ARBUTHNOT BANKING GROUP PLC

21 March 2013

For immediate release

ARBUTHNOT BANKING GROUP ("Arbuthnot", "the Group" or "ABG")
Audited Final Results for the year to 31 December, 2012

PROFITABLE GROWTH

Arbuthnot Banking Group has made good progress across all areas and could be a significant challenger bank given a more equitable capital regime.

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

FINANCIAL HIGHLIGHTS

- Group pre-tax profit £12.6m (2011: £5.1m)
- Earnings per share 53p (2011: loss 33p)
- Dividend per share up 1p to 25p (2011: 24p)
- Dividend covered 2.1 times
- Total assets exceed £1bn

OPERATIONAL HIGHLIGHTS

Private Banking - Arbuthnot Latham

- Profit before tax £2.1m (2011: £2.0m)
- Customer loans up 21% to £289.3m (2011: £238.2m)
- Customer deposits grew £74m to £495.7m (2011: £421.7m)
- Gilliat Financial Solutions made good progress
- Hired key executives for future expansion
- Signed up to participate in Funding for Lending Scheme (FLS)

Retail Banking - Secure Trust Bank

- Profit before tax £17.3m (2011: £9.1m)
- Successful equity placing of £20m, reducing ABG's holding to 70.7%
- Acquired Everyday loans adding £73.8m of customer loans
- Lending balances increased by 92% to £297.6m (2011: £154.6m)
- Total customer numbers increased to 232,000 (2011: 145,000)
- First UK Bank to be awarded Customer Services Excellence Award
- Granted four star mark from Fairbanking Foundation for Current Accounts
- Signed up to participate in Funding for Lending Scheme (FLS)

Commenting on the results, Henry Angest, Chairman and Chief Executive of Arbuthnot, said: "This has been a successful year for the Arbuthnot Banking Group and has thus strengthened the foundation for future growth."

Note: Secure Trust Bank is also making its final results announcement today which should be read in conjunction with this statement.

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

Canaccord Genuity 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 2012 Annual Report and Notice of Meeting will be posted and available on the Arbuthnot Banking Group website http://www.arbuthnotgroup.com/results_presentations.html on or before 5 April 2013. 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 2012 £000	Year ended 31 December 2011 £000
Interest income		62,300	39,233
Interest expense		(17,514)	(11,990)
Net interest income		**44,786**	**27,243**
Fee and commission income	8	24,116	20,087
Fee and commission expense		(3,347)	(1,760)
Net fee and commission income		**20,769**	**18,327**
Gains less losses from dealing in securities		-	(112)
Operating income		**65,555**	**45,458**
Net impairment loss on financial assets	9	(10,984)	(6,813)
Fair value movement on derivatives		-	(124)
Gain from a bargain purchase	10	9,830	-
Other income	11	396	1,120
Gain on sale of subsidiary	12	839	-
Operating expenses	14	(53,043)	(34,525)
Profit before income tax from continuing operations		**12,593**	**5,116**
Income tax expense	16	(1,128)	(1,817)
Profit after income tax from continuing operations		11,465	3,299
Loss from discontinued operations after tax	13	(347)	(10,249)
Profit / (loss) for the year		**11,118**	**(6,950)**
Foreign currency translation reserve		570	(12)
Revaluation reserve			
- Amount transferred to profit and loss		-	(2)
Cash flow hedging reserve			
- Effective portion of changes in fair value		(34)	(333)
- Net amount transferred to profit and loss		-	4
Available-for-sale reserve		81	(142)
Other comprehensive income for the period, net of income tax		**617**	**(485)**
Total comprehensive income for the period		**11,735**	**(7,435)**
Profit / (loss) attributable to:			
Equity holders of the Company		8,041	(5,014)
Non-controlling interests		3,077	(1,936)
Profit / (loss) for the year		**11,118**	**(6,950)**
Total comprehensive income attributable to:			
Equity holders of the Company		8,658	(5,499)
Non-controlling interests		3,077	(1,936)
Total comprehensive income for the period		**11,735**	**(7,435)**
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	17	52.6	(33.3)

Consolidated statement of financial position

		At 31 December	
		2012	2011
	Note	£000	£000
ASSETS			
Cash	18	203,683	243,183
Loans and advances to banks	19	144,391	66,961
Debt securities held-to-maturity	20	13,526	40,079
Assets classified as held for sale	13	-	3,674
Derivative financial instruments	21	648	951
Loans and advances to customers	22	586,968	392,789
Current tax asset		-	457
Other assets	24	11,666	8,645
Financial investments	25	3,257	3,076
Deferred tax asset	26	5,057	726
Intangible assets	27	8,326	3,561
Property, plant and equipment	28	22,487	5,214
Total assets		**1,000,009**	**769,316**
EQUITY AND LIABILITIES			
Equity attributable to owners of the parent			
Share capital	34	153	153
Share premium account	34	-	21,085
Retained earnings	35	53,372	21,571
Other reserves	35	(1,253)	(1,836)
Non-controlling interests		**16,376**	**5,998**
Total equity		**68,648**	**46,971**
LIABILITIES			
Deposits from banks	29	373	8
Derivative financial instruments	21	462	-
Deposits from customers	30	894,545	693,800
Liabilities relating to assets classified as held for sale	13	-	1,291
Current tax liability		346	-
Other liabilities	31	23,021	14,893
Deferred tax liability	26	634	97
Debt securities in issue	32	11,980	12,256
Total liabilities		**931,361**	**722,345**
Total equity and liabilities		**1,000,009**	**769,316**

Chairman's statement

I am pleased to report that Arbuthnot Banking Group ("ABG" or the "Group") has made a profit before tax of £12.6m (2011: £5.1m) for the year ended 31 December 2012. This result reflects the good progress being made across the whole Group. A milestone has been achieved in that the Group exceeded total assets of £1 billion for the first time.

Our cautious approach, during the exuberant times prior to the financial crisis in 2008, when we were criticised for our prudent approach to risk taking, has been vindicated. As a result, we have emerged in a strong and robust position, which has enabled us to take advantage of the present market conditions, as evidenced by the acquisition of Everyday Loans ("EDL").

Following on from the successful IPO of Secure Trust Bank ("STB") in 2011, we completed a further equity placing in which ABG participated in December 2012 of £20m. This offering was twice oversubscribed which is a strong indication that the market fully supports those smaller banks, which have the track record and ambition to challenge the banking establishment. As a result of the placing ABG's shareholding in STB has been diluted to 70.7%.

There has been much rhetoric in recent times from politicians, Select Committees and indeed Sir John Vickers, pointing to the fact that the UK banking market needs more competition and lower barriers to entry, i.e. "challenger banks". This will start to redress the moral hazard created by the concept of some banks being "too big to fail" and over time provide individuals and companies with a wider choice for their banking requirements.

It is clear to me when reviewing the progress being made by the Group's two businesses that we have been building the foundations for Arbuthnot Banking Group potentially to become one of those challengers. Both businesses have invested in infrastructure, developed new products and reached out to more and more customers around the country. But most importantly we have built high quality teams of people at all levels of the organisations that have the necessary experience and ambition to manage a larger bank.

The UK has 234 banks, not including the building societies and overseas banks. It is obvious that we do not require more banks, what we really need is an environment in which banks can compete on level terms. Much of the imbalance preventing competition is caused by the restrictive regulatory environment in which small banks are forced to operate.

I have also argued in the past that we do not need more banking regulations but what is required is a more judgemental regulatory regime. Regulations have become blunt instruments applied to all banks alike and usually "gold plated" for good measure, mostly to the detriment of small banks.

The impact of this was made very obvious in the Vickers report. It highlighted the competitive advantage that the large banks have by operating on the advanced methods to calculate their capital requirements. With respect to residential mortgages, this could be up to seven times less than under the standard method, which is realistically the only method available to small banks. How can there be a level playing field and more competition when the odds are stacked in favour of the large banks to such a degree?

We raised this issue in an interview with the Financial Times on 11 February 2013 where we said that small banks faced a "glass ceiling" which currently prevents them becoming real challenger banks.

I have however detected positive signals from the newly created Prudential Regulatory Authority (PRA), which has indicated that it is in favour of judgemental regulation. This should be helpful to well managed banks, big and small.

Private Banking – Arbuthnot Latham & Co., Ltd
The Private Banking business has reported a pre-tax profit of £2.1m (2011: £2.0m). Arbuthnot Latham maintained the momentum it has developed in its lending business. Despite being cautious and selective in its underwriting process, the bank grew its lending balances by £51.1m to £289.3m a 21% growth over 2011. Credit losses remained below 1% of the asset book.

In line with our stated policy of funding ourselves entirely from retail deposits, the customer deposit balances grew from £421.7 to £495.7 million, a 17% year on year increase. As a result, the loan to deposit ratio was 59% (2011: 57%) at the year end. However, much of the banks deposit raising activity took place in the first half of the year when the retail market was at its most competitive. After the announcement of the Funding for Lending Scheme in the third quarter, retail deposit rates began to fall. This resulted in a compression of margins in the business, which we expect to reverse as a number of our deposits begin to mature.

As previously announced, James Fleming joined the bank as CEO in March. Helpfully, he has been able to recruit a number of key senior executives. They were attracted to the bank by the market opportunity that exists for an independent Private Bank such as Arbuthnot Latham. Notably, the focus of their efforts will be to accelerate the growth in the wealth management business of the bank.

I was also encouraged by the continued progress shown by Gilliat Financial Solutions which recorded a profit of £0.6m (2011: £0.2m). Its track record of designing structured products that are delivering consistent and acceptable returns to its investors is helping it to gain an increasing share within the Financial Advisor market place.

Retail Banking – Secure Trust Bank
The reported pre-tax profits of Secure Trust Bank were £17.3m (2011: £9.1m). The business had a successful year and has shown strong growth across all lines of the business. The acquisition of Everyday Loans in the first half of the year was the culmination of many months of hard work and we were delighted to welcome the management team and business to the Group. We have worked closely with them over several years and respect their knowledge and experience of the market within which they operate.

Overall the lending business within Secure Trust Bank grew by 92% to close the year at £297.6m (2011: £154.6m). Notably the motor finance business was named Motor Finance Provider of the Year by the Institute of Transport Management in 2012.

The Bank also saw strong demand for its deposit products, raising customer balances by 47% from £272.1m to £398.9m. At the same time the maturity profile of these deposits was extended with the proportion of medium term deposits growing from 30% to 39% during the year.

Since the year end we are pleased that Secure Trust Bank has further enhanced its strategic capabilities by completing the acquisition of V12 Finance Group a retail point of sale business and the business of Debt Managers Ltd.

Board Changes and Personnel
As already noted, Dean Proctor resigned from the Board on 1 March 2012 to take up a position with an overseas bank. He was succeeded on the same day by James Fleming who became CEO of Arbuthnot Latham & Co., Ltd.

These results reflect the dedication and commitment of both the existing and new members of staff who, with few exceptions, have performed well in the current environment. On behalf of the Board I extend our thanks to all of them for their contributions to the Group in 2012.

I would also like to take this opportunity to express my thanks to my colleagues on the Board for their generous support and the dedication they have given to the Group and me personally.

Dividend
The Board is proposing a final dividend of 14p, an increase of 1p on last year, making a total dividend for the year of 25p (2011: 24p). If approved, the dividend will be paid on 17 May 2013 to shareholders on the register at close of business on 19 April 2013.

Outlook
Both banks have continued to build the foundations for growth and are confident and well positioned to take advantage of favourable market conditions. However, despite all the efforts that have been made to paper over the cracks in some of the weaker European economies in an effort to stabilise the Eurozone, a new economic upheaval cannot be ruled out, so the Group remains cautious as to what the future holds.

Business Review

Private Banking - Arbuthnot Latham

	2012	2011
Operating income	£18.9m	£17.7m
Other income	£3.1m	£2.6m
Operating expenses	£17.9m	£16.0m
Profit before tax	£2.1m	£2.0m
Customer loans	£289.3m	£238.2m
Customer deposits	£495.7m	£421.7m
Total assets	£568.6m	£554.9m
Customer net margin	3.3%	4.1%
Loan to deposit ratio	59%	57%

As Arbuthnot Latham enters into its 180th year, it has reported pre-tax profits for 2012 of £2.1m (2011: £2.0m). Although still a creditable performance over prior years, the progress being made in the business is not fully reflected in this financial result.

