ARBUTHNOT BANKING GROUP PLC

15 March 2012

For immediate release

ARBUTHNOT BANKING GROUP ("Arbuthnot" or "the Group")
Audited Final Results for the year to 31 December, 2011

YEAR OF TRANSFORMATION

Arbuthnot Banking Group has made good progress in 2011 from its continuing activities. The separate flotation of the Retail Banking division and the exit from Investment Banking has created a strong foundation for future growth.

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

FINANCIAL HIGHLIGHTS

- Group pre-tax profit from continuing activities £5.1m (2010: £4.1m)
- Successful flotation of Secure Trust Bank increasing reserves by £16m
- Exit from Investment Banking with sale of Arbuthnot Securities Ltd to Westhouse Holdings PLC
- Dividend per share (DPS) up 1p to 24p (2010: 23p)
- Net Asset Value per share increased by 85p to 312p (2010: 227p)

OPERATIONAL HIGHLIGHTS

Private Banking - Arbuthnot Latham

- Profit before tax increased to £2.0m (2010: £1.0m) as the Bank continued to successfully implement its strategy of providing a full service banking and advisory product offering
- Customer deposits grew £70.5m to £420.0m (2010: £349.5m) and loans increased by £27.4m to £238.2m (2010: £210.8m) while improving interest margin
- Loan to deposit ratio at 57%, maintaining strong liquidity

Retail Banking - Secure Trust Bank

- Profit before tax and IPO costs increased by 13% to £9.6m (2010: £8.5m)
- Good progress in developing three main lending activities, motor finance loan book doubled in size to £63.4m (2010: £31.3m), point-of sale asset finance grew to £36.2m (2010: £21.4m) and personal loans increased to £43.6m (2010: £22.4m)
- Customer deposits grew £115.9m to £272.1m (2010: £153.8m) following successful launch of fixed term bonds
- Total customers numbers increased to 140,000 (2010: 96,000)
- Current account numbers growing to 17,178 (2010: 9,576) with fee and commission income now reversing its downward trend

Commenting on the results, Henry Angest, chairman and chief executive of Arbuthnot, said: "***Overall 2011 was a transformational year for the Arbuthnot Banking Group. Following the successful listing of Secure Trust Bank and the sale of Arbuthnot Securities, the Group has ended the year in a strong position to take advantage of new opportunities"***

ENQUIRIES:

Arbuthnot Banking Group	
Henry Angest, Chairman and Chief Executive	020 7012 2400
Andrew Salmon, Chief Operating Officer	
James Cobb, Group Finance Director	
David Marshall, Director of Communications	
Hawkpoint Partners Ltd (Nominated Advisor)	
Lawrence Guthrie	020 7665 4500
Sunil Duggal	
Numis Securities Ltd (Broker)	
Chris Wilkinson	020 7260 1000
Mark Lander	
Pelham Bell Pottinger (Financial PR)	
Ben Woodford	020 7861 3917
Zoë Pocock	

The 2011 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 on or before 5 April 2012. 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 2011 £000	Year ended 31 December 2010 £000
Interest and similar income		39,233	29,325
Interest expense and similar charges		(11,990)	(7,955)
Net interest income		**27,243**	**21,370**
Fee and commission income	6	20,087	16,902
Fee and commission expense		(1,760)	(364)
Net fee and commission income		**18,327**	**16,538**
Gains less losses from dealing in securities		(112)	(136)
Operating income		**45,458**	**37,772**
Net impairment loss on financial assets	7	(6,813)	(3,146)
Fair value movement on derivatives		(124)	-
Other income	8	1,120	1,042
Operating expenses	10	(34,525)	(31,603)
Profit before income tax from continuing operations		**5,116**	**4,065**
Income tax expense	12	(1,817)	(1,238)
Profit after income tax from continuing operations		3,299	2,827
Loss from discontinued operations after tax	9	(10,249)	894
(Loss) / profit for the year		**(6,950)**	**3,721**
Foreign currency translation reserve		(12)	(300)
Revaluation reserve			
- Adjustment		-	(112)
- Amount transferred to profit and loss		(2)	-
Cash flow hedging reserve			
- Effective portion of changes in fair value		(333)	-
- Amount transferred to profit and loss		4	-
Available-for-sale reserve		(142)	142
Other comprehensive income for the period, net of income tax		**(485)**	**(270)**
Total comprehensive income for the period		**(7,435)**	**3,451**
(Loss) / profit attributable to:			
Equity holders of the Company		(5,014)	3,747
Non-controlling interests		(1,936)	(26)
		(6,950)	**3,721**
Total comprehensive income attributable to:			
Equity holders of the Company		(5,499)	3,477
Non-controlling interests		(1,936)	(26)
		(7,435)	**3,451**
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	13	(33.3)	25.0

Consolidated statement of financial position

	Note	At 31 December 2011 £000	2010 £000
ASSETS			
Cash	14	243,183	73,772
Derivative financial instruments	25	951	-
Loans and advances to banks	15	66,961	12,080
Loans and advances to customers	17	392,789	300,252
Trading securities - long positions	16	-	3,232
Debt securities held-to-maturity	19	40,079	143,119
Assets classified as held for sale	9	3,674	-
Current tax asset		457	-
Other assets	23	8,645	17,948
Financial investments	20	3,076	4,957
Intangible assets	21	3,561	2,915
Property, plant and equipment	22	5,214	5,903
Deferred tax asset	29	726	932
Total assets		**769,316**	**565,110**
EQUITY AND LIABILITIES			
Equity attributable to owners of the parent			
Share capital	31	153	150
Share premium account	31	21,085	21,085
Retained earnings	32	21,571	12,142
Other reserves	32	(1,836)	(1,347)
Non-controlling interests		**5,998**	**2,118**
Total equity		**46,971**	**34,148**
LIABILITIES			
Deposits from banks	24	8	3,706
Trading securities - short positions	16	-	775
Derivative financial instruments	25	-	184
Deposits from customers	26	693,800	503,257
Liabilities relating to assets classified as held for sale	9	1,291	-
Current tax liability		-	751
Other liabilities	27	14,893	9,533
Deferred tax liability	29	97	126
Debt securities in issue	28	12,256	12,630
Total liabilities		**722,345**	**530,962**
Total equity and liabilities		**769,316**	**565,110**

Chairman's statement

Sometimes I believe we live in a parallel universe. After the successful sale of part of our investment in Secure Trust Bank (STB), Arbuthnot Banking Group (ABG) would have made a "profit" of £10 million in layman's terms. However, the application of the accounting rules resulted in a loss of £7 million, as they do not recognise this gain as a profit. These same accounting rules previously allowed failed banks to show huge imaginary profits on which excessive bonuses were paid out. They also allowed the banks to revalue their own debt showing artificial profits as their credit ratings plunged. I can only live in hope that one day we will return to a saner world, where a spade is called a spade and where profits mean cash in the till.

In the real world, the past year has been a year of transformational changes for ABG. In November we saw the very successful flotation of STB on the AIM market, one of few listings in 2011 and the first by a bank in many years. We used the IPO to increase the capital base of STB in order to take advantage of the many business opportunities available in the present market place and to strengthen the group balance sheet. Giving the bank its own currency has allowed its management increased room for growth, while as majority shareholder ABG will continue to ensure that its principles of careful stewardship of the business will be maintained.

The opposite was true for Arbuthnot Securities (ASL). In the market place for small brokers we could see no improvement in sight and concluded that perhaps the environment may well have changed fundamentally. So we decided to cut our losses and to exit this business. We believe the deployment of our resources in the two Banks will bring better returns for our shareholders. We were pleased to find a good partner for ASL in Westhouse Holdings plc.

Arbuthnot Latham had its own fair share of change. While the business made very good progress and Gilliat has now become profitable, Arbuthnot Latham's capable CEO, Dean Proctor, received an offer he could not refuse. Sadly this is not the only case of a young banking executive with an outstanding future, deciding that he has better economic prospects abroad. Unfortunately for our country, not only are an increasing number of highly mobile young and senior banking and financial services executives leaving the country, but few are coming back and even fewer foreign executives are joining us. This is a reversal of the previous trend and a serious problem. I believe there are two reasons for this:

1. With all the vilification being heaped upon them, it is no surprise that honest bankers – and they are the big majority - are feeling persecuted.

2. There is a lot of talk about fairness, but fairness should be about rewarding hard work and enterprise. A tax rate of 50% or more is not fair. Such a rate is anti-competitive and counterproductive. It damages incentives and undermines economic growth.

Which are the most economically successful countries in the world? Those with moderate or flat tax rates that encourage and reward hard work and entrepreneurship such as Hong Kong, Singapore, Switzerland, USA and not to forget the United Kingdom, when under Lady Thatcher's leadership.

There are many more issues and dangers that affect our business, but I will only mention three. Firstly, the Independent Commission on Banking Report, the Vickers Report. How the Government implements its recommendations is of great importance to Arbuthnot and the whole banking industry. I have given my initial thoughts in an article that was published, together with other views, by the CSFI. The article, which was written with the help of Dr. Atholl Turrell, is reprinted at the back of the Annual Report.

The second issue is the ongoing crisis within the Euro Zone, where politicians seem incapable – or unwilling – to resolve the matter decisively and prefer to procrastinate and postpone the inevitable outcome. Meanwhile, the weakened countries lurch towards default and economic ruin. It is clear that while this debacle continues, the impact on the UK economy and the banking sector can only be negative, albeit I am not as pessimistic as others and I believe with good financial management the UK could avoid the worst and recover quickly.

And thirdly, there is the issue of increasing regulation. As I have said many times, we don't need more regulation, but we could do with a better targeted regime. Since 90% of the prudential regulation now comes from Brussels, it is difficult for our own regulators to do much about it, however they could abstain from gold plating the European edicts.

Private Banking – Arbuthnot Latham & Co., Limited
The Private Banking business performed well, with pre-tax profit of £2.0 million (2010: £1.0 million).

Arbuthnot Latham continued to lend cautiously and maintained the quality of collateral held as security. As a result client loans grew by £27 million to £238 million, a 13% growth over 2010 with credit losses at less than 1% of the asset book.

Client deposits grew by £70 million in 2011 to £420 million, a 20% year on year increase. The resulting loan to deposit ratio closed the year below our target at 57%.

Arbuthnot Latham continues to focus on expanding its asset management and wealth planning offerings, with further investment in people and systems initiated in 2011. These initiatives, when fully implemented, will provide a strong foundation for future organic growth.

From a modest base, discretionary assets under management grew by 40% and fee income from wealth planning grew by 10%. This growth is a result of high net worth clients being attracted to the full wealth management and private banking proposition.

Gilliat Financial Solutions made its first annual profit of £0.2 million (2010:£0.6 million loss) as the business launched in July 2009 continued to build momentum transacting business with an increasing number of Financial Advisors and Intermediaries.

