 31 December	570,093	450,503

The Company's maximum exposure to credit risk before collateral held or other credit enhancements is as follows:

	2010	2009
	£000	£000
Credit risk exposures relating to on-balance sheet assets are as follows:		
Due from subsidiary undertakings	15,545	14,531
Financial investments	330	465
Other debtors	2,386	1,703
Credit risk exposures relating to off-balance sheet assets are as follows:		
Guarantees	2,500	2,500
At 31 December	20,761	19,199

The above table represents the maximum credit risk exposure (net of impairment) to the Group and Company at 31 December 2010 and 2009 without taking account of any collateral held or other credit enhancements attached. For on-balance-sheet assets, the exposures are based on the net carrying amounts as reported in the balance sheet.

Concentration risk

The Group is well diversified in the UK, being exposed to retail banking, private banking and investment banking. Management assesses the potential concentration risk from a number of areas including:

- geographical concentration
- product concentration; and
- high value residential properties

Due to the well diversified nature of the Group and the significant collateral held against the loan book, the Directors do not consider there to be a potential material exposure arising from concentration risk.

(b) Operational risk (unaudited)

The Group's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Group's reputation with overall cost effectiveness and to avoid control procedures that restrict initiatives and creativity. Operational risk arises from all of the Group's operations.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to the senior management within each subsidiary.

Compliance with Group standards is supported by a programme of periodic reviews undertaken by Internal Audit. The results of the Internal Audit reviews are discussed with the company's senior management, with summaries submitted to the Arbuthnot Banking Group Audit Committee.

(c) Market risk

Price risk

The Company and Group is exposed to equity securities price risk because of investments held by the Group and classified on the consolidated balance sheet either as available-for-sale or at fair value through the income statement. The Group is not exposed to commodity price risk. To manage its price risk arising from investments in equity securities, the Group diversifies its portfolio. Diversification of the portfolio is done in accordance with the limits set by the Group.

Based upon the trading book exposure given in Note 15 and the financial investment exposure (in Note 19), a stress test scenario of a 10% (2009: 10%) decline in market prices, with all other things being equal, would result in a £141,000 (2009: £250,000) decrease in the Group's income and equity. The Group consider a 10% stress test scenario appropriate after taking the current values and historic data into account.

Based upon the financial investment exposure given in Note 19, a stress test scenario of a 10% (2009: 10%) decline in market prices, with all other things being equal, would result in a £33,000 (2009: £46,500) decrease in the Company's income and equity.

Currency risk

The Company and Group takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board sets limits on the level of exposure for both overnight and intra-day positions, which are monitored daily. The table below summarises the Group's exposure to foreign currency exchange rate risk at 31 December 2010. Included in the table below are the Group's assets and liabilities at carrying amounts, categorised by currency.

	GBP (£)	USD (\$)	Euro (€)	Other	Total
	£000	£000	£000	£000	£000
At 31 December 2010					
ASSETS					
Cash	73,667	32	73	-	73,772
Loans and advances to banks	5,188	4,945	427	1,520	12,080
Loans and advances to customers	258,486	5,090	36,676	-	300,252
Trading securities - long positions	3,220	12	-	-	3,232
Debt securities held-to-maturity	143,119	-	-	-	143,119
Other assets	17,943	4	1	-	17,948
Financial investments	1,999	71	2,887	-	4,957
	503,622	10,154	40,064	1,520	555,360
LIABILITIES					
Deposits from banks	1,812	10	13	1,871	3,706
Trading securities - short positions	775	-	-	-	775
Derivative financial instruments	184	-	-	-	184
Deposits from customers	484,904	9,947	6,873	1,533	503,257
Other liabilities	9,533	-	-	-	9,533
Debt securities in issue	-	-	12,630	-	12,630
	497,208	9,957	19,516	3,404	530,085
Net on-balance sheet position	6,414	197	20,548	(1,884)	25,275
Credit commitments	23,600	20	334	-	23,954

The table below summarises the Group's exposure to foreign currency exchange risk at 31 December 2009:

	GBP (£)	USD (\$)	Euro (€)	Other	Total
	£000	£000	£000	£000	£000
At 31 December 2009					
ASSETS					
Cash	230	-	-	-	230
Derivative financial instruments	236	-	-	-	236
Loans and advances to banks	48,002	4,587	816	1,209	54,614
Loans and advances to customers	192,681	3,579	31,430	2,032	229,722
Trading securities - long positions	2,199	460	-	-	2,659
Debt securities held-to-maturity	127,597	-	-	-	127,597
Other assets	18,577	41	136	-	18,754

Financial investments	5,057	-	-	-	5,057
	394,579	8,667	32,382	3,241	438,869
LIABILITIES					
Deposits from banks	1,241	7	21	1,617	2,886
Trading securities - short positions	959	-	-	-	959
Deposits from customers	370,600	8,720	5,475	1,204	385,999
Other liabilities	13,215	1	1	-	13,217
Debt securities in issue	-	-	13,022	-	13,022
	386,015	8,728	18,519	2,821	416,083
Net on-balance sheet position	8,564	(61)	13,863	420	22,786
Credit commitments	13,865	3	295	-	14,163

A 10% strengthening of the pound against the US dollar would lead to a £20,000 (2009: negligible) decrease in Group profits and equity, while a 10% weakening of the pound against the US dollar would lead to the same increase in Group profits and equity. Similarly a 10% strengthening of the pound against the Euro would lead to £48,000 (2009: £42,000) decrease in Group profits and equity, while a 10% weakening of the pound against the Euro would lead to the same increase in Group profits and equity. The above results are after taking into account the effect of derivative financial instruments (see Note 24), which covers most of the net exposure in each currency.