On 1 March 2012 James Fleming joined the bank as Chief Executive to take over from Dean Proctor. He was soon able to demonstrate his vision and articulate the market opportunities that exist for a well-capitalised and robust private bank such as Arbuthnot Latham. This resulted in him completing the recruitment of a number of key executives. They will help the bank to develop the wealth management business for clients based both here in the UK and overseas. This investment in enhancing the private banking teams cost the bank in excess of £0.3m in the year and annualised will amount to approximately £1m.

During the year Arbuthnot Latham grew its loan book by 21% to close the year at £289.3m (2011: £238.2m). Once again the quality of the lending resulted in the overall loan to value of the portfolio remaining broadly unchanged at 50%. Credit impairments continued at a level of less than 1% of loans despite increasing provisions against our non-core back book.

As with the previously stated policy, the balance sheet continued to be funded on a prudent basis. All customer lending is matched by retail deposits with no wholesale funding. The customer deposits closed the year at £495.7m (2011: £421.7m) an increase of 17%. The resulting loan to deposit ratio was 59% (2011 57%), which is below our target range for this period in the economic cycle.

The cost of deposits rose to a peak in the middle of the year, as a result the business experienced some margin compression in the final six months. Indeed, the total interest expense line showed an increase of £1.3m in the second half of the year compared to the first six months. Given the impact of the Funding for Lending Scheme on the deposit market, we expect this margin compression to reverse in the first half of 2013 as existing deposits reach maturity.

Arbuthnot Latham was the first UK bank to achieve chartered wealth planning status and this contributed to the growth in discretionary assets under management which increased during the year by 20% albeit from a modest base to close the year at £377m (2011: £315m).

Gilliat Financial Solutions, our structured product distribution business, enjoyed its most successful year. Revenues grew by 73% and its pre-tax profit increased to £0.6m (2011: £0.2m). The trading name is benefiting from much stronger brand recognition within the UK IFA network. The business also managed to complete its first overseas sales, as it looks to develop its offshore distribution channels.

Retail Banking - Secure Trust Bank

	2012	2011
Operating income	£47.0m	£28.5m
Operating expenses	£30.7m	£14.8m
Profit before tax	£17.3m	£9.1m
Customer loans - unsecured	£297.6m	£154.6m
Customer deposits	£398.9m	£272.1m
Customer numbers ('000)	232	145
Net interest margin	15.0%	14.0%
Cost income ratio	0.59	0.53

Celebrating its 60th Anniversary, Secure Trust Bank has reported pre-tax profits of £17.3m for 2012 (2011: £9.1m), representing an increase of 90%. However, when a number of exceptional items are adjusted in this year and the previous, most notably the fair value gains related to the Everyday Loans acquisition, the underlying business grew by 110%. These results demonstrate a robust performance across the whole business, both organically and inorganically.

Overall the lending operations saw strong controlled growth with total balances ending the year at £297.6m (2011: £154.6m), representing a 92% increase during 2012. Within that, Motor Finance our most mature lending book, grew by 41% to close the year at £89.6m (2011: £63.4m). The business focuses on the near prime market segment and now provides its services to the majority of the Top 100 UK car dealer groups. It was also named Motor Finance Provider of the year by the Institute of Transport Management.

The personal unsecured lending portfolio produced strong growth of 56% closing the year at £68.2m (2011: £43.6m). The bank took significant steps to broaden its distribution capabilities and entered into a number of new introducer relationships including with Shop Direct.

The Retail Point of sale business continued to see good demand from retailers for its online and in store services. The balances at the year end were £64.2m (2011: £42.6m), an increase of 51%. This segment of the lending business has been further developed since the year end by the completion of the acquisition of the V12 Finance Group. It will provide the platform to accelerate future growth.

Our lending business was enhanced by the newly purchased portfolio from Everyday Loans, which was acquired on 8 June 2012. Everyday Loans provide loans to nonstandard borrowers via its network of 26 branches across the UK. At the year end the loan balances stood at £73.8m.

The lending operation has seen significant growth in all of its portfolios and as a result the total level of impairments has risen accordingly. However, the actual risk within the business has been tightly controlled and the losses experienced are less than we had anticipated when originating the loans. This was mainly a result of two factors. Firstly, the lending criteria were tightened at the end of 2011, which had no significant impact on lending volumes in 2012 and secondly all collection activities were migrated onto a single operating platform, making the process more efficient.

The growth in lending has been matched by strong demand for the banks saving products. The balance sheet remains entirely funded by retail deposits with no exposure to wholesale markets. During the year deposit products were offered across all tenors from 90 days to 5 years, roughly matching the funding profile of the asset book. The closing balance of customer deposits at the end of the year was £398.9m (2011: £272.1m), an increase of 47%, giving a loan to deposit ratio of 75%.

As a result of our efforts to broaden our distribution channels, the number of customers on our books has risen by 66% to 231,713 (2011: 145,174).

Finally, during the second half of the year, the business was able to celebrate three notable milestones. Firstly, Secure Trust Bank was the first bank to be awarded a Customer Services Excellence Award (CSE). This award was introduced by the Cabinet Office in 2010 to replace the Kite Mark. Secondly, the CSE award was followed by Secure Trust Bank becoming the only UK bank to be granted a 4 star mark from the Fairbanking Foundation for its current account product. Finally, in December, Secure Trust Bank successfully completed a £20m equity placing which will enable it to exploit new opportunities as they arise.

Financial Review

Arbuthnot Banking Group PLC adopts a pragmatic 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 favourable market opportunities when they arise.

Following the completion of the disposal of the Investment Banking business in January 2012, which is designated as discontinued, the Group provides a range of financial services to customers and clients in its chosen markets of Private Banking (Arbuthnot Latham & Co., Limited) and Retail Banking (Secure Trust Bank PLC). 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 commission earned on the sale of financial instruments and products.

Highlights

Summarised Income Statement

£000	**2012**	**2011**
Net interest income	44,786	27,243
Net fee and commission income	20,769	18,327
Gains less losses from dealing in securities (Group)	-	(112)
Operating income	65,555	45,458
Gain from a bargain purchase	9,830	-
Other income	396	1,120
Gain on sale of subsidiary	839	-
Operating expenses	(53,043)	(34,525)
Impairment losses on financial assets	(10,984)	(6,813)
Fair value movement derivatives	-	(124)
Profit on continuing operations before tax	12,593	5,116
Income tax	(1,128)	(1,817)
Profit on continuing operations after tax	11,465	3,299
Loss from discontinued operations after tax	(347)	(10,249)
Profit / (loss) after tax	11,118	(6,950)
Basic earnings per share (pence)	52.6	(33.3)

Following the transformation of the Group at the end of 2011 the banking businesses have continued to trade robustly during 2012.

Overall the Group has reported a profit before tax on its continuing operations of £12.6m (2011: £5.1m). The Earnings per Share of 52.6p (2011: loss of 33.3p) more than twice covers the proposed full year dividend.

The financial results do contain a number of individually significant items. The "bargain purchase" gain related to the Everyday Loans acquisition was gross £9.8m and net £7.9m after partially amortising the intangible assets and reversing part of the fair value adjustment on the loan book.

The sale of our Swiss Banking operation generated a gain of £0.8m.

Also included in the results are £1.4m of costs related to the acquisitions of Everyday Loans (£0.9m), V12 Finance Group (£0.3m) and Debt Managers (£0.2m).

Finally, the expense base includes costs relating to staff incentive schemes totalling £3.3m which consists of £1.7m to the management of Everyday Loans based on achieving certain targets following the integration of the business and £1.6m related to the Secure Trust Bank executive share option scheme which resulted from the strong growth in the Secure Trust Bank share price during the year.

Balance Sheet Strength

Summarised Balance Sheet

£000	**2012**	**2011**
Assets		
Loans and advances to customers	586,968	392,789
Liquid assets	361,600	350,223
Other assets	51,441	26,304

Total assets	1,000,009	769,316
Liabilities		
Customer deposits	894,545	693,800
Other liabilities	36,816	28,545
Total liabilities	931,361	722,345
Equity	68,648	46,971
Total equity and liabilities	1,000,009	769,316

Total assets of the Group increased by 30% to exceed £1bn for the first time in the Group's history. This growth was again mainly as a result of the performance of the lending businesses which saw customer loans and advances increase by £194.2m. An increase of 49% compared to 2011. The acquisition of Everyday Loans contributed £73.8m to the increase.

This growth was matched by a 29% increase in customer deposits which totalled £894.5m at the year end. The Group remains entirely funded by retail deposits. The loan to deposit ratio at the year end was 65.5% (2011: 56.6%).

Segmental Analysis

The segmental analysis in Note 40 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 & Co., Limited) and Retail Banking (Secure Trust Bank PLC). 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 before any consolidation adjustments to reverse 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	**2012**	**2011**
Net interest income	10,708	10,594
Net fee and commission income	8,187	7,094
Operating income	18,895	17,688
Other income	3,072	2,631
Operating expenses	(17,871)	(16,025)
Impairment losses	(2,038)	(2,336)
Profit before tax	2,058	1,958

The profit before tax increased to £2.1m (2011: £2.0m) as the Private Bank continued to offer its full service banking and advisory product offering.

The financial results do not truly reflect the progress being made by the bank, for two reasons. Firstly, the bank saw a good pipeline of lending opportunities in the first half of the year and as a result raised sufficient retail deposits to fund this lending. At that time rates were being pushed up in the markets, as banks were seeking more retail deposits to comply with the new regulatory liquidity requirements. This caused some margin compression to take place. Following the introduction of the Funding for Lending Scheme ("FLS") the deposit rates have fallen away and we expect the margin compression to reverse during 2013.

Secondly, during the second half of the year the bank took the opportunity to accelerate its growth plans by hiring a number of key executives and private bankers. The cost of this investment was £0.3m in 2012 and annualised will be nearly £1m. The focus of these bankers will be to expand the investment management and advisory business both here in the UK and in overseas markets.

Impairment losses remained above £2m but were lower than the prior year and continue to be below 1% of the customer loan book. The loan book remains well secured and of high credit quality with an overall LTV of 50%.

Gilliat Financial Solutions continued to perform well and increased its revenues by 73% and returned an overall profit of £0.6m (2011: £0.2m). It broadened its coverage of the UK IFA market and completed its first overseas product offering.

£000	**2012**	**2011**
Assets		
Advances	289,337	238,203
Liquid assets	231,209	292,151

Other assets (including Group companies)	48,069	24,581
Total assets	568,615	554,935
Liabilities		
Customer deposits	495,654	421,737
Other liabilities (including Group companies)	48,509	110,854
Total liabilities	544,163	532,591
Equity	24,452	22,344
Total equity and liabilities	568,615	554,935

Total assets increased to £568.6m (2011: 554.9m) with customer lending increasing by 21%. The bank also saw an increase in other assets as it purchased the new group head office – 21 Wilson Street for £15.7m plus acquisition costs (including stamp duty) of £1.1m which is due to be occupied in 2015.

Customer deposits again saw good inflows with balances increasing by 18% as the bank remains funded by retail deposits. Accordingly, the loan to deposit ratio closed the year at 59% (2011: 57%). This ratio remains part of our conservative funding policy, but is below our targeted range for the current stage in the economic cycle.

The Private Bank remains well capitalised with a total capital ratio of 12.4% (2011: 13.3%) and core tier 1 ratio of 9.9% (2011: 10.2%).

Retail Banking – Secure Trust Bank

£000	**2012**	**2011**
Net interest income	34,426	17,227
Net fee and commission income	12,582	11,233
Operating income	47,008	28,460
Other income	9,867	36
Operating expenses	(30,676)	(14,834)
Impairment losses	(8,946)	(4,601)
Profit before tax	17,253	9,061

The reported profit before tax is £17.3m (2011: £9.1m) which represents an increase of 90% during the year. This in itself gives a good indication of the growth of the business, but from a financial perspective there were a number of large items within the results that require explanation.

Firstly, the business benefited from the £9.8m gain from the “bargain purchase” that arose on the acquisition of Everyday Loans. Most of this gain will be reversed over time as intangible assets, that were part of the acquisition, are amortised during the next 3-5 years. During the second half of 2012 the partial reversal of these assets amounted to £1.9m.