As reported above, Arbuthnot Latham's charismatic CEO, Dean Proctor, has left us. Our best wishes go with him. Fortunately, we were able to find a strong successor in James Fleming. James joins us from Coutts where he had been a senior director.

Retail Banking – Secure Trust Bank PLC
Pre-tax profits of Secure Trust Bank, before IPO costs and group recharges, were £9.6 million (2010: £8.5 million). In isolation the growth of 13% is highly commendable. However, the underlying picture is stronger. The 2010 results were heavily influenced by the profits generated by the portfolios acquired from LV and Citi in 2009. The income benefit of these portfolios, which had a high profit margin, peaked in 2010 and reduced by over £4 million in 2011.

During the year the Bank's lending operations continued to generate very strong, controlled, organic growth. Overall new business lending volumes grew 51% to £136 million (2010: £90 million) which fuelled an increase of 73% in overall customer loans to £155 million (2010: £89 million)

The portfolios of books acquired in 2009 continue to be collected out in line with expectations, with the balance outstanding declining to £2.5 million at 31 December 2011 (2010: £10.7m).

The IPO has significantly raised STB's corporate profile and it has seen an increase in the scale, scope and range of opportunities being brought to it for consideration. There is a clear growth strategy and STB is working on a number of significant projects which will add considerable value to the business if completed.

Board Changes and Personnel
As a result of the sale of our Securities Business Neil Kirton and Atholl Turrell resigned from the Board on 29 December 2011and 31 December 2011 respectively.

As already mentioned Dean Proctor resigned from the Board on 1 March 2012 to move overseas and was replaced on the same day by James Fleming.

I would like to thank the three directors who have left for the contributions that they have made to the Group.

These results once again reflect 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 contributions made to the Group in 2012

Dividend
The Board is proposing a final dividend of 13p, an increase of 1p on last year, making a total dividend of 24p (2011: 23p). If approved, the dividend will be paid on 18 May 2012 to shareholders on the register at close of business on 20 April 2012.

Outlook
Overall, 2011 was a transformational year for the Arbuthnot Banking Group PLC. The two banking businesses performed well and the Group ended the year on a firm foundation, regulatory capital increased by 27% to £55.7m and the total balance sheet by 36% to £769m and net asset value per share rose by 85p. At the same time high liquidity was maintained. The Group's overall position has strengthened considerably allowing it to continue to grow over the coming years as it exploits the opportunities that are arising, barring any macro-economic upheaval.

Business Review

Private Banking - Arbuthnot Latham

	2011	2010
Operating income	£17.7m	£14.4m
Other income	£2.6m	£2.5m
Operating expenses	£16.0m	£14.9m
Profit before tax	£2.0m	£1.0m
Customer loans	£238.2m	£210.8m
Customer deposits	£420m	£349.5m
Total assets	£554.9m	£417.9m
Customer net margin	4.0%	4.0%
Loan to deposit ratio	0.57	0.60

Pre-tax profits for the Private Banking division doubled in the year to £2m (2010: £1m) and the underlying growth of the business was somewhat higher as these results include an additional £1m of credit provisions taken against two legacy accounts and a further decline in returns from our surplus funds, as we have held more money with the Bank of England rather than in the wholesale markets.

Total assets increased and for the first time stand at a level greater than half a billion pounds and assets under the bank's direction are now in excess of one billion pounds.

The conditions for lending continued to be favourable during the year and the bank was able to grow its loan portfolio by £27m to £238m while widening lending margins and maintaining the quality of collateral held. The loan to value of the overall book was 48% and retail deposits increased by £70m to £420m to close the year with a loan to deposit ratio of 57%. The returns earned on the surplus funds continued to decrease over the year as the decision was taken to hold more funds at the Bank of England, which given ongoing problems with the Euro Zone banks, was seen as the safer option rather than the wholesale markets. The credit losses experienced by the Bank remain under 1%.

The Bank continues to expand its asset management and wealth planning services and further investments in people and systems were made during the year. These initiatives are providing the foundation for future organic growth.

Arbuthnot Latham became the first UK bank to achieve chartered wealth planning status. This reflects the high quality of service offered and the chartered status of the individual wealth planners. The bank is well placed to thrive as the advisory and investment management business environment continues to evolve leading up to and beyond the implementation of the FSA Retail Distribution Review (RDR) in January 2013. This recognition of the services provided has enabled the discretionary assets under management to grow from a modest base by 40% and wealth planning income to increase by 10%.

The structured notes distribution business, Gilliat Financial Solutions, delivered a full year profit of £0.2m (2010: loss of £0.6m) as it started to return the investment made by the Group since its launch in 2009. The profit was a result of significantly higher revenues as Gilliat was able to generate volumes in excess of £90m. Business is being done with an increasing number of Independent Financial Advisors (IFAs) and other intermediaries. This reflects the growing recognition of the brand within the retail distribution network.

Retail Banking - Secure Trust Bank

	2011	2010
Operating income	£28.5m	£23.9m
Operating expenses	£14.8m	£13.2m
Profit before tax	£9.1m	£8.5m
Customer loans - unsecured	£154.6m	£89.5m
Customer deposits	£272.1m	£153.8m
Customer numbers ('000)	140	96
Net interest margin	14.0%	18.4%
Cost income ratio	0.53	0.47

The pre-tax profits of Secure Trust Bank, before IPO costs and group recharges, were £9.6m (2010: £8.5m). In isolation the growth of 13% is commendable. However, this rather understates the much stronger underlying picture. The 2010 results were heavily influenced by the profits generated by the portfolios acquired from LV and Citi in 2009. The income benefit of these portfolios, which had a high profit margin, peaked in 2010 and reduced by over £4m in 2011. These 'run off' profits have all been replaced by organically generated and sustainable new business.

Secure Trust Bank had anticipated creating a joint venture in the second half of the year and geared up its deposit balances to fund the expected initial portfolio purchase of around £50m. It was announced on 10 January 2012 that a structure could not be agreed that met regulatory requirements and which fell within Secure Trust Bank's risk appetite and that the joint venture would not proceed as anticipated. The combination of the cost of carrying the surplus deposits together with direct expenses incurred in setting up the joint venture reduced Secure Trust Bank's 2011 profit before tax by approximately £1m.

During the year Secure Trust Bank's lending operations continued to generate strong, controlled, organic growth. Overall, new business lending volumes grew 51% to £135.9m (2010: £90.2m) which led to an increase of 73% in overall balance sheet lending assets to £154.6m (2010: £89.5m)

Motor finance, a business which Secure Trust Bank entered cautiously during 2009, grew to a book of £63.4m at 31 December 2011 (2010: £31.3m). 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 which services over 70% of the Top 20 UK car dealer groups.

Personal unsecured lending also evidenced strong growth with the 31 December 2011 balance sheet growing to £43.6m (2010: £22.4m). Secure Trust Bank has continued to broaden its distribution capabilities in this segment and entered into a number of significant new introducer relationships during the year.

Retail Point of Sale business saw balances at 31 December 2011 grow to £42.6m (2010: £21.6m)

The portfolios of books acquired in 2009 continued to be collected in line with expectations, with the balance outstanding declining to £2.5m at 31 December 2011 (2010: £10.7m).

There has been significant investment in Secure Trust Bank's operational infrastructure during 2011 which in particular has enhanced the competitiveness of the current account offering. Despite tempering the growth rate of this product, pending installation of the new platform, net customer numbers increased to 17,178 at the end of the year (2010: 9,576). Over 1,000 new customers are signing up each month and Secure Trust Bank continues to see substantial potential in this area.

As anticipated, OneBill customer numbers continue to decline over time. However, the attrition rates have been somewhat slower than expected which serves to highlight the attraction of this product. Work continues on the development of a next generation OneBill product and it is expected that customer trials will begin in the second half of 2012. The growth of other profit streams developed over the last three years will mean that this product will become progressively less significant to the profitability of the overall business.

Secure Trust Bank continues to see strong demand for all of its core products and envisages robust organic growth this year. The IPO has significantly increased the corporate profile and Secure Trust Bank has seen an increase in the scale, scope and range of opportunities being brought to it for consideration. It has a clear growth strategy and it is working on a number of significant projects which will add considerable value to the business if completed.

Secure Trust Bank was delighted to receive the Dealer Finance Provider 2012 award from the Institute of Transport Management in February in recognition of its increased importance to the motor industry at a time when other finance providers have been reducing their investment or exiting the market.

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.

Following the decision to exit from the Investment Banking business, which has been designated as discontinued, it now provides a range of financial services to customers and clients in its two chosen niche markets of Private Banking (Arbuthnot Latham) and Retail Banking (Secure Trust Bank). The Group's revenues are derived from a combination of net interest income from lending, deposit-taking and money market activities, fees for services provided to customers and clients and commissions earned on the sale of financial instruments and products.

Highlights

Summarised Income Statement

£000	**2011**	**2010**
Net interest income	27,243	21,370
Net fee and commission income	18,327	16,538
Gains less losses from dealing in securities (Group)	(112)	(136)
Operating income	45,458	37,772
Other income	1,120	1,042
Operating expenses	(34,525)	(31,603)
Impairment losses on loans and advances	(6,813)	(3,146)
Fair value movement derivatives	(124)	-
Profit on continuing activities before tax	5,116	4,065
Income tax	(1,817)	(1,238)
Profit on continuing activities after tax	3,299	2,827
Loss from discontinued activities after tax	(10,249)	894
(Loss) / profit after tax	(6,950)	3,721
Basic earnings per share (pence)	(33.3)	25.0

As noted in last year's financial review, the Group continued to experience two very different types of market conditions across its trading divisions. This led to two transformational decisions for the Group.

The lack of capacity in the lending markets continued as the larger banks continued their retrenchment. However, despite the uncertain economic conditions, the ability of our borrowers to repay their debts has been better than was expected. Given this market opportunity, and the fact that Secure Trust Bank had proven itself capable of exploiting these conditions, it was decided that the next step would be to accelerate its growth and a separate listing of this Bank would enable it to execute this strategy.

The market appetite for IPOs had fallen steadily during 2011, but the fact that we were able to complete a successful flotation in November, demonstrates that the market also strongly supported the strategy. The transaction generated a consolidated "gain on sale" of £16m, which has been recorded directly to reserves in accordance with the accounting rules.

For the Investment Bank, the corporate markets continued to be extremely difficult, primary income levels fell dramatically as the whole industry experienced a lack of appetite for fundraising activities. Also the levels of secondary commission incomes continued their downward trend. As reported in the Interim Results, a restructuring programme was put in place in the third quarter. The results of this appeared to show no signs of improving the performance of the business and the forward looking projections showed no improvement in the medium term. As a result it was decided to exit the business and a successful sale of Arbuthnot Securities Ltd was agreed with Westhouse Holdings PLC on 18 November. The performance of the business and resultant costs to the Group are therefore reported as discontinued operations.