The table below summarises the Company's exposure to foreign currency exchange rate risk at 31 December 2010:

	GBP (£)	USD (\$)	Euro (€)	CHF	Total
	£000	£000	£000	£000	£000
At 31 December 2010					
ASSETS					
Due from subsidiary undertakings	124	-	13,025	2,396	15,545
Financial investments	330	-	-	-	330
Other debtors	601	-	-	-	601
Shares in subsidiary undertakings	28,633	-	-	-	28,633
	29,688	-	13,025	2,396	45,109
LIABILITIES					
Deposits from banks	1,004	-	-	1,865	2,869
Due to subsidiary undertakings	10,097	-	-	-	10,097
Debt securities in issue	-	-	12,630	-	12,630
	11,101	-	12,630	1,865	25,596
Net on-balance sheet position	18,587	-	395	531	19,513

The table below summarises the Company's exposure to foreign currency exchange rate risk at 31 December 2009:

	GBP (£)	USD (\$)	Euro (€)	CHF	Total
	£000	£000	£000	£000	£000
At 31 December 2009					
ASSETS					
Due from subsidiary undertakings	(853)	-	13,352	2,032	14,531
Financial investments	465	-	-	-	465
Other debtors	1,703	-	-	-	1,703
Shares in subsidiary undertakings	28,624	-	-	-	28,624
	29,939	-	13,352	2,032	45,323
LIABILITIES					
Deposits from banks	1,001	-	-	1,617	2,618
Due to subsidiary undertakings	6,954	-	-	-	6,954
Debt securities in issue	-	-	13,022	-	13,022
	7,955	-	13,022	1,617	22,594
Net on-balance sheet position	21,984	-	330	415	22,729

A 10% strengthening of the pound against the Euro would lead to £11,000 (2009: £3,000) decrease in the Company profits and equity, conversely a 10% weakening of the pound against the Euro would lead to the same increase in the Company profits and equity. A 10% strengthening of the pound against the Swiss Franc would lead to £53,000 (2009: £43,000) decrease in the Company profits and equity, conversely a 10% weakening of the pound against the Swiss Franc would lead to the same increase in the Company profits and equity.

Interest rate risk

Interest rate risk is the potential adverse impact on the Company and Group's future cash flows from changes in interest rates; and arises from the differing interest rate risk characteristics of the Company and Group's assets and liabilities. In particular, fixed rate savings and borrowing products expose the Group to the risk that a change in interest rates could cause either a reduction in interest income or an increase in interest expense relative to variable rate interest flows. The Group seeks to "match" interest rate risk on either side of the balance sheet. However, this is not a perfect match and interest rate risk is present on: Money market transactions of a fixed rate nature, fixed rate loans and fixed rate savings accounts. There is interest rate mismatch in Arbutnot Latham and Secure Trust Bank. This is monitored on a daily basis in conjunction with liquidity and capital. The interest rate mismatch is daily monitored, throughout the maturity bandings of the book on a parallel scenario for both 50 and 100 basis points movement. The Group consider the 50 and 100 basis points movement to be appropriate for scenario testing given the current economic outlook and industry expectations. This typically results in a pre-tax mismatch of £0.6m to £1.2m (2009: £0.1m) for the Group, with the same impact to equity pre-tax. The Company has no fixed rate exposures, but a upward change of 50 basis points on variable rates would reduce pre-tax profits and equity by £1,000 (2009: £7,000).

(d) Liquidity risk

The new Liquidity regime came into force on the 1 October 2010. The FSA requires a firm to maintain at all times liquidity resources which are adequate, both as to amount and quality, to ensure that there is no significant risk that its liabilities cannot be met as they fall due. There is also a requirement that a firm ensures its liquidity resources contain an adequate buffer of high quality, unencumbered assets (i.e. Government securities in the liquidity asset buffer); and it maintains a prudent funding profile. The liquid assets buffer is a pool of highly liquid assets that can be called upon to create sufficient liquidity to meet liabilities on demand, particularly in a period of liquidity stress. The liquidity resources outside the buffer must either be marketable assets with a demonstrable secondary market that the firm can access, or a credit facility that can be activated in times of stress.

The banking entities both prepared and approved their Individual Liquidity Assessment (ILA). The liquidity buffers required by the ILA have all been put in place and maintained since. Liquidity resources outside of the buffer are made up of certificates of deposit and fixed rate notes (debt securities). The Company and Group also maintain long-term committed bank facilities.

The table below analyses the contractual undiscounted cash flows for the Group into relevant maturity groupings at 31 December 2010:

	Carrying amount	Gross nominal inflow/ (outflow)	Not more than 3 months	More than 3 months but less than 1 year	More than 1 year but less than 5 years	More than 5 years
	£000	£000	£000	£000	£000	£000
At 31 December 2010						
Non-derivative liabilities						
Deposits from banks	3,706	(3,710)	(3,710)	-	-	-
Trading securities - short positions	775	(775)	(775)	-	-	-
		(503,671)	(323,077)	(174,267)		
Deposits from customers	503,257)))	(6,327)	-
Other liabilities	9,533	(8,294)	(8,039)	(109)	(146)	-
Debt securities in issue	12,630	(15,143)	(126)	(377)	(2,010)	(12,630)
Issued financial guarantee contracts		(485)	(485)	-	-	-
Unrecognised loan commitments		(23,469)	(23,469)	-	-	-
	529,901	(555,547)	(359,681)	(174,753)	(8,483)	(12,630)
Derivative liabilities						
Risk management:	184	-	-	-	-	-
- Inflows		20,073	20,073	-	-	-
- Outflows		(20,257)	(20,257)	-	-	-
	184	(184)	(184)	-	-	-

The table below analyses the contractual undiscounted cash flows for the Group into relevant maturity groupings at 31 December 2009:

	Carrying amount	Gross nominal inflow/(outflow)	Not more than 3 months	More than 3 months but less than 1 year	More than 1 year but less than 5 years	More than 5 years
	£000	£000	£000	£000	£000	£000
At 31 December 2009						
Non-derivative liabilities						
Deposits from banks	2,886	(2,886)	(2,886)	-	-	-
Trading securities - short positions	959	(959)	(959)	-	-	-
Deposits from customers	385,999	(386,177)	(317,736)	(66,931)	(1,510)	-
Other liabilities	13,217	(13,475)	(4,672)	(8,303)	(500)	-
Debt securities in issue	13,022	(15,613)	(130)	(389)	(2,072)	(13,022)
Issued financial guarantee contracts		(1,135)	(1,135)	-	-	-
Unrecognised loan commitments		(14,163)	(14,163)	-	-	-
	416,083	(434,408)	(341,681)	(75,623)	(4,082)	(13,022)

The table below analyses the contractual undiscounted cash flows for the Company into relevant maturity groupings at 31 December 2010:

	Carrying amount	Gross nominal inflow/(outflow)	Not more than 3 months	More than 3 months but less than 1 year	More than 1 year but less than 5 years	More than 5 years
	£000	£000	£000	£000	£000	£000
At 31 December 2010						
Non-derivative liabilities						
Deposits from banks	2,869	(2,869)	(2,869)	-	-	-
Due to subsidiary undertakings	10,097	(10,097)	(10,097)	-	-	-
Accruals	848	(848)	-	(848)	-	-
Debt securities in issue	12,630	(15,143)	(126)	(377)	(2,010)	(12,630)
Issued financial guarantee contracts		(2,500)	(2,500)	-	-	-
	26,444	(31,457)	(15,592)	(1,225)	(2,010)	(12,630)

The table below analyses the contractual undiscounted cash flows for the Company into relevant maturity groupings at 31 December 2009:

	Carrying amount	Gross nominal inflow/(outflow)	Not more than 3 months	More than 3 months but less than 1 year	More than 1 year but less than 5 years	More than 5 years
	£000	£000	£000	£000	£000	£000
At 31 December 2009						
Non-derivative liabilities						
Deposits from banks	2,618	(2,618)	(2,618)	-	-	-
Due to subsidiary undertakings	6,954	(6,954)	(6,954)	-	-	-
Accruals	630	(630)	-	(630)	-	-
Debt securities in issue	13,022	(15,613)	(130)	(389)	(2,072)	(13,022)
Issued financial guarantee contracts		(2,500)	(2,500)	-	-	-
	23,224	(28,315)	(12,202)	(1,019)	(2,072)	(13,022)

The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature are important factors in assessing the liquidity of the group and its exposure to changes in interest rates and exchange rates.

Fiduciary activities

The Group provides trustee, investment management and advisory services to third parties, which involve the Group making allocation and purchase and sale decisions in relation to a wide range of financial instruments. Those assets that are held in a fiduciary capacity are not included in these financial statements. These services give rise to the risk that the Group may be accused of maladministration or underperformance. At the balance sheet date, the Group had investment management accounts amounting to approximately £225m (2009: £179m). Additionally the Group provides investment advisory services.

(e) Financial assets and liabilities

The tables below sets out the Group's financial assets and financial liabilities into the respective classifications:

	Trading	Held-to-maturity	Loans and receivables	Available-for-sale	Other amortised cost	Total carrying amount	Fair value
	£000	£000	£000	£000	£000	£000	£000
At 31 December 2010							
Cash	-	-	73,772	-	-	73,772	73,772
Loans and advances to banks	-	-	12,080	-	-	12,080	12,080
Loans and advances to customers	-	-	300,252	-	-	300,252	300,252
Trading securities - long positions	3,232	-	-	-	-	3,232	3,232
Debt securities held-to-maturity	-	143,119	-	-	-	143,119	143,119
Financial investments	330	-	-	4,627	-	4,957	4,957
	3,562	143,119	386,104	4,627	-	537,412	537,412
Deposits from banks	-	-	-	-	3,706	3,706	3,706
Trading securities - short positions	775	-	-	-	-	775	775
Derivative financial instruments	184	-	-	-	-	184	184
Deposits from customers	-	-	-	-	503,257	503,257	503,257
Debt securities in issue	-	-	-	-	12,630	12,630	12,630
	959	-	-	-	519,593	520,552	520,552
At 31 December 2009							
	Trading	Held-to-maturity	Loans and receivables	Available-for-sale	Other amortised cost	Total carrying amount	Fair value
	£000	£000	£000	£000	£000	£000	£000
Cash	-	-	230	-	-	230	230
Derivative financial instruments	236	-	-	-	-	236	236
Loans and advances to banks	-	-	54,614	-	-	54,614	54,614
Loans and advances to customers	-	-	229,722	-	-	229,722	229,722
Trading securities - long positions	2,659	-	-	-	-	2,659	2,659
Debt securities held-to-maturity	-	127,597	-	-	-	127,597	127,597
Financial investments	465	-	-	4,592	-	5,057	5,057
	3,360	127,597	284,566	4,592	-	420,115	420,115
Deposits from banks	-	-	-	-	2,886	2,886	2,886
Trading securities - short positions	959	-	-	-	-	959	959
Deposits from customers	-	-	-	-	385,999	385,999	385,999
Debt securities in issue	-	-	-	-	13,022	13,022	13,022
	959	-	-	-	401,907	402,866	402,866

5. Capital management

The Group's capital management policy is focused on optimising shareholder value. There is a clear focus on delivering organic growth and ensuring capital resources are sufficient to support planned levels of growth. The Board regularly reviews the capital position.

In accordance with the EU's Capital Requirements Directive (CRD) and the required parameters set out in the FSA Handbook (BIPRU 2.2), the Individual Capital Assessment Process (ICAAP) is embedded in the risk management framework of the Group and is subject to ongoing updates and revisions when necessary. However, at a minimum, the ICAAP is updated annually as part of the business planning process. The ICAAP is a process that brings together management framework (i.e. the policies, procedures, strategies, and systems that the Group has implemented to

identify, manage and mitigate its risks) and the financial disciplines of business planning and capital management. The Group's regulated entities are also the principal trading subsidiaries as detailed in Note 35.

Not all material risks can be mitigated by capital, but where capital is appropriate the Board has adopted a "Pillar 1 plus" approach to determine the level of capital the Group needs to hold. This method takes the Pillar 1 capital formula calculations (standardised approach for credit, market and operational risk) as a starting point, and then considers whether each of the calculations delivers a sufficient capital sum adequately to cover managements' anticipated risks. Where the Board considered that the Pillar 1 calculations did not reflect the risk, an additional capital add-on in Pillar 2 is applied, as per the Individual Capital Guidance (ICG) issued by the FSA.

The Group's regulatory capital is divided into two tiers:

- Tier 1 comprises mainly shareholders' funds, non-controlling interests, after deducting goodwill and other intangible assets.
- Lower Tier 2 comprises qualifying subordinated loan capital and revaluation reserves. Lower Tier 2 capital cannot exceed 50% of tier 1 capital.