Secondly, Secure Trust Bank incurred expenditure on advisors fees and due diligence costs totalling £1.4m on the three acquisitions it completed either during the year or early in 2013. These were £0.9m for Everyday Loans, £0.3m for V12 Finance Group and £0.2m for Debt Managers respectively.

Thirdly, the performance of the Secure Trust Bank share price, which increased from £8.30 to £15.70 during the year, has required the bank to provide £1.6m toward the cost of the executive share option scheme.
Finally, £1.7m of expenses were recognised as part of the incentive plan put in place for the management of Everyday Loans, based in achieving certain performance targets following the integration of the business into the Group.

The growth in the year was again mainly led by the lending business with all key books increasing. This was in line with the strategy of maintaining a diversified portfolio of lending books. The upward trajectory of fee income was maintained as the current account revenues offset the gradual decline in Onebill revenues.

The current account ended the year with 20,962 accounts (2011:17,178) and Onebill stood at 26,154 (2011: 28,698).

£000	**2012**	**2011**
Assets		
Asset finance		
Motor vehicles	89,620	63,376

Cycles	13,938	13,784
Musical instruments	6,700	5,398
Personal computers	26,306	16,972
Pay4Later	16,776	6,454
DFS	469	-
	153,809	105,984
Personal lending	68,175	43,601
EDL	73,806	-
Other lending	1,587	2,520
Acquired portfolios	254	2,480
Liquid assets	130,442	57,897
Other assets (including Group companies)	46,526	95,358
Total assets	474,599	307,840
Liabilities		
Customer deposits	398,891	272,063
Other liabilities (including Group companies)	19,787	11,962
Total liabilities	418,678	284,025
Equity	55,921	23,815
Total equity and liabilities	474,599	307,840

During the year the overall asset finance portfolio increased by 45% as a result of good growth in the motor finance, personal computer and Pay4later portfolios. The personal loan portfolio grew by 56% and the acquired portfolios have been almost entirely collected out.

The acquisition of Everyday Loans increased the customer asset book by £73.8m.

Customer deposit balances increased by 47% to £398.9m (2011: £272.1m) as the bank continued to fund the asset book with retail deposits across its maturity profile.

Group & Other Costs

£000	**2012**	**2011**
Operating Income	122	(63)
Other income	864	-
Group costs	(5,067)	(4,056)
Group head office property costs	(2,168)	(1,164)
Subordinated loan stock interest	(463)	(573)
Total Group & other costs	(7,698)	(5,793)
Loss before tax	(6,712)	(5,856)

The net Group costs increased to £6.7m (2011: £5.9m) as a result of the higher operating and premises cost offset by the gain on the sale from the Swiss Bank.

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 40.

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	**2012**	**2011**
Core Tier 1 capital	68,508	46,831
Tier 1 capital after deductions	61,199	43,270
Tier 2	12,120	12,396
Total capital	73,319	55,666
Core Tier 1 capital ratio (Net Core Tier 1 capital/ Basel 2 RWAs*)	15.5%	16.7%
Total Capital ratio (Capital/ Basel 2 RWAs*)	18.5%	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 £289.3m and £297.6m 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 14 pence per share to be paid on 17 May 2013, giving a total dividend for the year of 25 pence (2011: 24 pence) per share.

Going Concern

After making appropriate enquiries which assessed strategy, profitability, funding, risk management (see Note 6) and capital resources (see Note 7), 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.

Group Directors' Report

The Directors submit their annual report and the audited consolidated financial statements for the year ended 31 December 2012.

Principal Activities and Review

The principal activities of the Group are banking and financial services. A business review in accordance with Section 417 of the Companies Act 2006 forming part of this report is set out on pages 4 to 12.

Results and Dividends

The results for the year are shown on page 1. The profit after tax for the year of £11.1 million (2011: loss after tax of £7 million) is included in reserves.

The Directors recommend the payment of a final dividend of 14 pence on the ordinary shares which, together with the interim dividend of 11 pence paid on 5 October 2012, represents a total dividend for the year of 25 pence (2011: 24 pence). The final dividend, if approved by members at the Annual General Meeting, will be paid on 17 May 2013 to shareholders on the register at close of business on 19 April 2013.

Share Capital

On 10 January 2012 the Company repurchased 5,000 ordinary shares at 328p per share and on 12 January 2012 a further 5,000 ordinary shares at 355p, such shares being held as Treasury Shares.

At the Annual General Meeting shareholders will be asked to approve two Special Resolutions; the authority granted by each of them will expire at the conclusion of the Annual General Meeting in 2014.

The first continues the authority of the Directors to issue shares in nominal value equal to 5% of the existing share capital for cash, otherwise than to existing shareholders pro rata to their holdings. The Directors have no present intention of issuing any shares and will not issue shares which would effectively change the control of the Company without the prior approval of shareholders in General Meeting.

The second renews the authority of the Directors to make market purchases of shares not exceeding 10% of the existing issued share capital. The Directors will keep the position under review in order to maximise the Company's resources in the best interests of shareholders.

Substantial Shareholders

The Company was aware at 19 March 2013 of the following substantial holdings in the ordinary shares of the Company, other than those held by one director shown below:

Holder	Ordinary Shares	%
Prudential plc	697,835	4.6
Mr. R Paston	529,130	3.5

Directors

H Angest	*Chairman & CEO*
J R Cobb	*Finance Director*
J W Fleming	
Ms R J Lea	
P A Lynam	
Sir Christopher Meyer	
A A Salmon	*Chief Operating Officer*
R J J Wickham	*Deputy Chairman*

Apart from Mr. J.W. Fleming who was appointed a director on 1 March 2012, all directors served throughout the year. Mr. D.M. Proctor resigned from the Board on 1 March 2012.

Mr. H. Angest and Sir Christopher Meyer retire under Article 78 of the Articles of Association and, being eligible, offer themselves for re-election. Mr. Angest has a service agreement terminable on twelve months' notice. Sir Christopher Meyer does not have a service agreement.

According to the information kept under Section 3 of the Disclosure and Transparency Rules 2006, the interests of directors and their families in the ordinary 1p shares of the Company at the dates shown were, and the percentage of the current issued share capital held is, as follows:

Beneficial Interests	1 January 2012	31 December 2012	19 March 2013	%
H Angest	8,186,901	8,186,901	8,186,901	53.6
J W Fleming	-	4,500	4,500	-
P A Lynam	10,000	10,000	10,000	0.1
A A Salmon	51,699	51,699	51,699	0.3
R J J Wickham	3,600	3,600	3,600	-

At the year end Mr. Lynam held 8,800 and Mr. Salmon 7,500 ordinary 40p shares in Secure Trust Bank PLC, a 70.7% subsidiary of the Company.

On 21 May 2008 Mr. Salmon was granted an option to subscribe between May 2011 and May 2015 for 100,000 ordinary 1p shares in the Company at 337.5p.

On 5 November 2008 Mr. Cobb was granted an option to subscribe between November 2011 and November 2015 for 50,000 ordinary 1p shares in the Company at 320p.

Dr. Turrell, a former director of the Company, had an option to subscribe for 50,000 ordinary 1p shares at 380p exercisable until 31 December 2012 which was exercised on 29 October 2012 and satisfied by a payment of £132,500.

On 2 November 2011 Mr. Lynam and Mr. Salmon were each granted options 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.

Apart from the interests disclosed above, no director was interested at any time in the year in the share capital of Group companies.

No director, either during or at the end of the financial year, was materially interested in any contract with the Company or any of its subsidiaries, which was significant in relation to the Group's business. At 31 December 2012 one director had a loan from Arbuthnot Latham & Co., Limited amounting to £2,647,000, on normal commercial terms as disclosed in note 39 to the financial statements. At 31 December 2012 two directors had deposits with Secure Trust Bank PLC amounting to £217,000 and three directors had deposits with Arbuthnot Latham & Co., Limited amounting to £1,550,000, all on normal commercial terms as disclosed in note 39 to the financial statements.

The Company maintains insurance to provide liability cover for directors and officers of the Company.

Board Committees

The report of the Remuneration Committee on pages 19 to 20 will be the subject of an Ordinary Resolution at the Annual General Meeting.

Information on the Audit, Nomination, Risk and Donations Committees is included in the Corporate Governance section of the Annual Report on page 16 to 18.

Employees

The Company gives due consideration to the employment of disabled persons and is an equal opportunities employer. It also regularly provides employees with information on matters of concern to them, consults on decisions likely to affect their interests and encourages their involvement in the performance of the Company through share participation and in other ways.

Supplier Payment Policy

The Company's policy is to make payment in line with terms agreed with individual suppliers, payment being effected on average within 30 days of invoice.

Forbearance

The Group has always looked to support customers who are in financial difficulty. We seek to engage in early communication with borrowers experiencing difficulty in meeting their repayments, to obtain their commitment to maintaining or re-establishing their contractual payment plan. We consider forbearance options on a case by case basis in line with best practice and they are subject to regular monitoring and review.

Charitable Donations

The Company made charitable donations of £83,000 during the year (2011: £71,000).

Political Donations
The Company made a political donation of £50,000 to the Conservative Party during the year (2011: political donations £35,000).

Status
The Company is not a close company as defined in the Income and Corporation Taxes Act 1988.

Auditors
A resolution to reappoint KPMG Audit Plc as auditors of the Company will be proposed at the forthcoming Annual General Meeting at a fee to be agreed in due course by the Directors.

The Directors have disclosed to the auditors to the best of their knowledge and belief all relevant information necessary to assist the auditors in the preparation of their report.

Corporate Governance

AIM companies are not required to comply with The Combined Code. Nevertheless, the Board endorses the principles of openness, integrity and accountability which underlie good corporate governance and intends to take into account the provisions of The Combined Code in so far as they are appropriate to the Group's size and circumstances. Moreover, the Group contains subsidiaries authorised to undertake regulated business under the Financial Services and Markets Act 2000 and regulated by the Financial Services Authority, including two which are authorised deposit taking businesses. Accordingly, the Group operates to the high standards of corporate accountability and regulatory compliance appropriate for such businesses.

Directors

The Group is led and controlled by an effective Board which comprises five executive directors and three non-executive directors.

The senior independent non-executive director is Robert Wickham, who in addition is Deputy Chairman. Although Mr. Wickham has served on the Board for nineteen years from the date of his first election, he displays independence in both character and judgement and there are no other relationships or circumstances which could affect his judgement. Accordingly, the Board considers him to be independent.

The Board

The Board meets regularly throughout the year. Substantive agenda items have briefing papers, which are circulated in a timely manner before each meeting. The Board is satisfied that it is supplied with all the information that it requires and requests, in a form and of a quality to enable it to discharge its duties. In addition to ongoing matters concerning the strategy and management of the Company and of the Group, the Board has determined certain items which are reserved for decision by itself. These matters include the acquisition and disposal of other than minor businesses, the issue of capital by any Group company and any transaction by a subsidiary company that cannot be made within its own resources, or that is not in the normal course of its business.

The Company Secretary is responsible for ensuring that Board processes and procedures are appropriately followed and support effective decision making. All directors have access to the Company Secretary's advice and services and there is an agreed procedure for directors to obtain independent professional advice in the course of their duties, if necessary, at the Company's expense.

The Board has delegated certain of its responsibilities to Committees. All Committees have written terms of reference.

Audit Committee

Membership of the Audit Committee is limited to non-executive directors and comprises Ruth Lea (as Chairman), Sir Christopher Meyer and Robert Wickham.

The Audit Committee provides a forum for discussing with the Group's external auditors their report on the annual accounts, reviewing the scope, results and effectiveness of the internal audit work programme and considering any other matters which might have a financial impact on the Company, including the Group's arrangements by which staff may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters. The Audit Committee's responsibilities include reviewing the Group's system of internal control and the process for evaluating and monitoring risk. The Committee also reviews the appointment, terms of engagement and objectivity of the external auditors, including the level of non-audit services provided, and ensures that there is an appropriate audit relationship.

Remuneration Committee

Information on the Remuneration Committee and details of the Directors' remuneration are set out in the separate Remuneration Report.

Nomination Committee

The Nomination Committee is chaired by Henry Angest and its other members are Robert Wickham and Ruth Lea. Before a Board appointment is made the skills, knowledge and experience required for a particular appointment are evaluated.