Overall the Group made a profit before tax from its continuing operations of £5.1m and when the cost of listing Secure Trust Bank (£0.5m) is excluded, these businesses increased by nearly 40%, which is in line with the growth levels that our banking businesses have been experiencing in recent years.

Operating income increased by 20% offset by expense growth of approximately 10% resulting in a positive organic operating leverage of 15%.

The Group is reporting a loss after tax of £7m for 2011. However, as mentioned earlier this does not include the gain on sale from the listing of Secure Trust Bank. The better measure of performance in the year would be the increase in net assets. These are shown in the Statement of Changes in Equity. This shows that the net assets of the Group increased from £34.1m to £47.0m, a 38% increase. Given this also equates to an equivalent increase in the Group Regulatory capital, the Group is now well positioned to grow in the future.

Balance Sheet Strength

Summarised Balance Sheet

£000	**2011**	**2010**
Assets		
Loans and advances to customers	392,789	300,252
Liquid assets	350,223	228,971
Other assets	26,304	35,887
Total assets	769,316	565,110
Liabilities		
Customer deposits	693,800	503,257
Other liabilities	28,545	27,705
Total liabilities	722,345	530,962
Equity	46,971	34,148
Total equity and liabilities	769,316	565,110

The total assets of the Group increased by 36% again led by the growth in our lending businesses and our continued conservative approach to maintaining adequate liquidity resources.

The Group's total assets broke through the half billion pound level for the first time in 2010 and during 2011 exceeded £750m remaining on a trajectory to exceed one billion pounds in the near future.

Customer deposits grew by 38% during the year to close at £693.8m. The Group remains entirely funded by retail deposits. The Group closed the year with a loan to deposit ratio of 56.6% (2010: 59.7%).

Segmental Analysis

The segmental analysis in Note 38 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) 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 review, 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	**2011**	**2010**
Net interest income	10,594	9,380
Net fee and commission income	7,094	5,049
Operating income	17,688	14,429
Other income	2,631	2,491
Operating expenses	(16,025)	(14,896)
Impairment losses	(2,336)	(979)
Profit before tax	1,958	1,045

The profit before tax increased to £2m (2010: £1m) as the Private Bank continued to successfully implement its strategy of providing a full service banking and advisory product offering.

The lending opportunities presented to the bank continued to be of high quality and at attractive yields. The advisory services and discretionary management increased its fee income by 32% as a result of an 40% increase in discretionary assets under management.

Profitability continues to be reduced as the interbank market returns remain low. This has also been affected by our decision to hold more funds at the Bank of England than necessary while uncertainty continues in the wider banking market as the financial crisis continues in the Euro Zone.

Impairment losses increased to £2.2m during the year due almost entirely to provisions taken against two legacy loans. Despite this increase the loss rate continues to be below 1% of the customer loan book and the credit quality of the remaining book remains high and well secured.

Gilliat Financial Solutions returned its first full year profit (£0.2m) during 2011 as it has continued to widen its reach within the Financial advisor and intermediary networks.

£000	**2011**	**2010**
Assets		
Advances	238,203	210,753
Liquid assets	292,151	182,512
Other assets (including Group companies)	24,581	24,588
Total assets	554,935	417,853
Liabilities		
Customer deposits	421,737	349,478
Other liabilities (including Group companies)	110,854	45,452
Total liabilities	532,591	394,930
Equity	22,344	22,923
Total equity and liabilities	554,935	417,853

Total assets increased by 33% to £554.9m (2010: £417.9m) with customer lending increasing by 13%. The loan to value on the portfolio remains at a healthy 48%.

The liabilities continued to follow the conservative policy on liquidity seeing an inflow of £70m of customer deposits representing a 20% increase from 2010. The loan to deposit ratio closed the year at 57%.

The Private Bank remains well capitalised with a total capital ratio of 13.3% (2010: 13.1%) and a core tier 1 ratio of 10.2% (2010: 11.1%).

International Private Banking - Arbuthnot AG

Costs associated with the Swiss Bank were £0.1m (2010: £0.1m) as the third party continued in its regulatory application to invest in the Swiss bank.

Retail Banking – Secure Trust Bank

£000	**2011**	**2010**
Net interest income	17,227	12,464
Net fee and commission income	11,233	11,489
Operating income	28,460	23,953
Other income	36	-
Operating expenses	(14,834)	(13,275)
Impairment losses	(4,601)	(2,167)
Profit before tax	9,061	8,511

Profit before tax is £9.1m (2010: £8.5m) however, after adding back the cost of listing the business, the adjusted profit before tax is £9.6m which represents a 13% increase during the year.

The profit would have been somewhat higher than reported. However the business incurred in excess of £1m of expenses principally being cost of holding surplus liquidity in readiness for concluding the lending joint venture that was indicated in the interim results for 2011. The business was unable to reach an agreement that satisfied both regulatory requirements and our conservative risk appetite, so the project was terminated. These surplus funds will be deployed by the business during 2012.

The growth in the year was again mainly led by the lending business with good growth across all the portfolios, which is in line with the plan to grow a diversified portfolio of lending books. The growth generated was also able to offset the declining contribution from the acquired portfolios. It is also important to note that the level of fees and commissions halted their downward trend in 2011 and has returned to an upward trajectory, recording income of £13.2m and reaching levels not seen since 2009. This is as a result of the current account revenues now offsetting the decline in revenues from

OneBill. The current account closed the year with 17,178 open accounts (2010: 9,576) and OneBill ended the year with 28,698 (2010: 31,720).

£000	2011	2010
Assets		
Asset finance		
Motor vehicles	63,376	31,270
Cycles	13,784	8,984
Musical instruments	5,398	7,274
Personal computers	16,972	5,118
e-tailer	4,371	264
Other	2,083	102
	105,984	53,012
Personal lending	43,601	22,407
Other lending	2,520	3,074
Acquired portfolios	2,480	10,723
Liquid assets	56,018	45,144
Other assets (including Group companies)	97,332	42,647
Total assets	307,935	177,007
Liabilities		
Customer deposits	272,063	153,778
Other liabilities (including Group companies)	11,962	7,212
Total liabilities	284,025	160,990
Equity	23,910	16,017
Total equity and liabilities	307,935	177,007

During the year the asset finance business increased the overall portfolio size by 97% to end the year at £103.9m, mainly led by the motor vehicle portfolio which doubled in size. The personal computer business grew three fold and the business also launched its internet credit offering in conjunction with Pay4Later.

The personal loan portfolio increased by 84% to £47.5m. The acquired portfolios continued to be collected out as per expectations and closed the year with only £2.5m of balances remaining.

The customer deposit balances grew by 77% to £272.1m following the successful take up of the banks new fixed term bond offerings of 2, 3, 4 and 5 year maturities.

Discontinued operations (Investment Banking - Arbuthnot Securities)

£000	2011	2010
Net interest income	(144)	(232)
Net fee and commission income	6,510	12,755
Gains less losses from dealing in securities	149	4,456
Operating income	6,515	16,979
Other income	6	89
Operating expenses	(19,719)	(16,029)
(Loss) / profit before tax	(13,198)	1,039

The total impact on the Group's profitability from the discontinued operations was £13.2m, which comprises three items

1) Operating losses totalled £7.9m. This decline was attributable to the significant reduction in fees earned on fundraising activities and the continued decline in secondary commissions. The business also incurred a £0.8m expense in restructuring the business in the third quarter.
2) As a result of agreeing the sale, Arbuthnot Securities has been recorded in the accounts at the lower of the consideration receivable and the net asset value. This results in a charge to profit & loss of £1.6m and effectively brings the predicted loss on sale into the 2011 results, despite the fact that the completion of the transaction did not take place until 20 January 2012.
3) As part of the process of discontinuing the business, the Group has taken impairment provisions of £3.7m, £3.1m of which results from the unwinding of the Long Term Incentive Plan that had been established for the employees of Arbuthnot Securities. The remaining amounts are against illiquid stocks and an outstanding receivable, both of these items were not transferred to Westhouse as part of the sale agreement.

Group & Other Costs

£000	**2011**	**2010**
Operating Income	(63)	(75)
Other income	-	227
Group costs	(4,056)	(4,039)
Group head office property costs	(1,164)	(1,020)
Subordinated loan stock interest	(573)	(483)
Total Group & other costs	(5,793)	(5,542)
Loss before tax	(5,856)	(5,390)

The net Group costs increased by 9% to £5.9m (2010: £5.4m). This was due to higher property costs, higher interest charges on the subordinated loan and one-off items included in other income in the prior year.

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 37.

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 is currently in the process of being approved by the Board. All regulated entities have complied with all of the externally imposed capital requirements to which they are subject.

£000	**2011**
Core Tier 1 capital	46,831
Tier 1 capital after deductions	43,270
Tier 2	12,396
Total capital	55,666
Core Tier 1 capital ratio (Net Core Tier 1 capital/ Basel 2 RWAs*)	16.7%
Total Capital ratio (Capital/ Basel 2 RWAs*)	21.5%

* - 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 Arbuthnot Latham & Co., Limited and Secure Trust Bank PLC, who currently have loan books of £238.2m and £154.6m respectively.

The lending portfolio in Arbuthnot 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.

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 Arbuthnot 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 13 pence per share to be paid on 18 May 2012, giving a total dividend for the year of 24 pence (2010: 23 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.

Company statement of financial position

	Note	At 31 December 2011 £000	2010 £000
ASSETS			
Current assets			
Due from subsidiary undertakings		15,848	7,795
Financial investments	20	218	330
Other debtors		1,175	2,386
Non-current assets			
Shares in subsidiary undertakings	37	25,233	28,633
Intangible assets	21	28	36
Property, plant and equipment	22	127	88
Due from subsidiary undertakings		9,000	7,750
Total assets		**51,629**	**47,018**
EQUITY AND LIABILITIES			
Equity			
Share capital	31	150	150
Share premium account	31	21,085	21,085
Other reserves	32	(1,077)	(1,077)
Retained earnings	32	8,520	415
Total equity		**28,678**	**20,573**
LIABILITIES			
Current liabilities			
Deposits from banks		-	2,869
Due to subsidiary undertakings		6,020	10,097
Accruals		4,675	849
Non-current liabilities			
Debt securities in issue	28	12,256	12,630
Total liabilities		**22,951**	**26,445**
Total equity and liabilities		**51,629**	**47,018**

The Company has elected to take the exemption under section 408 of the Companies Act 2006 not to present the Parent Company
profit and loss account. The profit for the Parent Company for the year is presented in the Statement of changes in equity.