The following table shows the regulatory capital resources as managed by the Group:

	2010	2009
	£000	£000
Tier 1		
Share capital	150	150
Share premium account	21,085	21,085
Retained earnings	12,142	11,684
Other reserves	(1,493)	(1,178)
Non-controlling	2,118	2,144
Goodwill	(1,991)	(1,991)
Other deductions	(924)	(915)
Total tier 1 capital	31,087	30,979
Tier 2		
Revaluation reserve	146	258
Debt securities in issue	12,630	13,022
Total tier 2 capital	12,776	13,280
Total tier 1 & tier 2 capital	43,863	44,259

The ICAAP includes a summary of the capital required to mitigate the identified risks in its regulated entities and the amount of capital that the Group has available. The latest version of the Group ICAAP was approved by the Board on 11 February 2011. The FSA sets ICG for each UK bank calibrated by references to its Capital Resources Requirement, broadly equivalent to 8 percent of risk weighted assets and thus representing the capital required under Pillar 1 of the Basel II framework. The ICAAP is a key input into the FSA's ICG setting process, which addresses the requirements of Pillar 2 of the Basel II framework. The FSA's approach is to monitor the available capital resources in relation to the ICG requirement. Each entity maintains an extra internal buffer and capital ratios are reviewed on a monthly basis to ensure that external requirements are adhered to. All regulated entities have complied with all of the externally imposed capital requirements to which they are subject.

6. Fee and commission income

	2010	2009
	£000	£000
Fee and commission income		
Trust and other fiduciary fee income	2,219	1,922
Stockbroking fee and commission income	12,949	13,580
Other fee income	14,683	16,314
	29,851	31,816

7. Other income

Other income mainly consist of a contribution of £0.8m (2009: £0.5m) towards the cost of the Swiss entity received from a possible investor. In 2009 there was also income released relating to business assets sold in 2008 of £1.1m (see Note 8).

8. Gain on sale of business assets

In June 2008, the Group announced that its subsidiary, Secure Trust Bank PLC, as part of its restructuring process, sold its insurance branch network to the UK's leading high street insurance retailer, Swinton.

As part of the sale of business assets during 2008, accruals and deferred income included a provision in respect of various warranties included in the respective Sale and Purchase Agreements. During 2009 these warranties (£0.5m) were written back to the profit and loss account as they expired and £0.7m of trade payables were written off.

9. Operating profit on ordinary activities before tax

	2010	2009
	£000	£000
Operating expenses comprise:		
Staff costs, including Directors:		
Wages and salaries	23,644	23,255
Social security costs	2,666	2,458
Pension costs	1,538	1,448
Amortisation of computer software (Note 20)	417	351
Depreciation (Note 21)	1,262	1,171
Profit on disposals of property, plant and equipment	-	(99)
Financial Services Compensation Scheme Levy	30	258
Charitable donations	55	27
Operating lease rentals	2,370	2,249
Restructuring costs	351	127
Other administrative expenses	15,299	15,155
Total operating expenses	47,632	46,400

The auditors' remuneration for the audit of the Company's accounts was £75,000 (2009: £70,000) and fees payable for the audit of the accounts of subsidiaries of the Company was £216,000 (2009: £205,000). Remuneration of the auditors for non-audit services was: services related to taxation £163,000 (2009: £15,000) and all other services £70,000 (2009: £25,000).

10. Average number of employees

	2010	2009
Retail banking	201	208
Private banking	125	121
Investment banking	72	72
Group	17	14
	415	415

11. Income tax expense

	2010	2009
	£000	£000
United Kingdom corporation tax at 28% (2009: 28%)		
Current taxation		
Corporation tax charge - current year	1,514	1,691
Corporation tax charge - adjustments in respect of prior years	(201)	95
	1,313	1,786
Deferred taxation		
Origination and reversal of temporary differences	(73)	(212)

Adjustments in respect of prior years	143	105
	70	(107)
Income tax expense	1,383	1,679
Tax reconciliation		
Profit before tax	5,104	5,050
Tax at 28% (2009: 28%)	1,429	1,414
Permanent differences	6	65
Tax rate change	5	-
Prior period adjustments	(57)	200
Corporation tax charge for the year	1,383	1,679

12. 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 £3,747,000 (2009: £3,507,000) by the weighted average number of ordinary shares 14,999,619 (2009: 14,999,619) in issue during the year. There is no difference between basic and fully diluted earnings per ordinary share.

13. Cash

	2010	2009
	£000	£000
Cash in hand included in cash and cash equivalents (Note 33)	73,772	230

A reserve account was opened at the Bank of England during the year to comply with the new Liquidity regime that came into force on 1 October 2010.

14. Loans and advances to banks

	2010	2009
	£000	£000
Placements with banks included in cash and cash equivalents (Note 33)	12,080	54,614

The table below presents an analysis of loans and advances to banks by rating agency designation as at 31 December, based on

Moody's long term ratings:

	2010	2009
	£000	£000
Aa2	4,633	31
Aa3	7,447	54,583
	12,080	54,614

None of the loans and advances to banks is either past due or impaired.

15. Trading securities, all held at fair value through profit and loss

	2010	2009
	£000	£000
<i>Unlisted equity securities:</i>		
Long positions	65	80
<i>Listed equity securities:</i>		
Long positions	3,167	2,579
Short positions	(775)	(959)

The following table shows the group's trading book exposure to market price risk for the year ended 31 December 2010:

	Highest exposure	Lowest exposure	Average exposure	Exposure as at 31 December
	£000	£000	£000	£000
Equities:				
Long	4,807	1,734	3,311	3,232
Short	(2,247)	(137)	(987)	(775)

The following table shows the group's trading book exposure to market price risk for the year ended 31 December 2009:

	Highest exposure	Lowest exposure	Average exposure	Exposure as at 31 December
	£000	£000	£000	£000
Equities:				
Long	4,298	1,575	2,824	2,659
Short	(1,976)	(516)	(1,131)	(959)

The average exposure has been calculated on a daily basis. The highest and lowest exposures occurred on different dates and therefore a net position of these exposures does not reflect a spread of the trading book. The basis on which the trading book is valued each day is given in the accounting policies in Note 1.9.

16. Loans and advances to customers

	2010	2009
	£000	£000
Gross loans and advances	309,448	237,023
Less: allowances for impairment on loans and advances (Note 17)	(9,196)	(7,301)
	300,252	229,722

For a maturity profile of loans and advances to customers, refer to Note 4.