Risk Committee

The Risk Committee is chaired by Henry Angest and its other members are James Cobb, James Fleming, John Reed (non-executive of Arbuthnot Latham), Andrew Salmon and Robert Wickham. The role of the Risk Committee is to approve specific risk policies for Group subsidiaries and significant individual credit or other exposures.

Donations Committee

The Donations Committee is chaired by Henry Angest and its other members are Robert Wickham and Ruth Lea. The Committee considers any political donation or expenditure as defined within the Political Parties, Elections and Referendums Act 2000.

Shareholder Communications

The Company maintains a regular dialogue with its shareholders and makes full use of the Annual General Meeting and any other General Meetings to communicate with investors.

The Company aims to present a balanced and understandable assessment in all its reports to shareholders, its regulators and the wider public. Key announcements and other information can be found at: www.arbuthnotgroup.com.

Internal Control and Financial Reporting

The Board of directors has overall responsibility for the Group's system of internal control and for reviewing its effectiveness. Such a system is designed to manage rather than eliminate risk of failure to achieve business objectives and can only provide reasonable but not absolute assurance against the risk of material misstatement or loss.

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 control. 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 well-established 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 effectiveness of the internal control system is reviewed regularly by the Board and the Audit Committee, which also receives reports of reviews undertaken by the internal audit function which was outsourced to Ernst & Young. The Audit Committee also receives reports from the external auditors, KPMG Audit Plc, which include details of internal control matters that they have identified. Certain aspects of the system of internal control are also subject to regulatory supervision, the results of which are monitored closely by the Board.

Going Concern

After making appropriate enquiries which assessed strategy, profitability, funding and capital resources, 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.

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations. Company law requires the Directors to prepare Group and Parent Company financial statements for each financial year. As required by the AIM Rules of the London Stock Exchange they are required to prepare the Group financial statements in accordance with IFRSs as adopted by the EU and applicable law and have elected to prepare the Parent Company financial statements on the same basis.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Parent Company and of their profit or loss for that period. In preparing each of the Group and Parent Company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;

- make judgments and estimates that are reasonable and prudent;

- state whether they have been prepared in accordance with IFRSs as adopted by the EU; and

- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Parent Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the Parent Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Statement of Disclosure of Information to Auditors

The Directors confirm that:

- so far as each director is aware, there is no relevant audit information of which the Company's auditors are unaware; and

- the Directors have taken all the steps they ought to have taken as directors to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Remuneration Report

Remuneration Committee

Membership of the Remuneration Committee is limited to non–executive directors together with Henry Angest as Chairman. The present members of the Committee are Henry Angest, Robert Wickham and Ruth Lea.

The Committee has responsibility for producing recommendations on the overall remuneration policy for directors and for setting the remuneration of individual directors, both for review by the Board. Members of the Committee do not vote on their own remuneration.

Remuneration Policy

The Remuneration Committee determines the remuneration of individual directors having regard to the size and nature of the business; the importance of attracting, retaining and motivating management of the appropriate calibre without paying more than is necessary for this purpose; remuneration data for comparable positions; the need to align the interests of executives with those of shareholders; and an appropriate balance between current remuneration and longer term performance–related rewards. The remuneration package can comprise a combination of basic annual salary and benefits (including pension), a discretionary annual bonus award related to the Committee's assessment of the contribution made by the executive during the year and longer term incentives, including executive share options. Pension benefits take the form of annual contributions paid by the Company to individual money purchase schemes. The Remuneration Committee reviews salary levels each year based on the performance of the Group during the preceding financial period. This review does not necessarily lead to increases in salary levels. During 2011 the Group implemented all the provisions required under the FSA Remuneration Code. Accordingly the Group and its subsidiaries are all considered to be Tier 3 institutions.

Directors' Service Contracts

Henry Angest, James Fleming, Paul Lynam and Andrew Salmon each have service contracts terminable at any time on 12 months' notice in writing by either party. James Cobb has a service contract terminable at any time on 6 months' notice in writing by either party.

Share Option and Long Term Incentive Schemes

This part of the remuneration report is audited information.

In May 2005, the Company extended its Unapproved Executive Share Option Scheme for a further period of 10 years.

The Company has an ESOP ("the Arbuthnot ESOP Trust") under which trustees may purchase shares in the Company to satisfy the exercise of share options by employees including executive directors.

At the date of this remuneration report, the only outstanding options to directors under the Unapproved Executive Share Option Scheme are those in relation to 100,000 shares for Andrew Salmon and 50,000 shares for James Cobb. 150,500 shares are held in the Arbuthnot ESOP Trust.

Under the Unapproved Executive Share Option Scheme of the Company's subsidiary, Secure Trust Bank PLC, established in November 2011, Paul Lynam and Andrew Salmon were each granted options over 283,333 shares in that company.

Directors' Emoluments

This part of the remuneration report is audited information.

	2012	**2011**
	£000	**£000**
Fees (including benefits in kind)	215	180
Salary payments (including benefits in kind)	3,027	2,808
Loss of office	-	100
Pension contributions	137	160
	3,379	**3,248**

	Salary £000	Bonus* £000	Benefits £000	Pension £000	Fees £000	Total 2012 £000	Total 2011 £000
H Angest	475	-	44	-	-	519	415
JR Cobb	235	150	16	35	-	436	377
JW Fleming (from 01/03/12)	192	225	12	29	-	458	-
NW Kirton (to 29/12/11)	-	-	-	-	-	-	358
PA Lynam	413	400	22	35	-	870	685
DM Proctor (to 01/03/12)	42	-	4	3	-	49	258
AA Salmon	475	300	22	35	-	832	672
AD Turrell (to 31/12/11)	-	-	-	-	-	-	303
Ms RJ Lea	-	-	-	-	120	120	85
Sir Christopher Meyer	-	-	-	-	45	45	45
RJJW Wickham	-	-	-	-	50	50	50
	1,832	**1,075**	**120**	**137**	**215**	**3,379**	**3,248**

*These bonus awards are at this time indicative. The Remuneration committee, at its meeting on 13 December 2012, placed certain conditions which require final approval by the committee prior to the award becoming unconditional and payable. This is anticipated to take place in the second quarter of 2013.

Details of any shares or options held by directors are presented on page 14.

The emoluments of the Chairman were £519,000 (2011: £415,000). The emoluments of the highest paid director were £870,000 (2011: £685,000) including pension contributions of £35,000 (2011: £nil).

Mr. R J J Wickham is a director of Calando Finance Limited which received an annual fee of £50,000 (2011: £50,000) in respect of his services to the Group.

These amounts are included in the table above.

Retirement benefits are accruing under money purchase schemes for six directors who served during 2012 (2011: five directors).

Independent Auditor's Report

We have audited the financial statements of Arbuthnot Banking Group PLC for the year ended 31 December 2012 set out on pages 23 to 81. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU and, as regards the Parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

In addition to our audit of the financial statements, the directors have engaged us to audit the information in the Directors' Remuneration Report that is described as having been audited, which the directors have decided to prepare (in addition to that required to be prepared) as if the Company were required to comply with the requirements of Schedule 8 to The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI 2008 No. 410) made under the Companies Act 2006.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and, in respect of the separate opinion in relation to the Directors' Remuneration Report and reporting on corporate governance, on terms that have been agreed. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and, in respect of the separate opinion in relation to the Directors' Remuneration Report, those matters that we have agreed to state to them in our report, and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 18, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion:

• the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2012 and of the Group's profit for the year then ended;

• the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the EU;

• the Parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and

• the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006 and under the terms of our engagement

In our opinion:

• the part of the Directors' Remuneration Report which we were engaged to audit has been properly prepared in accordance with Schedule 8 to the Companies Act 2006 The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, as if those requirements were to apply to the Company; and

• the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the Companies Act 2006 and under the terms of our engagement we are required to report to you if, in our opinion:

• adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or

• the parent company financial statements and the part of the Directors' Remuneration Report which we were engaged to audit are not in agreement with the accounting records and returns; or

• certain disclosures of directors' remuneration specified by law are not made; or

• we have not received all the information and explanations we require for our audit.

Company statement of financial position

	Note	At 31 December 2012 £000	At 31 December 2011 £000
ASSETS			
Due from subsidiary undertakings - bank balances		-	13,329
Financial investments	25	413	218
Deferred tax asset		447	538
Intangible assets	27	20	28
Property, plant and equipment	28	134	127
Other assets	24	5,662	12,156
Investment in subsidiary undertakings	40	30,847	25,233
Total assets		**37,523**	**51,629**
EQUITY AND LIABILITIES			
Equity			
Share capital	34	153	153
Share premium account	34	-	21,085
Other reserves	35	(1,030)	(1,077)
Retained earnings	35	20,768	8,517
Total equity		**19,891**	**28,678**
LIABILITIES			
Due to subsidiary undertakings - bank balances		100	-
Other liabilities	31	5,552	10,695
Debt securities in issue	32	11,980	12,256
Total liabilities		**17,632**	**22,951**
Total equity and liabilities		**37,523**	**51,629**

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 £000	Share premium account £000	Foreign currency translation reserve £000	Revaluation reserve £000	Capital redemption reserve £000	Available-for-sale reserve £000	Cash flow hedging reserve £000	Treasury shares £000	Retained earnings £000	Non-controlling interests £000	Total £000
Balance at 1 January 2012	**153**	**21,085**	**(570)**	**140**	**20**	**-**	**(329)**	**(1,097)**	**21,571**	**5,998**	**46,971**
Total comprehensive income for the period											
Profit for 2012	-	-	-	-	-	-	-	-	8,041	3,077	11,118
Other comprehensive income, net of income tax											
Foreign currency translation reserve	-	-	570	-	-	-	-	-	-	-	570
Revaluation reserve											
Cash flow hedging reserve - Effective portion of changes in fair value	-	-	-	-	-	-	(34)	-	-	-	(34)
Available-for-sale reserve	-	-	-	-	-	81	-	-	-	-	81
Total other comprehensive income	**-**	**-**	**570**	**-**	**-**	**81**	**(34)**	**-**	**-**	**-**	**617**
Total comprehensive income	**-**	**-**	**570**	**-**	**-**	**81**	**(34)**	**-**	**8,041**	**3,077**	**11,735**

for the period											
Transactions with owners, recorded directly in equity											
Contributions by and distributions to owners											
Cancellation of share premium	-	(21,085)	-	-	-	-	-	-	21,085	-	-
Purchase of own shares	-	-	-	-	-	-	-	(34)	-	-	(34)
Credit for share based payments	-	-	-	-	-	-	-	-	-	(70)	(70)
Share Placing Secure Trust Bank	-	-	-	-	-	-	-	-	6,881	7,371	14,252
Final dividend relating to 2011	-	-	-	-	-	-	-	-	(2,082)	-	(2,082)
Interim dividend relating to 2012	-	-	-	-	-	-	-	-	(2,124)	-	(2,124)
Total contributions by and distributions to owners	**-**	**(21,085)**	**-**	**-**	**-**	**-**	**-**	**(34)**	**23,760**	**7,301**	**9,942**
Balance at 31 December 2012	**153**	**-**	**-**	**140**	**20**	**81**	**(363)**	**(1,131)**	**53,372**	**16,376**	**68,648**

	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)
- Net 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**

Company statement of changes in equity

	Attributable to equity holders of the Company						
	Share capital	Share premium account	Capital redemption reserve	Available -for-sale reserve	Treasury shares	Retained earnings	Total
	£000	£000	£000	£000	£000	£000	£000
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	-	-	-	-	-	(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**	**-**	**-**	**-**	**-**	**(2,460)**	**(2,457)**
Balance at 1 January 2012	**153**	**21,085**	**20**	**-**	**(1,097)**	**8,517**	**28,678**
Total comprehensive income for the period							
Loss for 2012	-	-	-	-	-	(5,260)	(5,260)
Other comprehensive income, net of income tax							
Available-for-sale reserve	-	-	-	**81**	-	-	81
Total other comprehensive income	**-**	**-**	**-**	**81**	**-**	**-**	**81**
Total comprehensive income for the period	**-**	**-**	**-**	**81**	**-**	**(5,260)**	**(5,179)**
Transactions with owners, recorded directly in equity							
Contributions by and distributions to owners							
Transfer of share premium	-	(21,085)	-	-	-	21,085	-
Purchase of own shares	-	-	-	-	(34)	-	(34)
Final dividend relating to 2011	-	-	-	-	-	(1,936)	(1,936)
Interim dividend relating to 2012	-	-	-	-	-	(1,638)	(1,638)
Total contributions by and distributions to owners	**-**	**(21,085)**	**-**	**-**	**(34)**	**17,511**	**(3,608)**
Balance at 31 December 2012	**153**	**-**	**20**	**81**	**(1,131)**	**20,768**	**19,891**