Consolidated statement of changes in equity

	Attributable to equity holders of the Group										
	Share capital	Share premium account	Foreign currency translation reserve	Revaluation reserve	Capital redemption reserve	Available -for-sale reserve	Cash flow hedging reserve	Treasury shares	Retained earnings	Non-controlling interests	Total
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Balance at 1 January 2011	**150**	**21,085**	**(558)**	**146**	**20**	**142**	**-**	**(1,097)**	**12,142**	**2,118**	**34,148**
Total comprehensive income for the period											
Loss for 2011	-	-	-	-	-	-	-	-	(5,014)	(1,936)	(6,950)
Other comprehensive income, net of income tax											
Foreign currency translation reserve	-	-	(12)	-	-	-	-	-	-	-	(12)
Revaluation reserve											
- Adjustment	-	-	-	(4)	-	-	-	-	4	-	-
- Amount transferred to profit and loss	-	-	-	(2)	-	-	-	-	-	-	(2)
Cash flow hedging reserve											
- Effective portion of changes in fair value	-	-	-	-	-	-	(333)	-	-	-	(333)
- Amount transferred to profit and loss	-	-	-	-	-	-	4	-	-	-	4
Available-for-sale reserve	-	-	-	-	-	(142)	-	-	-	-	(142)
Total other comprehensive income	**-**	**-**	**(12)**	**(6)**	**-**	**(142)**	**(329)**	**-**	**4**	**-**	**(485)**
Total comprehensive income for the period	**-**	**-**	**(12)**	**(6)**	**-**	**(142)**	**(329)**	**-**	**(5,010)**	**(1,936)**	**(7,435)**
Transactions with owners, recorded directly in equity											
Contributions by and distributions to owners											
Charge for share based payments	-	-	-	-	-	-	-	-	-	70	70
Sale of Secure Trust Bank shares	-	-	-	-	-	-	-	-	16,899	5,746	22,645
Final dividend relating to 2010	-	-	-	-	-	-	-	-	(1,754)	-	(1,754)
Interim dividend relating to 2011	-	-	-	-	-	-	-	-	(1,608)	-	(1,608)
New share capital subscribed	3	902	-	-	-	-	-	-	-	-	905
Transfer to retained earnings in lieu of cash dividends	-	(902)	-	-	-	-	-	-	902	-	-
Total contributions by and distributions to owners	**3**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**14,439**	**5,816**	**20,258**
Balance at 31 December 2011	**153**	**21,085**	**(570)**	**140**	**20**	**-**	**(329)**	**(1,097)**	**21,571**	**5,998**	**46,971**

	Share capital	Share premium account	Foreign currency translation reserve	Revaluation reserve	Capital redemption reserve	Available-for-sale reserve	Treasury shares	Retained earnings	Non-controlling interests	Total
	Attributable to equity holders of the Group									
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Balance at 1 January 2010	**150**	**21,085**	**(258)**	**258**	**20**	**-**	**(940)**	**11,684**	**2,144**	**34,143**
Total comprehensive income for the period										
Profit / (loss) for 2010	-	-	-	-	-	-	-	3,747	(26)	3,721
Other comprehensive income, net of income tax										
Foreign currency translation reserve	-	-	(300)	-	-	-	-	-	-	(300)
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**

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 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 1 January 2011	**150**	**21,085**	**20**	**(1,097)**	**415**	**20,573**
Total comprehensive income for the period	**-**	**-**	**-**	**-**	**10,562**	**10,562**
Transactions with owners, recorded directly in equity						
Contributions by and distributions to owners						
Final dividend relating to 2010	-	-	-	-	(1,754)	(1,754)
Interim dividend relating to 2011	-	-	-	-	(703)	(703)
Total contributions by and distributions to owners	**-**	**-**	**-**	**-**	**(2,457)**	**(2,457)**
Balance at 31 December 2011	**150**	**21,085**	**20**	**(1,097)**	**8,520**	**28,678**

Consolidated statement of cash flows

	Note	Year ended 31 December 2011 £000	Year ended 31 December 2010 £000
Cash flows from operating activities			
Interest and similar income received		39,337	27,612
Interest and similar charges paid		(11,494)	(8,189)
Fees and commissions received		24,837	30,310
Net trading and other income		1,263	5,451
Cash payments to employees and suppliers		(59,288)	(46,913)
Taxation (paid)/received		101	(1,539)
Cash flows from operating (losses)/profits before changes in operating assets and liabilities		(5,244)	6,732
Changes in operating assets and liabilities:			
- net decrease/(increase) in trading securities		2,457	(757)
- net (increase)/decrease in derivative financial instruments		(1,135)	420
- net increase in loans and advances to customers		(94,655)	(72,425)
- net decrease in other assets		5,629	806
- net (decrease)/increase in deposits from banks		(3,698)	820
- net increase in amounts due to customers		190,543	117,258
- net increase/(decrease) in other liabilities		6,651	(3,684)
Net cash inflow from operating activities		**100,548**	**49,170**
Cash flows from investing activities			
Acquisition of financial investments		(113)	(605)
Disposal of financial investments		1,740	450
Purchase of computer software	21	(1,004)	(426)
Purchase of property, plant and equipment	22	(204)	(286)
Proceeds from sale of property, plant and equipment		33	1,673
Purchases of debt securities		(174,337)	(452,576)
Proceeds from redemption of debt securities		277,441	437,054
Net cash from investing activities		**103,556**	**(14,716)**
Cash flows from financing activities			
Purchase of treasury shares		-	(157)
Dividends paid		(2,457)	(3,289)
Proceeds from sale and issue of Secure Trust Bank shares		22,645	-
Net cash used in financing activities		**20,188**	**(3,446)**
Net increase in cash and cash equivalents		224,292	31,008
Cash and cash equivalents at 1 January		85,852	54,844
Cash and cash equivalents at 31 December	35	**310,144**	**85,852**

Company statement of cash flows

	Note	Year ended 31 December 2011 £000	Year ended 31 December 2010 £000
Cash flows from operating activities			
Dividends received from subsidiaries		8,500	4,150
Interest and similar income received		283	342
Interest and similar charges paid		(820)	(778)
Net trading and other income		13,734	2,921
Cash payments to employees and suppliers		(9,149)	(5,949)
Taxation received		958	775
Cash flows from operating profits before changes in operating assets and liabilities		13,506	1,461
Changes in operating assets and liabilities:			
- net (increase)/decrease in group company balances		(4,140)	2,764
- net decrease/(increase) in other assets		1,211	(683)
- net increase in other liabilities		3,826	219
Net cash inflow from operating activities		**14,403**	**3,761**
Cash flows from investing activities			
Increase in loans to subsidiary companies		(2,000)	-
Repayment of loans to subsidiary companies		750	
Increase investment in subsidiary		(1,800)	(9)
Disposal of share in subsidiaries, net of cash and cash equivalents disposed		1,897	-
Disposal of financial investments		112	135
Purchase of computer software	21	-	(40)
Purchase of property, plant and equipment	22	(46)	(17)
Net cash from investing activities		**(1,087)**	**69**
Cash flows from financing activities			
Purchase of treasury shares		-	(157)
Dividends paid		(2,457)	(3,289)
Net cash used in financing activities		**(2,457)**	**(3,446)**
Net increase in cash and cash equivalents		10,859	384
Cash and cash equivalents at 1 January		2,470	2,086
Cash and cash equivalents at 31 December		**13,329**	**2,470**

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 Arleston Way, Solihull B90 4LH. The consolidated financial statements of the Arbuthnot Banking Group PLC as at and for the year ended 31 December 2011 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 2011 - 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 2012 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 requires 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 7 (Revised), ‘Disclosures - Offsetting Financial Assets and Financial Liabilities’ (effective 1 January 2013). The revised standard amend the required disclosures to include information that will enable users of an entity’s financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off associated with the entity’s recognised financial assets and recognised financial liabilities, on the entity’s financial position.*

• IFRS 10, ‘Consolidated Financial Statements’ and IAS 27 (Revised), ‘Separate Financial Statements’ (effective 1 January 2013). IFRS 10 supersedes IAS 27 and SIC-12, and provides a single model to be applied in the control analysis for all investees. There are some minor clarifications in IAS27, and the requirements of IAS 28 and IAS 31 have been incorporated into IAS 27.*

• IFRS 11, ‘Joint Arrangements’ (effective 1 January 2013). This standard replaces the existing accounting for subsidiaries and joint ventures (now joint arrangements) and removes the choice of equity or proportionate accounting for jointly controlled entities, as was the case under IAS 31.*

• IFRS 12, ‘Disclosure of Interests in Other Entities’ (effective 1 January 2013). This standard replaces the existing accounting for subsidiaries and joint ventures (now joint arrangements) and contains the disclosure requirements for entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities.*

• IFRS 13, ‘Fair Value Measurement’ (effective 1 January 2013). This standard replaces the existing guidance on fair value measurement in different IFRSs with a single definition of fair value, a framework for measuring fair values and disclosures about fair value measurements.*

• IAS 32 (Revised), ‘Offsetting Financial Assets and Financial Liabilities’ (effective 1 January 2014). This standard was amended to clarify the offsetting criteria, specifically when an entity currently has a legal right of set off; and when gross settlement is equivalent to net settlement.*

• IFRS 9, ‘Financial instruments’ (effective from 1 January 2015). 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.*

** - These standards 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 three main operating segments:

• Retail Banking
• International Private Banking
• UK Private 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 calculates the amortised cost of a financial asset or a financial liability and allocates the interest income or interest expense over the relevant period. The effective interest rate is the rate that 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 listed securities and derivative financial instruments. Derivative financial instruments utilised by the Group include embedded derivatives and derivatives used for hedging purposes. 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 and hedge accounting
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 or using valuation techniques such as discounted cash flow models. 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.

(a) Fair value hedges
The Group assesses at each balance sheet date changes in the fair value of derivatives are recognised immediately in the statement of comprehensive income, together with the changes in fair value of the hedged assets or liabilities.

If a hedging relationship no longer meets the criteria for hedge accounting, the carrying amount of the hedged item is amortised over the residual period to maturity, as part of the newly calculated effective interest rate. However, if the hedged item has been derecognised, it is immediately released to the statement of comprehensive income.

(b) Cash flow hedges
These cash flow hedges are used to hedge against fluctuations in future cash flows from interest rate movements on variable rate customer deposits. On initial purchase the derivative is valued at fair value and then the effective portion of the change in the fair value of the hedging instrument is recognised in equity (cash flow hedging reserve) until the gain or loss on the hedged item is realised, when it is amortised; the ineffective portion of the hedging instrument is recognised in the statement of comprehensive income immediately.

If a hedging derivative expires or is sold, terminated, or exchanged, or the hedge no longer meets the criteria for cash flow hedge accounting, or the hedge designation is revoked, then hedge accounting is discontinued prospectively. In a discontinued hedge of a forecast transaction the cumulative amount recognised in other comprehensive income from the period when the hedge was effective is reclassified from equity to profit or loss as a reclassification adjustment when the forecast transaction occurs and affects profit or loss. If the forecast transaction is no longer expected to occur, then the balance in other comprehensive income is reclassified immediately to profit or loss as a reclassification adjustment.