	2010	2009
	£000	£000
Loans and advances to customers include finance lease receivables as follows:		
Gross investment in finance lease receivables:		
- No later than 1 year	3,386	158
- Later than 1 year and no later than 5 years	5,348	111
- Later than 5 years	2	2
	8,736	271
Unearned future finance income on finance leases	(3,407)	(14)
Net investment in finance leases	5,329	257
The net investment in finance leases may be analysed as follows:		
- No later than 1 year	1,485	150
- Later than 1 year and no later than 5 years	3,842	105
- Later than 5 years	2	2
	5,329	257

	2010	2009
	£000	£000
Loans and advances to customers can be further summarised as follows:		
Neither past due nor impaired	282,737	212,455
Past due but not impaired	11,980	15,748
Impaired	14,731	8,820

Gross	309,448	237,023
Less: allowance for impairment	(9,196)	(7,301)
Net	300,252	229,722

(a) Loans and advances past due but not impaired

	2010	2009
	£000	£000
Gross amounts of loans and advances to customers that were past due but not impaired were as follows:		
Past due up to 30 days	6,860	3,460
Past due 30 - 60 days	1,416	1,587
Past due 60 - 90 days	668	2,295
Over 90 days	3,036	8,406
Total	11,980	15,748

Loans and advances normally fall into this category when there is a delay in either the sale of the underlying collateral or the completion of formalities to extend the credit facilities for a further period. Management have no material concerns regarding the quality of the collateral that secures the lending.

(b) Loans and advances renegotiated

Restructuring activities include external payment arrangements, modification and deferral of payments. Following restructuring, a previously overdue customer account is reset to a normal status and managed together with other similar accounts. Restructuring policies and practices are based on indicators or criteria which, in the judgement of management, indicate that payment will most likely continue. These policies are kept under continuous review. Renegotiated loans that would otherwise be past due or impaired totalled £nil (2009: £nil).

(c) Collateral held

An analysis of loans and advances to customers past due or impaired by reference to the fair value of the underlying collateral is as follows:

	2010	2009
	£000	£000
Past due but not impaired	16,065	20,215
Impaired	1,403	1,275
Fair value of collateral held	17,468	21,490

Collateral is shown at fair value less costs to sell. The fair value of the collateral held is £17,468,000 against £5,897,000 secured loans, giving an average loan-to-value of 34% (2009: 62%).

The gross amount of individually impaired loans and advances to customers before taking into account the cash flows from collateral held is £14,731,000 (2009: £8,820,000).

Interest income on loans classified as impaired totalled £1,919,000 (2009: £644,000).

17. Allowances for impairment of loans and advances

	2010	2009
	£000	£000
A reconciliation of the allowance account for losses on loans and advances by class is as follows:		
At 1 January	7,301	5,122
Impairment losses	3,146	2,368
Loans written off during the year as uncollectible	(1,251)	(391)
Amounts recovered during the year	-	202
At 31 December	9,196	7,301

	2010	2009
	£000	£000
A further analysis of allowances for impairment of loans and advances is as follows:		
Loans and advances to customers - Arbutnot Latham	1,398	1,472
Loan and advances to customers - unsecured - Secure Trust Bank	7,798	5,829
At 31 December	9,196	7,301

18. Debt securities held-to-maturity

Debt securities represent certificates of deposit. The Group's intention is to hold them to maturity and, therefore, they are stated in the balance sheet at amortised cost. Amounts include £nil (2009: £nil) with a maturity, when placed, of 3 months or less included in cash and cash equivalents (Note 33).

	2010	2009
	£000	£000
The movement in debt securities held to maturity may be summarised as follows:		
At 1 January	127,597	140,639
Additions	452,576	248,688
Redemptions	(437,054)	(261,730)
At 31 December	143,119	127,597

The table below presents an analysis of debt securities by rating agency designation at 31 December, based on Moody's long term ratings:

	2010	2009
	£000	£000
Aaa	4,005	-
Aa2	13,018	20,132
Aa3	126,096	107,465
	143,119	127,597

None of the debt securities held-to-maturity are either past due or impaired.

19. Financial investments

	2010	2009
	£000	£000
Group:		
Financial investments comprise:		
- Securities (at fair value through profit and loss)	330	465
- Securities (available-for-sale)	4,627	4,592
Total financial investments	4,957	5,057

Unlisted securities

The Group has made equity investments in unlisted special purpose vehicles set up to acquire and enhance the value of commercial properties. These investments are of a medium term nature. There is no open market for these investments therefore the Group has valued them using appropriate valuation methodologies, which include net asset valuations and discounted future cash flows.

The Directors intend to dispose of these assets when a suitable buyer has been identified and when the Directors believe that the underlying assets have reached their maximum value.

Company	2010 £000	2009 £000
Financial investments comprise:		
- Listed securities (at fair value through profit and loss)	330	465

20. Intangible assets

Goodwill Group	2010 £000	2009 £000
Opening net book amount	1,991	1,991
Closing net book amount	1,991	1,991

Computer software Group	£000	
Cost		
At 1 January 2009		3,299
Additions		426
At 31 December 2009		3,725
Additions		426
At 31 December 2010		4,151

Accumulated amortisation		
At 1 January 2009		(2,459)
Amortisation charge		(351)
At 31 December 2009		(2,810)
Amortisation charge		(417)
At 31 December 2010		(3,227)

Net book amount		
At 31 December 2009		915
At 31 December 2010		924

Total intangible assets	2010 £000	2009 £000
Goodwill	1,991	1,991
Computer software	924	915
Net book amount at 31 December	2,915	2,906

Refer to note 1.13 (a) for assumptions used in the impairment review of goodwill.