Consolidated statement of cash flows

	Note	Year ended 31 December 2012 £000	Year ended 31 December 2011 £000
Cash flows from operating activities			
Interest received		61,957	39,337
Interest paid		(13,405)	(11,494)

Fees and commissions received		20,769	24,837
Net trading and other income		11,065	1,263
Cash payments to employees and suppliers		(64,182)	(59,287)
Taxation (paid)/received		(4,083)	101
Cash flows from operating profits/(losses) before changes in operating assets and liabilities		12,121	(5,243)
Changes in operating assets and liabilities:			
- net decrease in trading securities		-	2,457
- net decrease/(increase) in derivative financial instruments		765	(1,135)
- net increase in loans and advances to customers		(132,312)	(94,655)
- net decrease in other assets		3,616	5,629
- net increase/(decrease) in deposits from banks		365	(3,698)
- net increase in amounts due to customers		200,745	190,543
- net increase in other liabilities		5,096	6,651
Net cash inflow from operating activities		**90,396**	**100,549**
Cash flows from investing activities			
Borrowings repaid on acquisition of subsidiary undertaking		(71,618)	-
Cash acquired on purchase of subsidiary undertaking		991	-
Acquisition of financial investments		(93)	(113)
Disposal of financial investments		-	1,740
Purchase of computer software	27	(662)	(1,004)
Purchase of property, plant and equipment	28	(17,661)	(205)
Proceeds from sale of property, plant and equipment		12	33
Purchases of debt securities		(51,523)	(174,337)
Proceeds from redemption of debt securities		78,076	277,441
Net cash from investing activities		**(62,478)**	**103,555**
Cash flows from financing activities			
Purchase of treasury shares		(34)	-
Dividends paid		(4,206)	(2,457)
Proceeds from sale and issue of Secure Trust Bank shares		-	22,645
Proceeds from share placing Secure Trust Bank		14,252	-
Net cash used in financing activities		**10,012**	**20,188**
Net increase in cash and cash equivalents		37,930	224,292
Cash and cash equivalents at 1 January		310,144	85,852
Cash and cash equivalents at 31 December	38	**348,074**	**310,144**

Company statement of cash flows

	Note	Year ended 31 December 2012 £000	Year ended 31 December 2011 £000
Cash flows from operating activities			
Dividends received from subsidiaries		1,947	8,500
Interest received		278	283
Interest paid		(631)	(820)
Net trading and other income		1,075	13,734
Cash payments to employees and suppliers		(8,298)	(9,037)
Taxation received		(7)	958
Cash flows from operating (losses)/profits before changes in operating assets and liabilities		(5,636)	13,618
Changes in operating assets and liabilities:			
- net decrease/(increase) in group company balances		1,061	(4,140)
- net (increase)/decrease in other assets		(357)	1,211
- net (decrease)/increase in other liabilities		(3,762)	3,826
Net cash (outflow)/inflow from operating activities		**(8,694)**	**14,515**

Cash flows from investing activities			
Increase in loans to subsidiary companies		(2,000)	(2,000)
Repayment of loans to subsidiary companies		6,500	750
Increase investment in subsidiary		(6,000)	(1,800)
Disposal of share in subsidiaries, net of cash and cash equivalents disposed		386	1,897
Purchase of property, plant and equipment	28	(13)	(46)
Net cash from investing activities		**(1,127)**	**(1,199)**
Cash flows from financing activities			
Purchase of treasury shares		(34)	-
Dividends paid		(3,574)	(2,457)
Net cash used in financing activities		**(3,608)**	**(2,457)**
Net (decrease)/increase in cash and cash equivalents		(13,429)	10,859
Cash and cash equivalents at 1 January		13,329	2,470
Cash and cash equivalents at 31 December		**(100)**	**13,329**

Notes to the Consolidated Financial Statements

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 2012 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.

2. Basis of presentation

(a) Statement of compliance

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.

The consolidated financial statements were authorised for issue by the Board of Directors on 20 March 2013.

(b) Basis of measurement

The consolidated financial statements 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.

(c) 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.

(d) Use of estimates and judgements

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 4.

(e) Accounting developments

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. This change did not have any material impact on the financial statements.

(f) Going concern

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 is 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.

3. Significant accounting policies

The 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.

3.1. 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 Statement of Comprehensive Income.

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.

3.2. 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

3.3. Foreign currency translation
(a) 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 Statement of Comprehensive Income.

(b) 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 Statement of Financial Position presented are translated at the closing rate at the date of that Statement of Financial Position;

• income and expenses for each Statement of Comprehensive Income 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 Statement of Comprehensive Income 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.

3.4. 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.

3.5. 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.

3.6. 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.

3.7. 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 Statement of Financial Position 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 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.

3.8. 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 Statement of Financial Position 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.

3.9. Offsetting financial instruments
Financial assets and liabilities are offset and the net amount reported in the Statement of Financial Position 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.

3.10. 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 Statement of Comprehensive Income. 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 Statement of Comprehensive Income.

(b) Assets classified as available for sale
The Group assesses at each Statement of Financial Position 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 Statement of Comprehensive Income. Impairment losses recognised in the Statement of Comprehensive Income on equity instruments are not reversed through the Statement of Comprehensive Income.

(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.

3.11. 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; 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 (2011: 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 2015 as per the approved 3 year plan. A growth rate of 5% (2011: 5%) was used for income and 4% (2011: 4%) for expenditure from 2013 to 2015 (these rates were the best estimate of future forecasted performance), while a 4% (2011: 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 (2011: 5 years). Income and expenditure were kept flat (2011: 0%) over the 5 year period.

Cash flows were discounted at a pre-tax rate of 12% (2011: 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.

3.12. 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 Statement of Comprehensive Income. 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.

3.13. 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 Statement of Comprehensive Income on a straight line basis over the term of the lease.

3.14. Cash and cash equivalents

For the purposes of the Statement of Cash Flows, 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.

3.15. 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 36, 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 36. 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.

In accordance with IFRS2, the valuation technique adopted by the company in calculating the fair value of the share options includes a number of inputs including: the exercise price of the option, the current share price, the expected life of the option, the expected volatility, the expected dividend yield, a risk-free interest rate and, incorporates an assessment of the probability of pay out.

The fair value of the liability is remeasured at each reporting date and at each settlement date and is recognised on a straight line basis over the vesting period.

3.16. 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.

3.17. 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 1.6. 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.

3.18. 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.

3.19. 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.

3.20. 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.

3.21. 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.

3.22. New standards and interpretations not yet adopted

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 2013 or later periods, but the Group has not early adopted them:

• IAS 1 (Revised), 'Presentation of Financial Statements – Presentation of items of other comprehensive income' (effective 1 July 2012). The revised standard require the split of other comprehensive income between items which may subsequently be reclassified to profit or loss and items that will not be reclassified to profit or loss.

• 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.*

** - This standard has not yet been endorsed by the EU.*

4. 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.

4.1 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 3.10. 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 Statement of Comprehensive Income, 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.

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 (where held), in determining the expected future cash flows.

In assessing collective impairment the Group uses historical trends of the probability of default, the timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be significantly different to historic trends.

To the extent that the default rates differ from that estimated by 10%, the allowance for impairment on loans and advances would change by an estimated £1.6 million.

4.2 Goodwill impairment

The accounting policy for goodwill is described in note 3.11 (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.

4.3 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 and deferred tax expense in the year in which the determination is made.

4.4 Acquisition accounting

The Group recognises identifiable assets and liabilities at their acquisition date fair values. The exercise of attributing a fair value to the balance sheet of the acquired entity requires the use of a number of assumptions and estimates, which are documented at the time of the acquisition. These fair value adjustments are determined from the estimated future cash flows generated by the assets.

Loans and advances to customers
The methodology of attributing a fair value to the loans and advances to customers involves discounting the estimated future cashflows after impairment losses, using a risk adjusted discount factor. A fair value adjustment is then applied to the carrying value in the acquiree's balance sheet.

Intangible assets
Identifying the separately identifiable intangible assets of an acquired company is subjective and based upon discussions with management and a review of relevant documentation. During the year the acquisition of Everyday Loans indicated that there were four separately identifiable intangible assets which met the criteria for separation from goodwill, these being Trademarks, Customer Relationships, Broker Relationships and Technology.

Trademarks are valued by estimating the fair value of the estimated costs savings resulting from the ownership of trade names as opposed to licensing them. Customer Relationships are valued through the application of a discounted cashflow methodology to net anticipated renewal revenues. The valuation of Broker Relationships are derived from a costs avoided methodology, by reviewing costs incurred on non-broker platforms versus costs which are incurred in broker commission. Technology is valued by the market derived royalty rate applied to the related cash flows to arrive at estimated savings resulting from the use of the acquired credit decisioning technology.

4.5 Average life of lending

IAS 39 requires interest earned from lending to be measured under the effective interest rate method. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset.

Management must therefore use judgement to estimate the expected life of each instrument and hence the expected cash flows relating to it. The accuracy of the effective interest rate would therefore be affected by unexpected market movements resulting in altered customer behaviour, inaccuracies in the models used compared to actual outcomes and incorrect assumptions.

4.6 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".

4.7 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 2012	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Derivative financial instruments	-	648	-	648
Financial investments	489	-	2,768	3,257
Asset	**489**	**648**	**2,768**	**3,905**
Derivative financial instruments	-	462	-	462
Liability	**-**	**462**	**-**	**462**

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
Asset	**330**	**951**	**2,746**	**4,027**

4.8 Share option scheme valuation

The cost of the cash settled share option scheme is determined by reference to a range of factors aimed at estimating the fair value of the liability at the balance sheet date. In deriving that fair value, the Directors have also considered the probability of the options vesting. In the opinion of the Directors the terms of the scheme are such that there remain a number of key uncertainties to be considered when calculating the probability of pay out, which are set out below.

Much of the bank's lending is in the near and sub-prime categories, with performance of the book heavily influenced by employment trends. The UK economy remains fragile, with stagnant growth, high street closures and a triple dip recession a realistic possibility. The impact of a further downturn would be increasing unemployment, potentially causing impairments to rise and new business levels to fall, thereby affecting the bank's ability to sustain the levels of dividend growth required under the terms of the scheme. Depending on the product type, market and, customer demographics, the banks current product range includes expected lifetime losses of between 1% and 20%.

Uncertainties in the regulatory environment continue, with pressure on the government to further constrain the activities of banks following the well reported catalogue of recent issues in the industry. Further uncertainty exists with the forthcoming demise of the FSA and the likely additional scrutiny following its replacement, with effect from 1 April, by the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA). Any tightening of capital requirements will impact on the ability of the company to exploit future market opportunities and, furthermore, may inhibit its ability to maintain the required growth in distributions.

One participant in the share option scheme left the Company during year and was consequently withdrawn from the scheme. The Directors consider that there is further uncertainty surrounding whether the remaining participants will all still be in situ and eligible at the vesting date.

Having taken all of the above risk factors into account, the Directors are of the opinion that there is currently only a probability of 45% that all the options will vest on the respective exercise dates. A change in the probability percentage of 10% would result in a £269,000 movement in the charge for the year.

In establishing an estimated share price at the vesting dates, an average market consensus valuation has been taken, by reference to a number of share investment research agencies. The average valuations were determined as £15.61 per share as at 31 December 2012 and £15.56 per share for 2014 and 2016 respectively. The highest and lowest estimates were within 10% of these average prices.