Hedge effectiveness testing
On initial designation of the hedge, the Group formally documents the relationship between the hedging instruments and the hedged items, including the risk management objective and strategy in undertaking the hedge, together with the method that will be used to assess the effectiveness of the hedging relationship. The Group makes an assessment, both at the inception of the hedge relationship as well as on an ongoing basis, as to whether the hedging instruments are expected to be highly effective in offsetting the changes in the fair value or cash flows of the respective hedged items during the period for which the hedge is designated, and whether the actual results of each hedge are within a range of 80-125%. The Group makes an assessment for a cash flow hedge of a forecast transaction, as to whether the forecast transaction is highly probable to occur and presents an exposure to variations in cash flows that could ultimately affect profit or loss.

(c) Embedded derivatives
Embedded derivatives arise from contracts (‘hybrid contracts’) containing both a derivative (the ‘embedded derivative’) and a non-derivative (the ‘host contract’). Where the economic characteristics and risks of the embedded derivatives are not closely related to those of the host contract, and the host contract is not at fair value through profit of loss, the embedded derivative is bifurcated and reported at fair value and gains or losses are recognised 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. Objective evidence is the occurrence of a loss event, after the initial recognition of the asset, that impact on the estimated future cash flows of the financial asset or group of financial assets, and 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 (2010: 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 2014 as per the approved 3 year plan. A growth rate of 5% (2010: 8%) was used for income and 4% (2010: 9%) for expenditure from 2012 to 2014 (these rates were the best estimate of future forecasted performance), while a 4% (2010: 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 (2010: 5 years). Income and expenditure were kept flat (2010: 0%) over the 5 year period.

Cash flows were discounted at a pre-tax rate of 12% (2010: 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 33, in 2008 and 2009 the Group awarded share options to two current and one former director under an equity settled share-based compensation plan. No options were awarded in 2010. In 2011 share options were granted to employees in Secure Trust Bank PLC. Detail on the share options granted to Group directors are set out in note 33. The fair value 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 the acquisition of a business by Arbuthnot Banking Group or its subsidiaries, 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.

1.23. Forbearance

Forbearance is available to support customers who are in financial difficulty and help them re-establish their contractual payment plan. The main option offered by the Group is an arrangement to clear outstanding arrears. If the forbearance request is granted the account is monitored in accordance with the Group's policy and procedures.

All debts however retain the customer's normal contractual payment due dates. Arrears tracking and the allowance for impairment is based on the original contractual due dates for both the secured and unsecured lending channels.

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 an 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:

At 31 December 2011	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Derivative financial instruments	-	951	-	951
Financial investments	330	-	2,746	3,076
	330	**951**	**2,746**	**4,027**

At 31 December 2010	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
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**

3. Maturity analysis of assets and liabilities

The table below shows the maturity analysis of assets and liabilities as at 31 December 2011:

At 31 December 2011	Due within one year £000	Due after more than one year £000	Total £000
ASSETS			
Cash	243,183	-	243,183
Derivative financial instruments	892	59	951
Loans and advances to banks	66,961	-	66,961
Loans and advances to customers	257,033	135,756	392,789
Debt securities held-to-maturity	30,573	9,506	40,079
Assets classified as held for sale	3,674	-	3,674
Current tax asset	457	-	457
Other assets	6,311	2,334	8,645
Financial investments	-	3,076	3,076
Intangible assets	-	3,561	3,561
Property, plant and equipment	-	5,214	5,214
Deferred tax asset	-	726	726
Total assets	**609,084**	**160,232**	**769,316**
LIABILITIES			
Deposits from banks	8	-	8
Deposits from customers	616,531	77,269	693,800
Liabilities relating to assets classified as held for sale	1,291	-	1,291
Other liabilities	11,838	3,055	14,893
Deferred tax liability	-	97	97
Debt securities in issue	-	12,256	12,256
Total liabilities	**629,668**	**92,677**	**722,345**

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

At 31 December 2010	Due within one year £000	Due after more than one year £000	Total £000
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**

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:

	2011	2010
	£000	£000
Credit risk exposures relating to on-balance sheet assets are as follows:		
Cash	243,183	73,772
Derivative financial instruments	951	-
Loans and advances to banks	66,961	12,080
Loans and advances to customers - Arbuthnot Latham	238,204	210,753
Loan and advances to customers - Secure Trust Bank	154,585	89,501
Trading securities - long positions	-	3,232
Debt securities held-to-maturity	40,079	143,119
Financial investments	3,076	4,957
Other assets	3,108	8,727
Credit risk exposures relating to off-balance sheet assets are as follows:		
Guarantees	803	485
Loan commitments and other credit related liabilities	21,841	23,469
At 31 December	**772,791**	**570,095**

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

	2011	2010
	£000	£000
Credit risk exposures relating to on-balance sheet assets are as follows:		
Due from subsidiary undertakings	24,848	15,545
Financial investments	218	330
Other debtors	1,175	2,386
Credit risk exposures relating to off-balance sheet assets are as follows:		
Guarantees	2,500	2,500
At 31 December	**28,741**	**20,761**

The above table represents the maximum credit risk exposure (net of impairment) to the Group and Company at 31 December 2011 and 2010 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.

The table below represents an analysis of the loan to values of the property book for the Group:

	31 December 2011		31 December 2010	
	Loan Balance	Collateral	Loan Balance	Collateral
Loan to value	£000	£000	£000	£000
Less than 60%	105,907	309,328	103,320	284,285
60% - 80%	62,259	89,972	47,642	65,821
80% - 100%	21,013	23,572	12,060	13,578
Greater than 100%	25,551	21,596	15,081	11,357
Total	**214,730**	**444,468**	**178,103**	**375,041**

Concentration risk

The Group is well diversified in the UK, being exposed to retail banking and private 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 financial investment exposure (in Note 20), a stress test scenario of a 10% (2010: 10%) decline in market prices, with all other things being equal, would result in a £22,000 (2010: £33,000) decrease in the Group’s income and a decrease of £272,000 (2010: £364,000) in the Group’s 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 20, a stress test scenario of a 10% (2010: 10%) decline in market prices, with all other things being equal, would result in a £22,000 (2010: £33,000) decrease in the Company’s income and a decrease of £16,000 (2010: £24,000) in the Company’s 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 2011. Included in the table below are the Group's assets and liabilities at carrying amounts, categorised by currency.

At 31 December 2011	GBP (£) £000	USD ($) £000	Euro (€) £000	Other £000	Total £000
ASSETS					
Cash	242,981	140	61	1	243,183
Derivative financial instruments	951	-	-	-	951
Loans and advances to banks	59,431	4,899	578	2,053	66,961
Loans and advances to customers	338,574	4,502	47,271	2,442	392,789
Debt securities held-to-maturity	40,079	-	-	-	40,079
Other assets	8,643	2	-	-	8,645
Financial investments	330	-	2,746	-	3,076
	690,989	**9,543**	**50,656**	**4,496**	**755,684**
LIABILITIES					
Deposits from banks	8	-	-	-	8
Deposits from customers	663,653	9,821	18,271	2,055	693,800
Other liabilities	14,891	-	-	-	14,891
Debt securities in issue	-	-	12,256	-	12,256
	678,552	**9,821**	**30,527**	**2,055**	**720,955**
Net on-balance sheet position	**12,437**	**(278)**	**20,129**	**2,441**	**34,729**
Credit commitments	**22,290**	**20**	**334**	**-**	**22,644**

The table below summarise the Group's exposure to foreign currency exchange risk at 31 December 2010:

At 31 December 2010	GBP (£) £000	USD ($) £000	Euro (€) £000	Other £000	Total £000
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**

A 10% strengthening of the pound against the US dollar would lead to a £16,000 (2010: £20,000) 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 a £8,000 (2010: £48,000) 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 25), which covers most of the net exposure in each currency.

The table below summarise the Company's exposure to foreign currency exchange rate risk at 31 December 2011:

At 31 December 2011	GBP (£) £000	Euro (€) £000	CHF £000	Total £000
ASSETS				
Due from subsidiary undertakings	9,693	12,713	2,442	24,848
Financial investments	218	-	-	218
Other debtors	637	-	-	637
Shares in subsidiary undertakings	25,233	-	-	25,233
	35,781	**12,713**	**2,442**	**50,936**
LIABILITIES				
Due to subsidiary undertakings	6,020	-	-	6,020
Debt securities in issue	-	12,256	-	12,256
	6,020	**12,256**	**-**	**18,276**
Net on-balance sheet position	**29,761**	**457**	**2,442**	**32,660**

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

At 31 December 2010	GBP (£) £000	Euro (€) £000	CHF £000	Total £000
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**

A 10% strengthening of the pound against the Euro would lead to £18,000 (2010: £11,000) 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 £38,000 (2010: £53,000) 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. The above results are after taking into account the effect of derivative financial instruments (see Note 25), which covers most of the net Swiss Franc exposure.

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 Arbuthnot 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 50, 100 and 200 basis points movement. The Group consider the 50, 100 and 200 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 £0.3m to £1.1m (2010: £0.6m to £2.4m) 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 increase pre-tax profits and equity by £4,000 (2010: reduce pre-tax profits and equity by £1,000).

(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 2011:

At 31 December 2011	Carrying amount £000	Gross nominal inflow/ (outflow) £000	Not more than 3 months £000	More than 3 months but less than 1 year £000	More than 1 year but less than 5 years £000	More than 5 years £000
Non-derivative liabilities						
Deposits from banks	8	(8)	(8)	-	-	-
Deposits from customers	693,800	(707,428)	(344,558)	(275,998)	(86,872)	-
Liabilities relating to assets classsified as held for sale	1,291	(1,291)	(1,291)	-	-	-
Other liabilities	14,893	(15,056)	(14,821)	(109)	(126)	-
Debt securities in issue	12,256	(15,054)	(140)	(420)	(2,238)	(12,256)
Issued financial guarantee contracts		(803)	(803)	-	-	-
Unrecognised loan commitments		(21,841)	(21,841)	-	-	-
	722,248	**(761,481)**	**(383,462)**	**(276,527)**	**(89,236)**	**(12,256)**

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

At 31 December 2010	Carrying amount £000	Gross nominal inflow/ (outflow) £000	Not more than 3 months £000	More than 3 months but less than 1 year £000	More than 1 year but less than 5 years £000	More than 5 years £000
Non-derivative liabilities						
Deposits from banks	3,706	(3,710)	(3,710)	-	-	-
Trading securities - short positions	775	(775)	(775)	-	-	-
Deposits from customers	503,257	(503,671)	(323,077)	(174,267)	(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 Company into relevant maturity groupings at 31 December 2011:

At 31 December 2011	Carrying amount £000	Gross nominal inflow/ (outflow) £000	Not more than 3 months £000	More than 3 months but less than 1 year £000	More than 1 year but less than 5 years £000	More than 5 years £000
Non-derivative liabilities						
Due to subsidiary undertakings	6,020	(6,020)	(6,020)	-	-	-
Accruals	4,675	(4,675)	-	(4,675)	-	-
Debt securities in issue	12,256	(15,054)	(140)	(420)	(2,238)	(12,256)
Issued financial guarantee contracts		(2,500)	(2,500)	-	-	-
	22,951	**(28,249)**	**(8,660)**	**(5,095)**	**(2,238)**	**(12,256)**

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

At 31 December 2010	Carrying amount £000	Gross nominal inflow/ (outflow) £000	Not more than 3 months £000	More than 3 months but less than 1 year £000	More than 1 year but less than 5 years £000	More than 5 years £000
Non-derivative liabilities						
Deposits from banks	2,869	(2,869)	(2,869)	-	-	-
Due to subsidiary undertakings	10,097	(10,097)	(10,097)	-	-	-
Accruals	849	(848)	-	(848)	-	-
Debt securities in issue	12,630	(15,143)	(126)	(377)	(2,010)	(12,630)
Issued financial guarantee contracts		(2,500)	(2,500)	-	-	-
	26,445	**(31,457)**	**(15,592)**	**(1,225)**	**(2,010)**	**(12,630)**

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 £315m (2010: £225m). 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:

At 31 December 2011	Trading £000	Held-to-maturity £000	Loans and receivables £000	Available-for-sale £000	Other amortised cost £000	Total carrying amount £000	Fair value £000
Cash	-	-	243,183	-	-	243,183	243,183
Derivative financial instruments	951	-	-	-	-	951	951
Loans and advances to banks	-	-	66,961	-	-	66,961	66,961
Loans and advances to customers	-	-	392,789	-	-	392,789	392,789
Debt securities held-to-maturity	-	40,079	-	-	-	40,079	40,079
Financial investments	218	-	-	2,858	-	3,076	3,076
	1,169	**40,079**	**702,933**	**2,858**	**-**	**747,039**	**747,039**
Deposits from banks	-	-	-	-	8	8	8
Deposits from customers	-	-	-	-	693,800	693,800	693,800
Debt securities in issue	-	-	-	-	12,256	12,256	12,256
	-	**-**	**-**	**-**	**706,064**	**706,064**	**706,064**

At 31 December 2010	Trading £000	Held-to-maturity £000	Loans and receivables £000	Available-for-sale £000	Other amortised cost £000	Total carrying amount £000	Fair value £000
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**

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 37.

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:

	2011 £000	2010 £000
Tier 1		
Share capital	153	150
Share premium account	21,085	21,085
Retained earnings	21,571	12,142
Other reserves	(1,976)	(1,493)
Non-controlling interests	5,998	2,118
Goodwill	(1,991)	(1,991)
Other deductions	(1,570)	(924)
Total tier 1 capital	**43,270**	**31,087**
Tier 2		
Revaluation reserve	140	146
Debt securities in issue	12,256	12,630
Total tier 2 capital	**12,396**	**12,776**
Total tier 1 & tier 2 capital	**55,666**	**43,863**

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 is in the process of being approved by the Board. 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.

Pillar 3 complements the minimum capital requirements (Pillar 1) and the supervisory review process (Pillar 2). Its aim is to encourage market discipline by developing a set of disclosure requirements which will allow market participants to assess key pieces of information on a firm's capital, risk exposures and risk assessment processes. Our Pillar 3 disclosures for the year ended 31 December 2011 are published as a separate document on the Group website under Investor Relations (Announcements & Shareholder Info).

6. Fee and commission income

	2011 £000	2010 £000
Fee and commission income		
Trust and other fiduciary fee income	3,237	2,219
Other fee income	16,850	14,683
	20,087	**16,902**

7. Net impairment loss on financial assets

	2011	2010
	£000	£000
Impairment losses on loans and advances to customers (Note 18)	6,688	3,146
Impairment losses on available-for-sale investments	125	-
	6,813	**3,146**

8. Other income

Other income mainly consist of a contribution of £1.1m (2010: £0.8m) towards the cost of the Swiss entity received from a possible investor.

9. Discontinued operations

On 18 November 2011, the Group entered into a conditional contract to sell its Investment Banking Division, Arbuthnot Securities Ltd, to Westhouse Holdings PLC (“Westhouse”) subject to regulatory approval. Westhouse agreed to buy Arbuthnot Securities together with its outstanding subordinated loan of £1.5m for a total of £1.9m. Also refer to note 40 for post balance sheet events.

	Year ended 31 December 2011	Year ended 31 December 2010
	£000	£000
Interest and similar income	3	2
Interest expense and similar charges	(147)	(234)
Net interest income	**(144)**	**(232)**
Fee and commission income	6,783	12,949
Fee and commission expense	(273)	(194)
Net fee and commission income	**6,510**	**12,755**
Gains less losses from dealing in securities	149	4,456
Operating income	**6,515**	**16,979**
Other income	6	89
Impairment of LTIP loans, illiquid stocks and outstanding receivable	(3,716)	-
Adjustment of carrying value to fair value less costs to sell	(1,556)	-
Operating expenses	(14,447)	(16,029)
(Loss) / profit before income tax	**(13,198)**	**1,039**
Income tax credit / (expense)	2,949	(145)
(Loss) / profit after income tax	**(10,249)**	**894**

Assets classified as held for sale	2011
	£000
Loans and advances to banks	241
Trading securities - long positions	206
Other assets	1,674
Intangible assets	17
Property, plant and equipment	36
Deferred tax asset	1,500
	3,674

Liabilities relating to assets classified as held for sale	2011
	£000
Trading securities - short positions	46
Other liabilities	1,245
	1,291

10. Operating profit on ordinary activities before tax

Operating expenses comprise:	2011 £000	2010 £000
Staff costs, including Directors:		
Wages and salaries	16,259	16,000
Social security costs	1,839	1,698
Pension costs	800	791
Amortisation of computer software (Note 21)	324	403
Depreciation (Note 22)	736	1,193
Profit on disposals of property, plant and equipment	(3)	-
Financial Services Compensation Scheme Levy	157	30
Charitable donations	126	55
Operating lease rentals	2,079	2,370
Restructuring costs	-	262
Other administrative expenses	12,208	8,801
Total operating expenses	**34,525**	**31,603**

The auditors' remuneration for the audit of the Company's accounts was £75,000 (2010: £75,000) and fees payable for the audit of the accounts of subsidiaries of the Company was £216,000 (2010: £216,000). Remuneration of the auditors for non-audit services was: services related to taxation £184,000 (2010: £163,000) and all other services £703,000 (2010: £70,000).

11. Average number of employees

	2011	2010
Retail banking	229	201
Private banking	132	125
Group	18	17
	379	**343**

12. Income tax expense

	2011 £000	2010 £000
United Kingdom corporation tax at 26.5% (2010: 28%)		
Current taxation		
Corporation tax charge - current year	1,700	1,514
Corporation tax charge - adjustments in respect of prior years	(99)	(201)
	1,601	**1,313**
Deferred taxation		
Origination and reversal of temporary differences	3	(166)
Adjustments in respect of prior years	213	91
	216	**(75)**
Income tax expense	**1,817**	**1,238**
Tax reconciliation		
Profit before tax	5,116	4,065
Tax at 26.5% (2010: 28%)	1,356	1,153
Permanent differences	278	190
Tax rate change	69	5
Prior period adjustments	114	(110)
Corporation tax charge for the year	**1,817**	**1,238**

The Government reduced the main rate of corporation tax from 28% to 26% with effect from 1 April 2011. This resulted in a weighted average rate of 26.5% for 2011 (2010: 28%). Further reductions of 1% per annum, until the year beginning 1 April 2014, was also announced. The reduction to 25% was substantively enacted on 5 July 2011. These changes will reduce the Group’s future current tax charge.

13. Earnings per ordinary share

Basic and fully diluted

Earnings per ordinary share are calculated on the net basis by dividing the loss attributable to equity holders of the Company of £4,776,000 (2010: profit of £3,747,000) by the weighted average number of ordinary shares 15,046,364 (2010: 14,999,619) in issue during the year. There is no difference between basic and fully diluted earnings per ordinary share.

14. Cash

	2011 £000	2010 £000
Cash in hand included in cash and cash equivalents (Note 35)	**243,183**	**73,772**

In 2010 a reserve account was opened at the Bank of England (BoE) to comply with the new Liquidity regime that came into force on 1 October 2010. Surplus funds are now mainly held in the BoE reserve account, with the remainder held in certificates of deposit, fixed rate notes and money market deposits in highly rated banks (the majority held in UK clearing banks). The Group took the prudent approach of moving the majority of excess funds to the BoE reserve account, after the recent down grade of UK banks and the instability in the euro zone.

15. Loans and advances to banks

	2011 £000	2010 £000
Placements with banks included in cash and cash equivalents (Note 35)	**66,961**	**12,080**

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:

	2011 £000	2010 £000
Aaa	52,936	-
Aa1	581	-
Aa2	-	4,633
Aa3	10,575	7,447
A1	2,257	-
A2	612	-
	66,961	**12,080**

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

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

	2011 £000	2010 £000
Unlisted equity securities:		
Long positions	-	65
Listed equity securities:		
Long positions	-	3,167
Short positions	-	(775)

The following table shows the group’s trading book exposure to market price risk for the year ended 31 December 2011:

	Highest exposure	Lowest exposure	Average exposure	Exposure as at 31 December
	£000	£000	£000	£000
Equities:				
Long	5,685	288	2,479	**206**
Short	(1,668)	(21)	(433)	**(46)**

At year end these exposures were transferred to assets held for sale.

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 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.

17. Loans and advances to customers

	2011	2010
	£000	£000
Gross loans and advances	404,039	309,448
Less: allowances for impairment on loans and advances (Note 18)	(11,250)	(9,196)
	392,789	**300,252**

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

	2011	2010
Loans and advances to customers include finance lease receivables as follows:	£000	£000
Gross investment in finance lease receivables:		
- No later than 1 year	12,857	3,386
- Later than 1 year and no later than 5 years	10,663	5,348
- Later than 5 years	-	2
	23,520	8,736
Unearned future finance income on finance leases	(6,518)	(3,407)
Net investment in finance leases	**17,002**	**5,329**
The net investment in finance leases may be analysed as follows:		
- No later than 1 year	8,395	1,485
- Later than 1 year and no later than 5 years	8,607	3,842
- Later than 5 years	-	2
	17,002	**5,329**

Loans and advances to customers can be further summarised as follows:	2011 £000	2010 £000
Neither past due nor impaired	371,884	282,737
Past due but not impaired	19,263	11,980
Impaired	12,892	14,731
Gross	404,039	309,448
Less: allowance for impairment	(11,250)	(9,196)
Net	**392,789**	**300,252**

(a) Loans and advances past due but not impaired

Gross amounts of loans and advances to customers that were past due but not impaired were as follows:	2011 £000	2010 £000
Past due up to 30 days	10,217	6,860
Past due 30 - 60 days	5,272	1,416
Past due 60 - 90 days	942	668
Over 90 days	2,832	3,036
Total	**19,263**	**11,980**

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 (2010: £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:

	2011 £000	2010 £000
Past due but not impaired	18,764	16,065
Impaired	5,735	1,403
Fair value of collateral held	**24,499**	**17,468**

Collateral is shown at fair value less costs to sell. The fair value of the collateral held is £24,499,000 against £17,698,000 secured loans, giving an average loan-to-value of 72% (2010: 34%).