21. Property, plant and equipment

Group	Freehold land and buildings £000	Computer and other equipment £000	Operating leases £000	Motor vehicles £000	Total £000
Cost or valuation					
At 1 January 2009	5,100	12,181	2,091	554	19,926
Additions	-	500	4	39	543
Disposals	(250)	(1,187)	-	(265)	(1,702)
At 31 December 2009	4,850	11,494	2,095	328	18,767
Additions	-	286	-	-	286

Disposals	-	(2)	(2,095)	(118)	(2,215)
At 31 December 2010	4,850	11,778	-	210	16,838
Accumulated depreciation					
At 1 January 2009	(483)	(9,306)	(312)	(377)	(10,478)
Depreciation charge	(80)	(879)	(156)	(56)	(1,171)
Disposals	34	1,188	-	212	1,434
At 31 December 2009	(529)	(8,997)	(468)	(221)	(10,215)
Depreciation charge	(78)	(1,154)	-	(30)	(1,262)
Disposals	-	-	468	74	542
At 31 December 2010	(607)	(10,151)	-	(177)	(10,935)
Net book amount					
At 31 December 2009	4,321	2,497	1,627	107	8,552
At 31 December 2010	4,243	1,627	-	33	5,903

The Group's freehold property at 1 Arleston Way, Solihull, 890 4LH, was valued on 17 December 2008 by an External Valuer, Graham Piercy, FRICS, of DWD2 Limited, Property Consultants. The Valuation was in accordance with the requirements of the RICS Valuation Standards 6th Edition and the International Valuation Standards. The Valuation of the property was on the basis and assumption it is an Owner/Occupied property, valued to Market Value assuming that the property will be sold as part of the continuing business. The Valuer's opinion of Market Value was primarily derived using comparable recent market transactions on arms-length terms. As a Regulated Purpose Valuation, the Valuer, Graham Piercy FRICS, confirms this was the first occasion on which he had provided a Valuation of the Property. DWD2 Limited had had no previous relationship with the Company and accordingly received no fees in DWD2 Limited's preceding financial year. The Directors do not believe that the fair value of freehold property is materially different from the carrying value. All freehold land and buildings are occupied and used by Group companies. The carrying value of freehold land not depreciated is £0.5 million (2009: £0.5 million).

The historical cost of freehold property included at valuation is as follows:

	2010	2009
	£000	£000
Cost	4,792	4,792
Accumulated depreciation	(967)	(876)
Net book amount	3,825	3,916

Motor vehicles include the following amounts where the group is a lessee under a finance lease:

	2010	2009
	£000	£000
Cost - capitalised finance leases	306	160
Accumulated depreciation	(199)	(53)
Net book amount	107	107

The group leases various vehicles under non-cancellable finance lease agreements with original lease terms of three years.

Company	Computer and other equipment
	£000
Cost or valuation	
At 1 January 2009	119
Additions	7
At 31 December 2009	126
Additions	17

At 31 December 2010	143
Accumulated depreciation	
At 1 January 2009	(45)
Depreciation charge	(3)
At 31 December 2009	(48)
Depreciation charge	(7)
At 31 December 2010	(55)
Net book amount	
At 31 December 2009	78
At 31 December 2010	88

22. Other assets

	2010	2009
	£000	£000
Trade receivables	8,727	15,090
Repossessed collateral - held-for-sale	2,205	1,950
Prepayments and accrued income	7,016	1,714
	17,948	18,754

23. Deposits from banks

	2010	2009
	£000	£000
Deposits from other banks	3,706	2,886

For a maturity profile of deposits from banks, refer to Note 4.

24. Derivative financial instruments

	2010			2009		
	Contract/ notional amount	Fair value assets	Fair value liabilities	Contract/ notional amount	Fair value assets	Fair value liabilities
Currency swaps	20,073	-	184	16,516	236	-
	20,073	-	184	16,516	236	-

The principal derivatives used by the Group are exchange rate contracts. Exchange rate related contracts include currency swaps. Currency swaps generally involve the exchange of interest payment obligations denominated in different currencies; exchange of principal can be notional or actual. The currency swaps are settled net and therefore the fair value is small in comparison to the contract/notional amount.

The table below presents an analysis of derivative financial instruments contract/notional amounts by rating agency designation at 31 December, based on Moody's long term ratings:

	2010	2009
	£000	£000
Aa3	20,073	16,516
	20,073	16,516

25. Deposits from customers

	2010	2009
	£000	£000
Current/demand accounts	179,209	131,649
Term deposits	324,048	254,350
	503,257	385,999

Included in customer accounts are deposits of £8,578,000 (2009: £10,035,000) held as collateral for loans and advances. The fair value of these deposits approximates the carrying value.

For a maturity profile of deposits from customers, refer to Note 4.

26. Other liabilities

	2010 £000	2009 £000
Trade payables	1,835	4,449
Finance lease liabilities	25	112
Accruals and deferred income	7,673	8,656
	9,533	13,217

The Financial Services Compensation Scheme ('FSCS') has provided compensation to consumers following the collapse of a number of deposit takers. The compensation paid out to consumers is currently funded through loans from the Bank of England and HM Treasury. The Group could be liable to pay a proportion of the outstanding borrowings that the FSCS has borrowed from HM Treasury which at 30 September 2010 stood at approximately £20 billion. Currently, the levy paid by the Group represents its share of the interest on these borrowings.

At 31 December 2010, the Group had accrued £353,000 (2009: £443,000) in respect of the levy, based on the bank's estimated share of total market protected deposits.

The ultimate FSCS levy to the industry as a result of the collapses cannot currently be estimated reliably as it is dependent on various uncertain factors including the potential recoveries of assets by the FSCS and changes in the interest rate, the level of protected deposits and the population of FSCS members at the time.

a.) Finance lease liabilities

Lease liabilities are effectively secured as the rights to the leased asset revert to the lessor in the event of default.

	2010 £000	2009 £000
Gross finance lease liabilities - minimum lease payments		
Within 1 year	26	61
Later than 1 year and no later than 5 years	-	58
	26	119
Future finance charges on finance leases	(1)	(7)
Present value of finance lease liabilities	25	112

The present value of finance lease liabilities is as follows:

Within 1 year	25	58
Later than 1 year and no later than 5 years	-	54
	25	112

27. Debt securities in issue

	2010 £000	2009 £000
Subordinated loan notes 2035	12,630	13,022

The subordinated loan notes 2035 were issued on 7 November 2005 and are denominated in Euros. The principal amount outstanding at 31 December 2010 was €15,000,000 (2009: €15,000,000). The notes carry interest at 3% over the interbank rate for three month deposits in euros and are repayable at par in August 2035 unless redeemed or repurchased earlier by the Company.

The contractual undiscounted amount that will be required to be paid at maturity of the above debt securities is €15,000,000.

Given the fact that the Group has never been subject to a published credit rating by any of the relevant agencies and the notes in issue are not quoted, it is not considered possible to approximate a fair value for these notes.