5. Maturity analysis of assets and liabilities

The table below shows the maturity analysis of assets and liabilities of the Group as at 31 December 2012:

At 31 December 2012	Due within one year £000	Due after more than one year £000	Total £000
ASSETS			
Cash	203,683	-	203,683
Loans and advances to banks	144,391	-	144,391
Debt securities held-to-maturity	13,526	-	13,526
Derivative financial instruments	623	25	648
Loans and advances to customers	347,460	239,508	586,968
Other assets	9,080	2,586	11,666
Financial investments	-	3,257	3,257
Deferred tax asset	-	5,057	5,057
Intangible assets	-	8,326	8,326
Property, plant and equipment	100	22,387	22,487
Total assets	**718,863**	**281,146**	**1,000,009**
LIABILITIES			
Deposits from banks	373	-	373
Derivative financial instruments	462	-	462
Deposits from customers	749,672	144,873	894,545
Current tax liability	346	-	346
Other liabilities	18,416	4,605	23,021
Deferred tax liability	-	634	634
Debt securities in issue	-	11,980	11,980
Total liabilities	**769,269**	**162,092**	**931,361**

The table below shows the maturity analysis of assets and liabilities of the Group 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
Loans and advances to banks	66,961	-	66,961
Debt securities held-to-maturity	30,573	9,506	40,079
Assets classified as held for sale	3,674	-	3,674
Derivative financial instruments	892	59	951
Loans and advances to customers	257,033	135,756	392,789
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 of the Company as at 31 December 2012:

At 31 December 2012	Due within one year £000	Due after more than one year £000	Total £000
ASSETS			
Financial investments	-	413	413
Deferred tax asset	421	26	447
Intangible assets	-	20	20
Property, plant and equipment	-	134	134
Other assets	812	4,850	5,662
Shares in subsidiary undertakings	-	30,847	30,847
Total assets	**1,233**	**36,290**	**37,523**
LIABILITIES			
Due to subsidiary undertakings - bank balances	100	-	100
Other liabilities	5,552	-	5,552
Debt securities in issue	-	11,980	11,980
Total liabilities	**5,652**	**11,980**	**17,632**

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

At 31 December 2011	Due within one year £000	Due after more than one year £000	Total £000
ASSETS			
Due from subsidiary undertakings - bank balances	13,329	-	13,329
Financial investments	-	218	218

Deferred tax asset	425	113	538
Intangible assets	-	28	28
Property, plant and equipment	-	127	127
Other assets	3,156	9,000	12,156
Shares in subsidiary undertakings	-	25,233	25,233
Total assets	**16,910**	**34,719**	**51,629**
LIABILITIES			
Other liabilities	10,695	-	10,695
Debt securities in issue	-	12,256	12,256
Total liabilities	**10,695**	**12,256**	**22,951**

6. 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:

	2012	2011
	£000	£000
Credit risk exposures relating to on-balance sheet assets are as follows:		
Cash	203,683	243,183
Loans and advances to banks	144,391	66,961
Debt securities held-to-maturity	13,526	40,079
Derivative financial instruments	648	951
Loans and advances to customers - Arbuthnot Latham	289,337	238,204
Loan and advances to customers - Secure Trust Bank	297,631	154,585
Financial investments	3,257	3,076
Other assets	3,393	3,108
Credit risk exposures relating to off-balance sheet assets are as follows:		
Guarantees	879	803
Loan commitments and other credit related liabilities	21,491	21,841
At 31 December	**978,236**	**772,791**

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

	2012	2011
	£000	£000
Credit risk exposures relating to on-balance sheet assets are as follows:		
Due from subsidiary undertakings - bank balances	-	13,329
Financial investments	413	218
Other assets	5,309	11,938
Credit risk exposures relating to off-balance sheet assets are as follows:		
Guarantees	2,500	2,500
At 31 December	**8,222**	**27,985**

The above table represents the maximum credit risk exposure (net of impairment) to the Group and Company at 31 December 2012 and 2011 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 Statement of Financial Position.

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

	31 December 2012		31 December 2011	
	Loan Balance	Collateral	Loan Balance	Collateral
Loan to value	£000	£000	£000	£000
Less than 60%	144,250	344,543	105,907	309,328
60% - 80%	82,462	121,832	62,259	89,972
80% - 100%	21,407	25,463	21,013	23,572
Greater than 100%	25,000	19,433	25,551	21,596
Total	**273,119**	**511,271**	**214,730**	**444,468**

Forbearance

Arbuthnot Latham and Secure Trust Bank do not reschedule contractual arrangements where customers default on their repayments. Under its Treating Customers Fairly (TCF) policies however, the company may offer the customer the option to reduce or defer payments for a short period. If the request is granted, the account continues to be monitored in accordance with the Group's impairment provisioning policy. Such debts retain the customer's normal contractual payment due dates and will be treated the same as any other defaulting cases for impairment purposes. Arrears tracking will continue on the account with any impairment charge being based on the original contractual due dates for all products.

In June 2012, the Group acquired Everyday Loans whose policy on forbearance is that a customers' account may be modified to assist customers who are in or, have recently overcome, financial difficulties and have demonstrated both the ability and willingness to meet the current or modified loan contractual payments. These may be modified by way of a reschedule or deferment of repayments. Rescheduling of debts retains the customers contractual due dates, whilst the deferment of repayments extends the payment schedule up to a maximum of four payments in a 12 month period. As at 31 December 2012 the gross balance of rescheduled loans included in the consolidated statement of financial position was £12.3 million, with an allowance for impairment on these loans of £1.2 million. The gross balance of deferred loans was £2.9 million with an allowance for impairment on these of £0.4 million.

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 Statement of Financial Position either as available-for-sale or at fair value through the profit and loss. 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 25), a stress test scenario of a 10% (2011: 10%) decline in market prices, with all other things being equal, would result in a £17,000 (2011: £22,000) decrease in the Group's income and a decrease of £255,000 (2011: £272,000) 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 25, a stress test scenario of a 10% (2011: 10%) decline in market prices, with all other things being equal, would result in a £17,000 (2011: £22,000) decrease in the Company's income and a decrease of £13,000 (2011: £16,000) 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 2012. Included in the table below are the Group's assets and liabilities at carrying amounts, categorised by currency.

	GBP (£)	USD ($)	Euro (€)	Other	Total
At 31 December 2012	£000	£000	£000	£000	£000
ASSETS					
Cash	203,638	16	27	2	203,683
Loans and advances to banks	132,202	9,713	738	1,738	144,391
Debt securities held-to-maturity	13,526	-	-	-	13,526
Derivative financial instruments	648	-	-	-	648

Loans and advances to customers	541,745	4,236	40,985	2	586,968
Other assets	11,604	62	-	-	11,666
Financial investments	515	-	2,742	-	3,257
	903,878	**14,027**	**44,492**	**1,742**	**964,139**
LIABILITIES					
Deposits from banks	373	-	-	-	373
Derivative financial instruments	462	-	-	-	462
Deposits from customers	861,329	14,469	17,019	1,728	894,545
Other liabilities	23,021	-	-	-	23,021
Debt securities in issue	-	-	11,980	-	11,980
	885,185	**14,469**	**28,999**	**1,728**	**930,381**
Net on-balance sheet position	**18,693**	**(442)**	**15,493**	**14**	**33,758**
Credit commitments	**22,370**	**-**	**-**	**-**	**22,370**

The table below summarises the Group's exposure to foreign currency exchange risk at 31 December 2011:

	GBP (£)	USD ($)	Euro (€)	Other	Total
At 31 December 2011	£000	£000	£000	£000	£000
ASSETS					
Cash	242,981	140	61	1	243,183
Loans and advances to banks	59,431	4,899	578	2,053	66,961
Debt securities held-to-maturity	40,079	-	-	-	40,079
Derivative financial instruments	951	-	-	-	951
Loans and advances to customers	338,574	4,502	47,271	2,442	392,789
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**

A 10% strengthening of the pound against the US dollar would lead to a £44,000 (2011: £16,000) 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 £86,000 (2011: £8,000) 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 21), which covers most of the net exposure in each currency.

The table below summarises the Company's exposure to foreign currency exchange rate risk at 31 December 2012:

	GBP (£)	Euro (€)	CHF	Total
At 31 December 2012	£000	£000	£000	£000
ASSETS				
Financial investments	413	-	-	413
Other assets	5,309	-	-	5,309
Investment in subsidiary undertakings	30,847	-	-	30,847
	36,569	**-**	**-**	**36,569**
LIABILITIES				
Due to subsidiary undertakings - bank balances	12,599	(12,500)	-	99

Other liabilities	4,639	-	-	4,639
Debt securities in issue	-	11,980	-	11,980
	17,238	**(520)**	**-**	**16,718**
Net on-balance sheet position	**19,331**	**520**	**-**	**19,851**

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

	GBP (£)	Euro (€)	CHF	Total
At 31 December 2011	£000	£000	£000	£000
ASSETS				
Due from subsidiary undertakings - bank balances	(1,826)	12,713	2,442	13,329
Financial investments	218	-	-	218
Other assets	11,938	-	-	11,938
Investment in subsidiary undertakings	25,233	-	-	25,233
	35,563	**12,713**	**2,442**	**50,718**
LIABILITIES				
Other liabilities	6,020	-	-	6,020
Debt securities in issue	-	12,256	-	12,256
	6,020	**12,256**	**-**	**18,276**
Net on-balance sheet position	**29,543**	**457**	**2,442**	**32,442**

A 10% strengthening of the pound against the Euro would lead to £26,000 (2011: £18,000) 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 £nil (2011: £38,000) 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 21), 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 Statement of Financial Position. 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 £0.6m to £2.4m (2011: £0.3m to £1.1m) for the Group, with the same impact to equity pre-tax. The Company has no fixed rate exposures, but a upward change of 50 basis points on variable rates would decrease pre-tax profits and equity by £37,000 (2011: increase pre-tax profits and equity by £4,000).

(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 2012:

At 31 December 2012	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	373	(373)	(373)	-	-	-
Derivative financial instruments	462	(462)	(462)	-	-	-
Deposits from customers	894,545	(916,708)	(396,331)	(364,647)	(153,320)	(2,410)
Other liabilities	23,021	(23,409)	(23,056)	(207)	(146)	-
Debt securities in issue	11,980	(13,933)	(98)	(293)	(1,562)	(11,980)
Issued financial guarantee contracts		(879)	(879)	-	-	-
Unrecognised loan commitments		(21,491)	(21,491)	-	-	-
	930,381	**(977,255)**	**(442,690)**	**(365,147)**	**(155,028)**	**(14,390)**
Derivative liabilities						
Risk management:	462	-	-	-	-	-
- Outflows		(462)	(462)	-	-	-
	462	**(462)**	**(462)**	**-**	**-**	**-**

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 Company into relevant maturity groupings at 31 December 2012:

At 31 December 2012	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 - bank balances	100	(100)	(100)	-	-	-
Other liabilities	5,552	(5,552)	(4,639)	(913)	-	-
Debt securities in issue	11,980	(13,933)	(98)	(293)	(1,562)	(11,980)
Issued financial guarantee contracts		(2,500)	(2,500)	-	-	-
	17,632	**(22,085)**	**(7,337)**	**(1,206)**	**(1,562)**	**(11,980)**

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						
Other liabilities	10,695	(10,695)	(6,020)	(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 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 £377m (2011: £315m). Additionally the Group provides investment advisory services.

(e) Financial assets and liabilities

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

At 31 December 2012	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	-	-	203,683	-	-	203,683	203,683
Derivative financial instruments	648	-	-	-	-	648	648
Loans and advances to banks	-	-	144,391	-	-	144,391	144,391
Loans and advances to customers	-	-	586,968	-	-	586,968	585,924
Debt securities held-to-maturity	-	13,526	-	-	-	13,526	13,526
Financial investments	413	-	-	2,844	-	3,257	3,257
	1,061	**13,526**	**935,042**	**2,844**	**-**	**952,473**	**951,429**
Deposits from banks	-	-	-	-	373	373	373
Derivative financial instruments	462	-	-	-	-	462	462
Deposits from customers	-	-	-	-	894,545	894,545	894,545
Debt securities in issue	-	-	-	-	11,980	11,980	11,980
	462	**-**	**-**	**-**	**906,898**	**907,360**	**907,360**

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	391,864
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**	**746,114**
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**

7. 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 40.