The gross amount of individually impaired loans and advances to customers before taking into account the cash flows from collateral held is £12,892,000 (2010: £14,731,000).

Interest income on loans classified as impaired totalled £745,000 (2010: £1,919,000).

18. Allowances for impairment of loans and advances

A reconciliation of the allowance account for losses on loans and advances by class is as follows:	2011 £000	2010 £000
At 1 January	9,196	7,301
Impairment losses	7,367	3,146
Loans written off during the year as uncollectible	(4,634)	(1,251)
Amounts recovered during the year	(679)	-
At 31 December	**11,250**	**9,196**

A further analysis of allowances for impairment of loans and advances is as follows:	2011 £000	2010 £000
Loans and advances to customers - Arbuthnot Latham	2,386	1,398
Loan and advances to customers - unsecured - Secure Trust Bank	8,864	7,798
At 31 December	**11,250**	**9,196**

19. 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 statement of financial position at amortised cost. Amounts include £nil (2010: £nil) with a maturity, when placed, of 3 months or less included in cash and cash equivalents (Note 35).

The movement in debt securities held to maturity may be summarised as follows:	2011 £000	2010 £000
At 1 January	143,119	127,597
Additions	174,401	452,576
Redemptions	(277,441)	(437,054)
At 31 December	**40,079**	**143,119**

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

	2011 £000	2010 £000
Aaa	15,291	4,005
Aa2	4,510	13,018
Aa3	11,775	126,096
A1	8,503	-
	40,079	**143,119**

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

20. Financial investments

Group:	2011 £000	2010 £000
Financial investments comprise:		
- Securities (at fair value through profit and loss)	218	330
- Securities (available-for-sale)	2,858	4,627
Total financial investments	**3,076**	**4,957**

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	2011 £000	2010 £000
Financial investments comprise:		
- Listed securities (at fair value through profit and loss)	218	330

21. Intangible assets

Goodwill Group	2011 £000	2010 £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 2010	3,725
Additions	426
At 31 December 2010	**4,151**
Additions	1,004
Disposals	(177)
Transfer to assets held for sale	(58)
At 31 December 2011	**4,920**
Accumulated amortisation	
At 1 January 2010	(2,810)
Amortisation charge	(417)
At 31 December 2010	**(3,227)**
Amortisation charge	(333)
Disposals	177
Transfer to assets held for sale	33
At 31 December 2011	**(3,350)**
Net book amount	
At 31 December 2010	924
At 31 December 2011	1,570

Total intangible assets	2011 £000	2010 £000
Goodwill	1,991	1,991
Computer software	1,570	924
Net book amount at 31 December	**3,561**	**2,915**

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

22. 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 2010	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**
Additions	-	205	-	-	205
Disposals	-	(609)	-	(210)	(819)
Transfer to assets held for sale	-	(200)	-	-	(200)
At 31 December 2011	**4,850**	**11,174**	**-**	**-**	**16,024**
Accumulated depreciation					
At 1 January 2010	(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)**
Depreciation charge	(78)	(731)	-	-	(809)
Disposals	-	609	-	177	786
Transfer to assets held for sale	-	148	-	-	148
At 31 December 2011	**(685)**	**(10,125)**	**-**	**-**	**(10,810)**
Net book amount					
At 31 December 2010	**4,243**	**1,627**	**-**	**33**	**5,903**
At 31 December 2011	**4,165**	**1,049**	**-**	**-**	**5,214**

The Group's freehold property at 1 Arleston Way, Solihull, B90 4LH, was valued on 17 December 2008 by an Independent external valuer, who is a Fellow of the Royal Institute of Chartered Surveyors. 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. The Directors have assessed the value at year end through comparison to current rental yields on similar properties in the area and 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 (2010: £0.5 million).

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

	2011 £000	2010 £000
Cost	4,792	4,792
Accumulated depreciation	(1,057)	(967)
Net book amount	**3,735**	**3,825**

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

	2011 £000	2010 £000
Cost - capitalised finance leases	-	306
Accumulated depreciation	-	(199)
Net book amount	**-**	**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 2010	126
Additions	17
At 31 December 2010	**143**
Additions	46
At 31 December 2011	**189**
Accumulated depreciation	
At 1 January 2010	(48)
Depreciation charge	(7)
At 31 December 2010	**(55)**
Depreciation charge	(7)
At 31 December 2011	**(62)**
Net book amount	
At 31 December 2010	**88**
At 31 December 2011	**127**

23. Other assets

	2011 £000	2010 £000
Trade receivables	3,108	8,727
Repossessed collateral - held-for-sale	2,334	2,205
Prepayments and accrued income	3,203	7,016
	8,645	**17,948**

24. Deposits from banks

	2011 £000	2010 £000
Deposits from other banks	**8**	**3,706**

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

25. Derivative financial instruments

	2011			2010		
	Contract/ notional amount	Fair value assets	Fair value liabilities	Contract/ notional amount	Fair value assets	Fair value liabilities
Currency swaps	20,840	325	-	20,073	-	184
Interest rate caps	40,000	59	-	-	-	-
Structured notes	691	567	-	-	-	-
	61,531	**951**	**-**	**20,073**	**-**	**184**

The principal derivatives used by the Group are exchange rate contracts and cash flow hedges. Exchange rate related contracts include currency swaps and cash flow hedges include interest rate caps.

A forward foreign exchange contract is an agreement to buy or sell a specified amount of foreign currency on a specified future date at an agreed rate. 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.

An interest rate cap is a option contract which puts an upper limit on a floating exchange rate. The writer of the cap has to pay the holder of the cap the difference between the floating rate and the reference rate when that reference rate is breached. The holder pays a premium for the cap.

Also included in derivative financial instruments are structured notes. These notes contain embedded derivatives (embedded options to buy and sell indicies) and non-derivative host contracts (discounted bonds). Both the host and embedded derivatives are presented net within derivative financial instruments.

The Company only uses investment graded banks for derivative financial instruments.

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:

	2011	2010
	£000	£000
Aa3	21,531	20,073
A1	40,000	-
	61,531	**20,073**

26. Deposits from customers

	2011	2010
	£000	£000
Current/demand accounts	202,843	179,209
Term deposits	490,957	324,048
	693,800	**503,257**

Included in customer accounts are deposits of £8,578,000 (2010: £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.

27. Other liabilities

	2011	2010
	£000	£000
Trade payables	7,069	1,835
Finance lease liabilities	-	25
Accruals and deferred income	7,824	7,673
	14,893	**9,533**

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.

At 31 December 2011, the Group had accrued £355,000 (2010: £353,000) in respect of the levy, based on the bank’s estimated share of total market protected deposits.

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.

	2011	2010
	£000	£000
Gross finance lease liabilities - minimum lease payments		
Within 1 year	-	26
	-	**26**
Future finance charges on finance leases	-	(1)
Present value of finance lease liabilities	**-**	**25**

The present value of finance lease liabilities is as follows:		
Within 1 year	-	25
	-	**25**

28. Debt securities in issue

	2011	2010
	£000	£000
Subordinated loan notes 2035	**12,256**	**12,630**

The subordinated loan notes 2035 were issued on 7 November 2005 and are denominated in Euros. The principal amount outstanding at 31 December 2011 was €15,000,000 (2010: €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.

29. Deferred taxation

The deferred tax asset comprises:

	2011	2010
	£000	£000
Unrealised surplus on revaluation of freehold property	(97)	(126)
Accelerated capital allowances and other short-term timing differences	607	870
Movement in fair value of derivatives	110	-
Tax losses	2,098	62
Transfer to assets classified as held for sale	(2,089)	-
Deferred tax asset	**629**	**806**

At 1 January	806	302
Revaluation reserve	-	(70)
Available-for-sale securities	55	(55)
Movement in fair value of derivatives	110	-
Profit and loss account - accelerated capital allowances and other short-term timing differences	(217)	35
Profit and loss account - tax losses	1,964	594
Transfer to assets classified as held for sale	(2,089)	-
Deferred tax asset at 31 December	**629**	**806**

The above balance is made up as follows:

	2011	2010
	£000	£000
Deferred tax assets within the Group	726	932
Deferred tax liabilities within the Group	(97)	(126)
	629	**806**

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.

During the year the Government substantively enacted a reduction in UK corporation tax rate to 26% with effect from 1 April 2011 and to 25% with effect from 1 April 2012. This will reduce the Group's future current tax charge accordingly. Deferred tax has been calculated at the corporation tax rates applicable to the financial years in which it is expected that the assets will be realised or the liabilities settled, being 25%.
On the 23 March 2011 the Government announced its intention to further reduce the UK corporation tax rate to 23% by April 2014. It has not yet been possible to quantify the full anticipated effect of the announced further 2% reduction, although this will further reduce the Group's future current tax charge and reduce the Group's deferred tax balances accordingly.

30. Contingent liabilities and commitments

Capital commitments
At 31 December 2011, the Group had capital commitments of £nil (2010: £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:

	2011	2010
	£000	£000
Guarantees and other contingent liabilities	803	485
Commitments to extend credit:		
- Original term to maturity of one year or less	21,841	23,469
	22,644	**23,954**

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

	2011	2010
	£000	£000
Expiring:		
Within 1 year	1,877	1,798
Later than 1 year and no later than 5 years	5,324	151
Later than 5 years	43	57
	7,244	**2,006**

Other commitments
At 31 December 2011 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.

31. Share capital

	Number of shares	Ordinary share capital	Share premium
		£000	£000
At 1 January 2011	14,999,619	150	21,085
Rights issue	279,703	3	-
At 31 December 2011	**15,279,322**	**153**	**21,085**

During the year there was a rights issue of 279,703 shares, as shares were issued as part of a scrip dividend alternative (2010: no change in share capital). All issued shares are fully paid.

At 31 December 2011 the Company held 380,274 shares (2010: 380,274) in treasury.

32. Reserves and retained earnings

	2011	2010
Group	£000	£000
Foreign currency translation reserve	(570)	(558)
Revaluation reserve	140	146
Capital redemption reserve	20	20
Available-for-sale reserve	110	142
Cash flow hedging reserve	(439)	-
Treasury shares	(1,097)	(1,097)
Retained earnings	21,571	12,142
Total reserves at 31 December	**19,735**	**10,795**

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.