28. Deferred taxation

The deferred tax asset comprises:

	2010	2009
	£000	£000
Unrealised surplus on revaluation of freehold property	(126)	(56)
Accelerated capital allowances and other short-term timing differences	870	259
Tax losses	62	99
Deferred tax asset	806	302
At 1 January	302	106
Revaluation reserve	(70)	(20)
Available-for-sale securities	(55)	-
Profit and loss account - accelerated capital allowances and other short-term timing differences	35	117
Profit and loss account - tax losses	594	99
Deferred tax asset at 31 December	806	302

The above balance is made up as follows:

	2010	2009
	£000	£000
Deferred tax assets within the Group	932	383
Deferred tax liabilities within the Group	(126)	(81)
	806	302

Deferred tax assets are recognised for tax losses to the extent that the realisation of the related tax benefit through future taxable profits is probable.

29. Contingent liabilities and commitments

Capital commitments

At 31 December 2010, the Group had capital commitments of £nil (2009: £nil) in respect of equipment purchases.

Credit commitments

The contractual amounts of the Group's off-balance sheet financial instruments that commit it to extend credit to customers are as follows:

	2010	2009
	£000	£000
Guarantees and other contingent liabilities	485	1,135
Commitments to extend credit:		
- Original term to maturity of one year or less	23,469	14,163
	23,954	15,298

Operating lease commitments

Where a group company is the lessee, the future aggregate lease payments under non-cancellable operating leases are as follows:

	2010	2009
	£000	£000
Expiring:		
Within 1 year	1,798	1,862
Later than 1 year and no later than 5 years	151	2,168
Later than 5 years	57	89
	2,006	4,119

Other commitments

At 31 December 2010 a commitment exists to make further payments with regard to the Financial Compensation Scheme Levy for 2011 and thereafter. Due to uncertainties regarding the calculation of the levy and the Group's share thereof, the Directors consider this cost to be unquantifiable.

30. Share capital

	Number of shares	Ordinary shares	Share premium
		£000	£000
At 1 January and at 31 December	14,999,619	150	21,085

There was no movement in the issued share capital in the current or prior year. The total authorised number of ordinary shares at 31 December 2010 and 31 December 2009 was 418,439,000 with a par value of 1 pence per share (2009: 1 pence per share). All issued shares are fully paid.

At 31 December 2010 the Company held 380,274 shares (2009: 340,274) in treasury.

31. Reserves and retained earnings

	2010	2009
Group	£000	£000
Foreign currency translation reserve	(558)	(258)
Revaluation reserve	146	258
Capital redemption reserve	20	20
Available-for-sale reserve	142	-
Treasury shares	(1,097)	(940)
Retained earnings	12,142	11,684
Total reserves at 31 December	10,795	10,764

The revaluation reserve represents the unrealised change in the fair value of properties.

The foreign exchange translation reserve represents the cumulative gains and losses on the retranslation of the Group's and the Company's net investment in foreign operations, net of the effects of economic hedging.

The capital redemption reserve represents a reserve created after the company purchased its own shares which resulted in a reduction of share capital.

Company	2010	2009
	£000	£000
Capital redemption reserve	20	20
Treasury shares	(1,097)	(940)
Retained earnings	415	1,862
Total reserves as 31 December	(662)	942

32. Dividends per share

Final dividends are not accounted for until they have been approved at the Annual General Meeting. At the meeting on 11 May 2011, a dividend in respect of 2010 of 12 pence per share (2009: actual dividend 11.5 pence per share) amounting to a total of £1.75m (2009: actual £1.68m) is to be proposed. The financial statements for the year ended 31 December 2010 do not reflect the final dividend which will be accounted for in shareholders' equity as an appropriation of retained profits in the year ending 31 December 2011.

33. Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprises of the following balances with less than three months maturity from the date of acquisition.

	2010	2009
	£000	£000
Cash (Note 13)	73,772	230
Loans and advances to banks (Note 14)	12,080	54,614
	85,852	54,844

34. Related-party transactions

Related parties of the Company and Group include subsidiaries, Key Management Personnel, close family members of Key Management Personnel and entities which are controlled, jointly controlled or significantly influenced, or for which significant voting power is held, by Key Management Personnel or their close family members.

Other than the Directors' remuneration, payment of dividends and transactions with subsidiaries, there were no related party transactions within the parent Company. A number of banking transactions are entered into with related parties in the normal course of business on normal commercial terms. These include loans and deposits. Except for the directors' disclosures, there were no other Key Management Personnel disclosures; therefore the tables below relate to directors.

	Directors	
	2010	2009
	£000	£000
Loans		
Loans outstanding at 1 January	2,936	1,459
Loans advanced during the year	17	1,754
Loan repayments during the year	(1)	(277)
Loans outstanding at 31 December	2,952	2,936
Interest income earned	143	117

The loans to directors are secured on property or shares and bear interest at rates linked to base rate. No provisions have been recognised in respect of loans given to related parties (2009: £nil). Details of Directors' remuneration are given in the Remuneration Report. The Directors do not believe that any other key management disclosures are required.

	Directors	
	2010	2009
	£000	£000
Deposits		
Deposits at 1 January	1,880	864
Deposits placed during the year	1,265	4,790
Deposits repaid during the year	(677)	(3,774)
Deposits at 31 December	2,468	1,880
Interest expense on deposits	90	40

Details of principal subsidiaries are given in Note 35. Transactions and balances with subsidiaries are shown below:

	Subsidiaries			
	2010		2009	
	Highest balance during the year	Balance at 31 December	Highest balance during the year	Balance at 31 December
	£000	£000	£000	£000
ASSETS				
Due from subsidiary undertakings	15,545	15,545	15,947	14,531
Shares in subsidiary undertakings	28,633	28,633	28,624	28,624
Total assets	44,178	44,178	44,571	43,155
LIABILITIES				
Due to subsidiary undertakings	10,243	10,097	7,613	6,954
Total liabilities	10,243	10,097	7,613	6,954
Issued guarantee contracts	2,500	2,500	2,500	2,500

The disclosure of the year-end balance and the highest balance during the year is considered the most meaningful information to represent the transactions during the year. The above transactions arose during the normal course of business and are on substantially the same terms as for comparable transactions with third-parties.

Share-based payment options

At 31 December 2010, the Company had the following equity settled share-based payment awards outstanding:

On 21 May 2008 Mr. Salmon was granted an option to subscribe between May 2011 and May 2015 for 100,000 ordinary 1p shares in the Company at 337.5p. The fair value of the option at grant date was £nil.