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:

	2012	2011
	£000	£000
Tier 1		
Share capital	153	153
Share premium account	-	21,085
Retained earnings	53,372	21,571
Other reserves	(1,393)	(1,976)
Non-controlling interests	16,376	5,998
Goodwill	(1,991)	(1,991)
Other deductions	(5,318)	(1,570)
Total tier 1 capital	**61,199**	**43,270**
Tier 2		
Revaluation reserve	140	140
Debt securities in issue	11,980	12,256
Total tier 2 capital	**12,120**	**12,396**
Total tier 1 & tier 2 capital	**73,319**	**55,666**

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 2012 are published as a separate document on the Group website under Investor Relations (Announcements & Shareholder Info).

8. Fee and commission income

	2012	2011
	£000	£000
Banking commissions	5,872	3,977
Trust and other fiduciary fee income	3,349	3,237
Financial Planning fees and commissions	1,149	1,460
Structured product commissions	2,441	1,543
Other fee income *	11,305	9,870
	24,116	**20,087**

* - This mainly includes fee income received on OneBill and Current Accounts at Secure Trust Bank.

9. Net impairment loss on financial assets

	2012	2011
	£000	£000
Impairment losses on loans and advances to customers (Note 23)	10,984	6,688
Impairment losses on available-for-sale investments	-	125
	10,984	**6,813**

10. Gain from a bargain purchase

On 8 June 2012 Secure Trust Bank PLC ("STB") acquired 100% of the shares in Everyday Loans Holdings Limited and its wholly owned subsidiaries Everyday Loans Limited and Everyday Lending Limited (together "EDL"). STB acquired EDL for consideration of £1. Upon acquisition STB provided funding so that EDL could redeem the remaining £34 million of subordinated debt and also provided a loan facility of £37 million to refinance EDL's existing bank debt and to fund future loans. A payment of up to a maximum of £1.7 million will be made to the management team of EDL in March 2013, subject to achieving certain performance targets in 2012. Included in other income is a gain on acquisition of £9.8m, which arose from fair value adjustments and the recognition of intangible assets. This is expected to amortise through the profit and loss account over the next 3 to 5 years.

	Acquired assets / liabilities	Fair value adjustments	Recognised values on acquisition
	£000	£000	£000
Intangible assets	50	5,115	5,165
Property, plant and equipment	491	-	491
Loans and advances to customers	63,720	7,545	71,265
Cash at bank	991	-	991
Other assets	24	-	24
Prepayments and accrued income	2,939	-	2,939
Deferred tax asset	-	6,313	6,313
Total assets	68,215	18,973	87,188
Loans and debt securities	71,618	-	71,618
Other liabilities	960	-	960
Accruals and deferred income	1,741	-	1,741
Deferred tax liabilities	-	3,039	3,039
Total liabilities	74,319	3,039	77,358
Net identifiable (liabilities) / assets	(6,104)	15,934	9,830

Consideration - £1	-
Gain on acquisition	**9,830**

11. Other income

Up to the date of sale of Arbuthnot AG, the purchaser funded most of the running costs for this entity, which is included in other income and amounted to £0.3m (2011: £1.1m). In Secure Trust Bank there was also some other sundry income amounting to £0.1m.

12. Disposals

On 20 March 2012 Arbuthnot Banking Group PLC ("ABG") agreed terms for the sale of Arbuthnot AG. The company was sold to Ducartis Holding AG for a total cash consideration of CHF 2.0m which resulted in a profit for the Group of approximately £0.8m

13. 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. Regulatory approval was received for the sale on 17 January 2012 and the sale completed on 20 January 2012.

	Year ended 31 December 2012 £000	Year ended 31 December 2011 £000
Interest and similar income	-	3
Interest expense and similar charges	-	(147)
Net interest income	**-**	**(144)**
Fee and commission income	-	6,783
Fee and commission expense	-	(273)
Net fee and commission income	**-**	**6,510**
Gains less losses from dealing in securities	-	149
Operating income	**-**	**6,515**
Other income	-	6
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	(383)	(14,447)
Loss before income tax	**(383)**	**(13,198)**
Income tax credit	36	2,949
Loss after income tax	**(347)**	**(10,249)**

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

14. Operating expenses

Operating expenses comprise:	2012 £000	2011 £000
Staff costs, including Directors:		
Wages and salaries	25,016	16,189
Social security costs	2,686	1,839
Pension costs	1,084	800
Share based payment transactions	1,610	70
Amortisation of intangibles (Note 27)	1,062	324
Depreciation (Note 28)	899	736
Profit on disposals of property, plant and equipment	-	(3)
Charitable donations	168	126
Operating lease rentals	2,463	2,079
Costs arising from acquisitions	1,397	-
Other administrative expenses	16,658	12,365
Total operating expenses	**53,043**	**34,525**

Remuneration of the auditor and its associates, excluding VAT, was as follows:	2012 £000	2011 £000
Fees payable to the Company's auditor for the audit of the Company's annual accounts	82	75
Fees payable to the Company's auditor for other services:		
The audit of the Company's subsidiaries, pursuant to legislation	263	216
Audit related assurance services	104	93
Taxation compliance services	178	138
Taxation advisory services	48	46
Corporate finance services	250	500
Other non-audit services	47	110
Total fees payable	**972**	**1,178**

Remuneration for corporate finance services in 2012 include £250,000 in relation to the acquisition of Everyday Loans Holdings Limited (2011: £250,000 for providing services in respect of the issue of new shares in Secure Trust Bank and £250,000 for providing services in respect of the share listing of Secure Trust Bank).

Audit related services relate to statutory and regulatory filings, including interim profit verification. Other non-audit services include fees for ad hoc accounting advice.

15. Average number of employees

	2012	2011
Retail banking	399	229
Private banking	144	132
Group	16	18
	559	**379**

16. Income tax expense

United Kingdom corporation tax at 24.5% (2011: 26.5%)	2012 £000	2011 £000
Current taxation		
Corporation tax charge - current year	1,068	1,700
Corporation tax charge - adjustments in respect of prior years	481	(99)
	1,549	**1,601**

Deferred taxation		
Origination and reversal of temporary differences	(297)	3
Adjustments in respect of prior years	(124)	213
	(421)	**216**
Income tax expense	**1,128**	**1,817**

Tax reconciliation		
Profit before tax	12,593	5,116
Tax at 24.5% (2011: 26.5%)	3,085	1,356
Permanent differences	(2,573)	278
Tax rate change	259	69
Prior period adjustments	357	114
Corporation tax charge for the year	**1,128**	**1,817**

Of the £2,573,000 permanent differences, £2,408,000 relates to the non-taxable gain from a bargain purchase.

During the year the Government substantively enacted a reduction in UK corporation tax rate from 26% to 24% with effect from 1 April 2012 and to 23% with effect from 1 April 2013. Furthermore, on 5 December 2012 the Government announced its intention to further reduce the UK corporation tax rate to 21% by April 2014. This will reduce the Company's future current tax charge accordingly.

17. Earnings per ordinary share

Basic and fully diluted

Earnings per ordinary share are calculated on the net basis by dividing the profit attributable to equity holders of the Company of £8,041,000 (2011: loss of £5,014,000) by the weighted average number of ordinary shares 15,279,322 (2011: 15,046,364) in issue during the year. There is no difference between basic and fully diluted earnings per ordinary share.

18. Cash

	2012 £000	2011 £000
Cash in hand included in cash and cash equivalents (Note 38)	**203,683**	**243,183**

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 downgrade of UK banks and the instability in the Eurozone.

19. Loans and advances to banks

	2012 £000	2011 £000
Placements with banks included in cash and cash equivalents (Note 38)	**144,391**	**66,961**

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:

	2012 £000	2011 £000
Aaa	68,783	52,936
Aa1	-	581
Aa3	23,082	10,575
A1	13,373	2,257
A2	39,153	612
	144,391	**66,961**

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

20. 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 (2011: £nil) with a maturity, when placed, of 3 months or less included in cash and cash equivalents (Note 38).

The movement in debt securities held to maturity may be summarised as follows:	2012 £000	2011 £000
At 1 January	40,079	143,119
Additions	51,012	174,401
Redemptions	(77,565)	(277,441)
At 31 December	**13,526**	**40,079**

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

	2012 £000	2011 £000
Aaa	8,026	15,291
Aa2	-	4,510
Aa3	1,500	11,775
A1	-	8,503
A3	4,000	-
	13,526	**40,079**

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

21. Derivative financial instruments

	2012			2011		
	Contract/ notional amount	Fair value assets	Fair value liabilities	Contract/ notional amount	Fair value assets	Fair value liabilities
Currency swaps	41,206	623	462	20,840	325	-
Interest rate caps	20,000	25	-	40,000	59	-
Structured notes	-	-	-	691	567	-
	61,206	**648**	**462**	**61,531**	**951**	**-**

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 an 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:

	2012	2011
	£000	£000
Aa3	41,206	21,531
A1	20,000	40,000
	61,206	**61,531**

22. Loans and advances to customers

	2012	2011
	£000	£000
Gross loans and advances	607,616	404,039
Less: allowances for impairment on loans and advances (Note 23)	(20,648)	(11,250)
	586,968	**392,789**

For a maturity profile of loans and advances to customers, refer to Note 6.

	2012	2011
Loans and advances to customers include finance lease receivables as follows:	£000	£000
Gross investment in finance lease receivables:		
- No later than 1 year	22,188	12,857
- Later than 1 year and no later than 5 years	13,047	10,663
	35,235	23,520
Unearned future finance income on finance leases	(8,914)	(6,518)
Net investment in finance leases	**26,321**	**17,002**
The net investment in finance leases may be analysed as follows:		
- No later than 1 year	10,509	8,395
- Later than 1 year and no later than 5 years	15,812	8,607
	26,321	**17,002**

	2012	2011
Loans and advances to customers can be further summarised as follows:	£000	£000
Neither past due nor impaired	550,640	371,884
Past due but not impaired	14,756	19,263
Impaired	42,220	12,892
Gross	607,616	404,039
Less: allowance for impairment	(20,648)	(11,250)
Net	**586,968**	**392,789**

(a) Loans and advances past due but not impaired

	2012	2011
Gross amounts of loans and advances to customers that were past due but not impaired were as follows:	£000	£000
Past due up to 30 days	1,160	10,217
Past due 30 - 60 days	4,584	5,272
Past due 60 - 90 days	5,354	942
Over 90 days	3,658	2,832
Total	**14,756**	**19,263**

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 (2011: £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:

	2012	2011
	£000	£000
Past due but not impaired	39,162	18,764
Impaired	7,881	5,735
Fair value of collateral held	**47,043**	**24,499**

Collateral is shown at fair value less costs to sell. The fair value of the collateral held is £47,043,000 against £36,328,000 secured loans, giving an average loan-to-value of 77% (2011: 72%).

The gross amount of individually impaired loans and advances to customers before taking into account the cash flows from collateral held is £21,572,000 (2011: £12,892,000).

Interest income on loans classified as impaired totalled £1,601,000 (2011: £745,000).

23. Allowances for impairment of loans and advances

	2012	2011
A reconciliation of the allowance account for losses on loans and advances by class is as follows:	£000	£000
At 1 January	11,250	9,196
Impairment losses	11,618	7,367
Loans written off during the year as uncollectible	(1,586)	(4,634)
Amounts recovered during the year	(634)	(679)
At 31 December	**20,648**	**11,250**

	2012	2011
A further analysis of allowances for impairment of loans and advances is as follows:	£000	£000
Loans and advances to customers - Arbuthnot Latham	4,423	2,386
Loan and advances to customers - unsecured - Secure Trust Bank	16,225	8,864
At 31 December	**20,648**	**11,250**

24. Other assets

	2012	2011
Group	£000	£000
Trade receivables	3,393	3,108
Repossessed collateral - held-for-sale	2,586	2,334
Prepayments and accrued income	5,687	3,203
	11,666	**8,645**

	2012	2011
Company	£000	£000
Trade receivables	731	419
Due from subsidiary undertakings	4,578	11,519
Prepayments and accrued income	353	218

	5,662	**12,156**

25. Financial investments

Group:	2012 £000	2011 £000
Financial investments comprise:		
- Securities (at fair value through profit and loss)	169	218
- Securities (available-for-sale)	3,088	2,858
Total financial investments	**3,257**	**3,076**

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	2012 £000	2011 £000
Financial investments comprise:		
- Securities (at fair value through profit and loss)	169	218
- Securities (available-for-sale)	244	-
Total financial investments	413	218

26. Deferred taxation

The deferred tax asset comprises:

	2012 £000	2011 £000
Unrealised surplus on revaluation of freehold property	(71)	(97)
Accelerated capital allowances and other short-term timing differences	(673)	494
Fair value of derivatives	110	110
Tax losses	5,057	2,211
Transfer to assets classified as held for sale	-	(2,089)
Deferred tax asset	**4,423**	**629**
At 1 January	629	806
On acquisition of EDL	3,276	-
Available-for-sale securities	-	55
Movement in fair value of derivatives	-	110
Profit and loss account - accelerated capital allowances and other short-term timing differences	1,040	(217)
Profit and loss account - tax losses	(522)	1,964
Transfer to assets classified as held for sale	-	(2,089)
Deferred tax asset at 31 December	**4,423**	**629**

The above balance is made up as follows:

	2012 £000	2011 £000
Deferred tax assets within the Group	5,057	726
Deferred tax liabilities within the Group	(634)	(97)
	4,423	**629**

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 from 26% to 24% with effect from 1 April 2012 and to 23% with effect from 1 April 2013. This will reduce the Group's future current tax charge accordingly. Deferred tax has been calculated based on a rate of 23% to the extent that the related temporary or timing differences are expected to reverse.