	2011	2010
Company	£000	£000
Capital redemption reserve	20	20
Treasury shares	(1,097)	(1,097)
Retained earnings	8,520	415
Total reserves as 31 December	**7,443**	**(662)**

33. Share-based payment options

At 31 December 2011, the Company had the following equity settled share-based payment awards outstanding:

- On 21 May 2008 Mr. Salmon was granted an option to subscribe for 100,000 ordinary 1p shares in the Company between May 2011 and May 2015 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 for 50,000 ordinary 1p shares in the Company between November 2011 and November 2015 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 for 50,000 ordinary 1p shares in the Company at 380p which may be executed in December 2012. The fair value of the option at grant date was £nil.

On 17 October 2011, the Secure Trust Bank Group established a Share Option Scheme that entitles key management personnel and senior employees of Secure Trust Bank to purchase shares in that company. All options are non-transferable and there are no cash settlement alternatives.

Options are forfeited if they remain unexercised after a period of more than 10 years from the date of grant. If the participant ceases to be employed by the Group by reason of injury, disability, ill-health or redundancy; or because his employing company ceases to be a shareholder of the Group; or because his employing business is being transferred out of the Group, his option may be exercised within 6 months after such cessation. In the event of the death of a participant, the personal representatives of a participant may exercise an option, to the extent exercisable at the date of death, within 6 months after the death of the participant.

On cessation of employment for any other reason (or when a participant serves, or has been served with, notice of termination of such employment), the option will lapse although the Remuneration Committee has discretion to allow the exercise of the option for a period not exceeding 6 months from the date of such cessation.

In such circumstances, the performance conditions may be modified or waived as the Remuneration Committee, acting fairly and reasonably and taking due consideration of the circumstances, thinks fit. The number of shares which can be acquired on exercise will be pro-rated on a time elapsed basis, unless the Remuneration Committee, acting fairly and reasonably and taking due consideration of the circumstances, decides otherwise. In determining whether to exercise its discretion in these respects, the Remuneration Committee must satisfy itself that the early exercise of an option does not constitute a reward for failure.

On 2 November 2011 934,998 share options were granted at an exercise price of 720p per share. Half of the share options are exercisable on 2 November 2014 with the remainder exercisable on 2 November 2016. At the grant date these share options had a fair value of £1,580,147. The expense recognised in the statement of comprehensive income for share based payments and the corresponding movement within reserves during the year was £70,000 (2010: £nil). Of the share options granted on 2 November 2011, the following were to Group directors:

- Mr. Lynam was granted an option to subscribe for 141,666 ordinary 40p shares in Secure Trust Bank PLC at 720p between 2 November 2014 and 1 November 2021 and a further 141,667 shares at 720p between 2 November 2016 and 1 November 2021.

- Mr. Salmon was granted an option to subscribe for 141,666 ordinary 40p shares in Secure Trust Bank PLC at 720p between 2 November 2014 and 1 November 2021 and a further 141,667 shares at 720p between 2 November 2016 and 1 November 2021.

Subsequent to the year end the Secure Trust Bank Group Share Option Scheme was altered to allow cash rather than equity settlement.

34. Dividends per share

Final dividends are not accounted for until they have been approved at the Annual General Meeting. At the meeting on 16 May 2012, a dividend in respect of 2011 of 13 pence per share (2010: actual dividend 12 pence per share) amounting to a total of £1.94m (2010: actual £1.75m) is to be proposed. The financial statements for the year ended 31 December 2011 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 2012.

35. 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.

	2011	2010
	£000	£000
Cash (Note 14)	243,183	73,772
Loans and advances to banks (Note 15)	66,961	12,080
	310,144	**85,852**

36. 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	
	2011	2010
	£000	£000
Loans		
Loans outstanding at 1 January	2,952	2,936
Loans advanced during the year	98	17
Loan repayments during the year	(673)	(1)
Loans outstanding at 31 December	**2,377**	**2,952**
Interest income earned	**167**	**143**

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 (2010: £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	
	2011	2010
	£000	£000
Deposits		
Deposits at 1 January	2,468	1,880
Deposits placed during the year	4,021	1,265
Deposits repaid during the year	(5,216)	(677)
Deposits at 31 December	**1,273**	**2,468**
Interest expense on deposits	**134**	**90**

Details of principal subsidiaries are given in Note 37. Transactions and balances with subsidiaries are shown below:

	Subsidiaries			
	2011		2010	
	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	27,072	24,848	15,545	15,545
Shares in subsidiary undertakings	25,233	25,233	28,633	28,633
Total assets	**52,305**	**50,081**	**44,178**	**44,178**
LIABILITIES				
Due to subsidiary undertakings	12,263	6,020	10,243	10,097
Total liabilities	**12,263**	**6,020**	**10,243**	**10,097**
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.

37. Shares in subsidiary undertakings

	Shares at cost	Impairment provisions	Net
	£000	£000	£000
Arbuthnot Banking Group PLC:			
At 1 January 2010	31,603	(2,979)	28,624
Adjustment	9	-	9
At 31 December 2010	**31,612**	**(2,979)**	**28,633**
Allotment of shares in Arbuthnot Securities Limited	1,800	-	1,800
Impairment of investment in Arbuthnot Securities Limited	-	(3,303)	(3,303)
Sale of shares in Secure Trust Bank PLC	(1,897)	-	(1,897)
At 31 December 2011	**31,515**	**(6,282)**	**25,233**

	2011	2010
	£000	£000
Subsidiary undertakings:		
Banks	22,589	24,486
Other	2,644	4,147
Total	**25,233**	**28,633**

The principal subsidiary undertakings of Arbuthnot Banking Group PLC at 31 December 2011 were:

	Country of incorporation	Interest %	Principal activity
Secure Trust Bank PLC	UK	75.5	Retail banking
Arbuthnot Latham & Co., Limited	UK	100	Private banking
Arbuthnot AG	Switzerland	100	Private banking
Arbuthnot Securities Limited (discontinued)	UK	78.7	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.

38. Operating segments

The Group is organised into three main operating segments, arranged over three 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) UK Private banking — incorporating private banking and wealth management.
3) International Private banking — incorporating private banking and wealth management outside the UK.

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.

	Discontinued operations	Continuing operations					
Year ended 31 December 2011	**Investment banking £000**	Retail banking £000	UK Private banking £000	International Private banking £000	Group (reconciling items) £000	**Total £000**	**Group Total £000**
Interest revenue	**3**	22,836	16,405	-	296	**39,537**	
Inter-segment revenue	**-**	(11)	(139)	-	(154)	**(304)**	
Interest revenue from external customers	**3**	22,825	16,266	-	142	**39,233**	
Fee and commission income	**6,783**	12,662	7,425	-	-	**20,087**	
Revenue from external customers	**6,786**	**35,487**	**23,691**	**-**	**142**	**59,320**	
Interest expense	**(147)**	(5,609)	(5,811)	(54)	57	**(11,417)**	
Subordinated loan note interest	**-**	-	-	-	(573)	**(573)**	
Segment operating income	**6,515**	28,460	17,688	(54)	(636)	**45,458**	
Impairment losses	**-**	(4,601)	(2,212)	-	-	**(6,813)**	
Segment profit / (loss) before tax	**(13,198)**	9,061	1,958	(47)	(5,856)	**5,116**	
Income tax (expense) / income	**2,949**	(2,241)	448	-	(24)	**(1,817)**	
Segment profit / (loss) after tax	**(10,249)**	**6,820**	**2,406**	**(47)**	**(5,880)**	**3,299**	**(6,950)**
Segment total assets	**7,859**	307,935	554,935	85	(101,498)	**761,457**	**769,316**
Segment total liabilities	**2,791**	284,025	532,591	2,542	(99,604)	**719,554**	**722,345**
Other segment items:							
Capital expenditure	**(9)**	(140)	(1,013)	-	(47)	**(1,200)**	**(1,209)**
Depreciation and amortisation	**(76)**	(606)	(440)	(5)	(15)	**(1,066)**	**(1,142)**

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

Year ended 31 December 2010	Discontinued operations	Continuing operations					
	Investment banking £000	Retail banking £000	UK Private banking £000	International Private banking £000	Group (reconciling items) £000	**Total £000**	**Group Total £000**
Interest revenue	**2**	15,883	13,750	-	356	**29,989**	
Inter-segment revenue	**-**	-	(315)	-	(349)	**(664)**	
Interest revenue from external customers	**2**	15,883	13,435	-	7	**29,325**	
Fee and commission income	**12,949**	11,489	5,413	-	-	**16,902**	
Revenue from external customers	**12,951**	**27,372**	**18,848**	**-**	**7**	**46,227**	
Interest expense	**(234)**	(3,419)	(4,370)	-	317	**(7,472)**	
Subordinated loan note interest	**-**	-	-	-	(483)	**(483)**	
Segment operating income	**16,979**	23,953	14,429	-	(610)	**37,772**	
Impairment losses	**-**	(2,167)	(979)	-	-	**(3,146)**	
Segment profit / (loss) before tax	**1,039**	8,511	1,045	(100)	(5,391)	**4,065**	
Income tax (expense) / income	**(145)**	(2,005)	(49)	-	816	**(1,238)**	
Segment profit / (loss) after tax	**894**	**6,506**	**996**	**(100)**	**(4,575)**	**2,827**	**3,721**
Segment total assets	**12,045**	181,026	417,618	4	(45,583)	**553,065**	**565,110**
Segment total liabilities	**5,659**	165,110	394,713	2,408	(36,928)	**525,303**	**530,962**
Other segment items:							
Capital expenditure	**(82)**	(301)	(272)	-	(57)	**(630)**	**(712)**
Depreciation and amortisation	**(83)**	(961)	(551)	(74)	(10)	**(1,596)**	**(1,679)**

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.

39. Ultimate controlling party

The Company regards Henry Angest, the Group Chairman and Chief Executive Officer, who has a beneficial interest in 53.6% 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 36 of the consolidated financial statements includes related party transactions with Mr Angest.

40. Events after the balance sheet date

Regulatory approval was received for the sale of Arbuthnot Securities on 17 January 2012 and the sale completed on 20 January 2012. Also refer to note 9. Except for the sale of Arbuthnot Securities, there were no other material post balance sheet events.

Five Year Summary

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

	2007	2008	2009	2010	2011
	£000	£000	£000	£000	£000
Profit / (Loss) before tax *	8,579	(2,150)	5,050	5,104	5,116
Earnings per share					
Basic (p) **	23.8	3.5	23.4	25.0	(33.3)
Dividends per share (p)	33.0	21.0	22.0	23.0	24.0
Net asset value per share (p)	283.2	229.4	227.6	227.7	312.2

* The profit before tax for 2011 is shown as the continuing operations results. The previous years have not been restated but the contribution of the discontinued operation can be seen in the segmental analysis for those historical years.

** The earnings per share includes the effect of discontinued operations in 2011.