On 5 November 2008 Mr. Cobb was granted an option to subscribe between November 2011 and November 2015 for 50,000 ordinary 1p shares in the Company at 320p. The fair value of the option at grant date was £nil.

On 22 December 2009 Dr. Turrell was granted an option to subscribe between December 2012 and December 2016 for 50,000 ordinary 1p shares in the Company at 380p. The fair value of the option at grant date was £nil.

35. Shares in subsidiary undertakings

	Shares at cost £000	Impairment provisions £000	Net £000
Arbuthnot Banking Group PLC:			
At 1 January 2009	31,503	(2,979)	28,524
Allotment of shares in Arbuthnot Unit Trust Management Limited	100	-	100
At 31 December 2009	31,603	(2,979)	28,624
Adjustment	9	-	9
At 31 December 2010	31,612	(2,979)	28,633
		2010 £000	2009 £000
Subsidiary undertakings:			
Banks		24,486	24,486
Other		4,147	4,138
Total unlisted		28,633	28,624

The principal subsidiary undertakings of Arbuthnot Banking Group PLC at 31 December 2010 were:

	Country of incorporation	Interest %	Principal activity
Secure Trust Bank PLC	UK	100	Retail banking
Arbuthnot Latham & Co., Limited	UK	100	Private banking
Arbuthnot AG	Switzerland	100	Private banking
Arbuthnot Securities Limited	UK	60	Investment banking

(i) All the above subsidiary undertakings are included in the consolidated financial statements and have an accounting reference date of 31 December.

(ii) All the above interests relate wholly to ordinary shares.

36. Operating segments

The Group is organised into four main operating segments, arranged over four 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) International Private banking — incorporating private banking and wealth management outside the UK.
- 3) UK Private banking — incorporating private banking and wealth management.
- 4) Investment banking — incorporating institutional stockbroking, equity trading and corporate finance advice.

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.

Year ended 31 December 2010	Retail banking £000	International Private banking £000	UK Private banking £000	Investment banking £000	Group (reconciling items) £000	Group Total £000
Interest revenue	15,883	-	13,750	2	356	29,991
Inter-segment revenue	(169)	-	(146)	-	(349)	(664)
Interest revenue from external customers	15,714	-	13,604	2	7	29,327
Fee and commission income	11,489	-	5,413	12,949	-	29,851
Revenue from external customers	27,203	-	19,017	12,951	7	59,178
Interest expense	(3,419)	(52)	(4,370)	(234)	369	(7,706)
Subordinated loan note interest	-	-	-	-	(483)	(483)

Segment operating income	23,953	(52)	14,429	16,979	(558)	54,751
Impairment losses	(2,167)	-	(979)	-	-	(3,146)
Segment profit / (loss) before tax	8,511	(100)	1,045	1,039	(5,391)	5,104
Income tax (expense) / income	(2,005)	-	(49)	(145)	816	(1,383)
Segment profit / (loss) after tax	6,506	(100)	996	894	(4,575)	3,721
Segment total assets	177,007	90	417,853	12,046	(41,886)	565,110
Segment total liabilities	160,990	2,408	394,930	5,658	(33,024)	530,962
Other segment items:						
Capital expenditure	(301)	-	(272)	(82)	(57)	(712)
Depreciation and amortisation	(961)	(74)	(551)	(83)	(10)	(1,679)

The "Group" segment above includes the parent entity and all intercompany eliminations and fulfils the requirement of IFRS8.28.

Year ended 31 December 2009	Retail banking £000	International Private banking £000	UK Private banking £000	Investment banking £000	Group (reconciling items) £000	Group Total £000
Interest revenue	9,932	-	13,061	82	359	23,434
Inter-segment revenue	-	-	(611)	-	(359)	(970)
Interest revenue from external customers	9,932	-	12,450	82	-	22,464
Fee and commission income	13,505	-	4,731	13,580	-	31,816
Revenue from external customers	23,437	-	17,181	13,662	-	54,280
Interest expense	(1,345)	-	(4,163)	(234)	812	(4,930)
Subordinated loan note interest	-	-	-	-	(618)	(618)
Segment operating income	22,092	-	13,064	16,860	(316)	51,700
Impairment losses	(1,189)	-	(1,179)	-	-	(2,368)
Segment profit / (loss) before tax	10,219	(506)	206	(147)	(4,722)	5,050
Income tax (expense) / income	(2,903)	-	(33)	132	1,125	(1,679)
Segment profit / (loss) after tax	7,316	(506)	173	(15)	(3,597)	3,371
Segment total assets	114,067	162	370,068	17,710	(49,492)	452,515
Segment total liabilities	99,527	2,081	347,023	11,258	(41,517)	418,372
Other segment items:						
Capital expenditure	(485)	-	(357)	(119)	(8)	(969)
Depreciation and amortisation	(727)	(71)	(662)	(59)	(3)	(1,522)

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

Other than the International private banking operations which are in Switzerland, all the Group's other operations are conducted wholly within the United Kingdom and geographical information is therefore not presented.

37. Ultimate controlling party

The Company regards Henry Angest, the Group Chairman and Chief Executive Officer, who has a beneficial interest in 52.8% of the issued share capital of the Company, as the ultimate controlling party. Details of his remuneration are given in the Remuneration Report and Note 34 of the consolidated financial statements includes related party transactions with Mr Angest.

38. Events after the balance sheet date

There were no material post balance sheet events.

Five year summary

In the table below, all the figures are presented in accordance with IFRS.

	2006	2007	2008	2009	2010
	£000	£000	£000	£000	£000
Profit / (Loss) before tax and exceptional items*	7,551	8,579	(2,150)	5,050	5,104
Profit / (Loss) before tax	14,062	8,579	(2,150)	5,050	5,104
Earnings per share					
Basic (p)	63.0	23.8	3.5	23.4	25.0
Adjusted* (p)	32.0	23.8	3.5	23.4	25.0
Dividends per share (p)	32.5	33.0	21.0	22.0	23.0

* In 2006 exceptional items include the profit on disposal of Arbutnot House of £12,623,000, long term bonuses of £1,900,000, restructuring costs of £1,312,000 and affinity bad debt of £2,900,000.

(i) The prior year adjustments, referred to in Note 9 of the 2007 Annual Report, of £1,028,000 relating to years earlier than 2006 have not been included in the pre 2006 figures disclosed in the table above.