On 5 December 2012 the Government announced its intention to further reduce the UK corporation tax rate to 21% 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 tax charge and reduce the Group's deferred tax assets and liabilities accordingly.

27. Intangible assets

Group	Goodwill £000	Computer software £000	Other intagibles £000	Total £000
Cost				
At 1 January 2011	1,991	4,151	-	6,142
Additions	-	1,004	-	1,004
Disposals	-	(177)	-	(177)
Transfer to assets classified as held for sale	-	(58)	-	(58)
At 31 December 2011	**1,991**	**4,920**	**-**	**6,911**
Additions	-	662	-	662
On acquisition of EDL		50	5,115	5,165
At 31 December 2012	**1,991**	**5,632**	**5,115**	**12,738**
Accumulated amortisation				
At 1 January 2011	-	(3,227)	-	(3,227)
Amortisation charge	-	(333)	-	(333)
Disposals	-	177	-	177
Transfer to assets classified as held for sale	-	33	-	33
At 31 December 2011	**-**	**(3,350)**	**-**	**(3,350)**
Amortisation charge	-	(367)	(695)	(1,062)
At 31 December 2012	**-**	**(3,717)**	**(695)**	**(4,412)**
Net book amount				
At 31 December 2011	1,991	1,570	-	3,561
At 31 December 2012	1,991	1,915	4,420	8,326

Company	Computer software £000
Cost	
At 1 January 2011	40
At 31 December 2011	**40**
At 31 December 2012	**40**
Accumulated amortisation	
At 1 January 2011	(4)
Amortisation charge	(8)
At 31 December 2011	**(12)**
Amortisation charge	(8)
At 31 December 2012	**(20)**

Net book amount	
At 31 December 2011	28
At 31 December 2012	20

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

28. Property, plant and equipment

Group	Freehold land and buildings £000	Leasehold improvements £000	Computer and other equipment £000	Motor vehicles £000	Total £000
Cost or valuation					
At 1 January 2011	4,850	-	11,778	210	16,838
Additions	-	-	205	-	205
Disposals	-	-	(609)	(210)	(819)
Transfer to assets classified as held for sale	-	-	(200)	-	(200)
At 31 December 2011	**4,850**	**-**	**11,174**	**-**	**16,024**
Additions	16,789	5	818	-	17,612
On acquisition of EDL	-	540	-	-	540
Disposals	-	(32)	(200)	-	(232)
At 31 December 2012	**21,639**	**513**	**11,792**	**-**	**33,944**
Accumulated depreciation					
At 1 January 2011	(607)	-	(10,151)	(177)	(10,935)
Depreciation charge	(78)	-	(731)	-	(809)
Disposals	-	-	609	177	786
Transfer to assets classified as held for sale	-	-	148	-	148
At 31 December 2011	**(685)**	**-**	**(10,125)**	**-**	**(10,810)**
Depreciation charge	(199)	(101)	(567)	-	(867)
Disposals	-	22	198	-	220
At 31 December 2012	**(884)**	**(79)**	**(10,494)**	**-**	**(11,457)**
Net book amount					
At 31 December 2011	**4,165**	**-**	**1,049**	**-**	**5,214**
At 31 December 2012	**20,755**	**434**	**1,298**	**-**	**22,487**

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.

On 3 August 2012 the Group acquired freehold premises at 7-21 Wilson Street, London, EC2M 2TD for £15.7 million plus acquisition costs (including stamp duty) of £1.1m. It is intended that in due course the building will become the head office for Arbuthnot Banking Group PLC, the principal location for Arbuthnot Latham & Co., Limited and London offices for Secure Trust Bank PLC. 7-21 Wilson Street is currently let at a rent of £1.65 million per annum. The lease is due to expire in December 2013 and as the building will be 25 years old it is planned that a renovation and fit out programme will be undertaken which is expected to cost approximately £7.0 million plus VAT. The lease on the Group's current premises at 20 Ropemaker Street, London, EC2Y 9AR has a break option in June 2015. The Group has exercised the break option and will move together with Arbuthnot Latham & Co., Limited to Wilson Street in June 2015. As it is intended to use this building as the principal office for Arbuthnot Latham & Co., Limited, the building has been classified as freehold land and buildings in these financial statements.

The carrying value of freehold land not depreciated is £1.7 million (2011: £0.5 million).

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

	2012	2011
	£000	£000
Cost	20,567	4,792
Accumulated depreciation	(1,102)	(1,057)
Net book amount	**19,465**	**3,735**

Company	Computer and other equipment £000
Cost or valuation	
At 1 January 2011	143
Additions	46
At 31 December 2011	**189**
Additions	13
At 31 December 2012	**202**
Accumulated depreciation	
At 1 January 2011	(55)
Depreciation charge	(7)
At 31 December 2011	**(62)**
Depreciation charge	(6)
At 31 December 2012	**(68)**
Net book amount	
At 31 December 2011	**127**
At 31 December 2012	**134**

29. Deposits from banks

	2012	2011
	£000	£000
Deposits from other banks	**373**	**8**

For a maturity profile of deposits from banks, refer to Note 6.

30. Deposits from customers

	2012	2011
	£000	£000
Current/demand accounts	260,037	202,843
Term deposits	634,508	490,957
	894,545	**693,800**

Included in customer accounts are deposits of £8,578,000 (2011: £8,578,000) 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 6.

31. Other liabilities

Group	2012 £000	2011 £000
Trade payables	7,656	7,044
Finance lease liabilities	-	25
Accruals and deferred income	15,365	7,824
	23,021	**14,893**

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 2012, the Group had accrued £452,000 (2011: £355,000) in respect of the levy, based on the bank's estimated share of total market protected deposits.

Company	£000	£000
Due to subsidiary undertakings	4,639	6,020
Accruals and deferred income	913	4,675
	5,552	**10,695**

32. Debt securities in issue

	2012 £000	2011 £000
Subordinated loan notes 2035	**11,980**	**12,256**

The subordinated loan notes 2035 were issued on 7 November 2005 and are denominated in Euros. The principal amount outstanding at 31 December 2012 was €15,000,000 (2011: €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.

33. Contingent liabilities and commitments

Capital commitments
At 31 December 2012, the Group had capital commitments of £nil (2011: £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:

	2012 £000	2011 £000
Guarantees and other contingent liabilities	879	803
Commitments to extend credit:		
- Original term to maturity of one year or less	21,491	21,841
	22,370	**22,644**

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

	2012 £000	2011 £000
Expiring:		

Within 1 year	1,982	1,877
Later than 1 year and no later than 5 years	3,168	5,324
Later than 5 years	29	43
	5,179	**7,244**

Other commitments
At 31 December 2012 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.

34. 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**
Cancellation of share premium account	-	-	(21,085)
At 31 December 2012	**15,279,322**	**153**	**-**

In 2011 there was a rights issue of 279,703 shares, as shares were issued as part of a scrip dividend alternative. All issued shares are fully paid. During 2012 the share premium was cancelled and transferred to reserves.

At 31 December 2012 the Company held 390,274 shares (2011: 380,274) in treasury.

35. Reserves and retained earnings

	2012	2011
Group	£000	£000
Foreign currency translation reserve	-	(570)
Revaluation reserve	140	140
Capital redemption reserve	20	20
Available-for-sale reserve	47	(329)
Cash flow hedging reserve	(329)	-
Treasury shares	(1,131)	(1,097)
Retained earnings	53,372	21,571
Total reserves at 31 December	**52,119**	**19,735**

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.

	2012	2011
Company	£000	£000
Capital redemption reserve	20	20
Available-for-sale reserve	81	-
Treasury shares	(1,131)	(1,097)
Retained earnings	20,768	8,517
Total reserves as 31 December	**19,738**	**7,440**

36. Share-based payment options

At 31 December 2012, 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 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 PLC to purchase shares in that company.

The performance conditions of the Scheme are that for the duration of the vesting period, the dividends paid by Secure Trust Bank PLC must have increased in percentage terms when compared to an assumed dividend of £8 million in respect of the financial year ending 31 December 2012, by a minimum of the higher of:

a) the increase in the Retail Prices Index during that period; or
b) 5% per annum during that period.

All dividends paid by Secure Trust Bank each year during the vesting period must be paid from Secure Trust Bank PLC's earnings referable to that year. Also from the grant date to the date the Option is exercised, there must be no public criticism by any regulatory authority on the operation of Secure Trust Bank PLC or any of its subsidiaries which has a material impact on the business of the Company.

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 Ordinary 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. 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.

During 2011 the Share Option Scheme was established as a share settled scheme with an expense recognised in the Statement of Comprehensive Income and a corresponding movement within reserves during the year of £70,000. In 2012 the Scheme was changed to be cash settled with an expense recognised in the Statement of Comprehensive Income of £1,610,000, an associated liability in the Statement of Financial Position, with the prior year's reserves movement reversed.

The fair value of the cash settled share options as at 31 December 2012 was established by reference to the dividend yield and expected lives noted above and the following inputs:

37. Dividends per share

Final dividends are not accounted for until they have been approved at the Annual General Meeting. At the meeting on 9 May 2013, a dividend in respect of 2012 of 14 pence per share (2011: actual dividend 13 pence per share) amounting to a total of £2.08m (2011: actual £1.94m) is to be proposed. The financial statements for the year ended 31 December 2012 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 2013.

38. Cash and cash equivalents

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

	2012	2011
	£000	£000
Cash (Note 18)	203,683	243,183
Loans and advances to banks (Note 19)	144,391	66,961
	348,074	**310,144**

39. 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.

	2012	2011
	£000	£000
Loans		
Loans outstanding at 1 January	2,377	2,952
Loans advanced during the year	391	98
Loan repayments during the year	(120)	(673)
Loans outstanding at 31 December	**2,648**	**2,377**
Interest income earned	**118**	**167**

The loans to directors are secured on property, shares or cash and bear interest at rates linked to base rate. No provisions have been recognised in respect of loans given to related parties (2011: £nil). Details of directors' remuneration are given in the Remuneration Report. The Directors do not believe that any other key management disclosures are required.

	2012	2011
	£000	£000
Deposits		
Deposits at 1 January	1,273	2,468
Deposits placed during the year	1,332	4,021
Deposits repaid during the year	(838)	(5,216)
Deposits at 31 December	**1,767**	**1,273**
Interest expense on deposits	**97**	**134**

Details of principal subsidiaries are given in Note 40. Transactions and balances with subsidiaries are shown below:

	2012		2011	
	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	24,009	4,928	27,072	24,848
Shares in subsidiary undertakings	30,847	30,847	25,233	25,233
Total assets	**54,856**	**35,775**	**52,305**	**50,081**
LIABILITIES				
Due to subsidiary undertakings	10,738	4,740	12,263	6,020
Total liabilities	**10,738**	**4,740**	**12,263**	**6,020**
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.

40. Investment in subsidiary undertakings

	Investment at cost	Impairment provisions	Net
	£000	£000	£000
Arbuthnot Banking Group PLC:			
At 1 January 2011	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**
Sale of Arbuthnot Securities Limited	(4,062)	3,718	(344)
Sale of Arbuthnot AG	(42)	-	(42)
Capital contribution in Arbuthnot Latham & Co., Limited	1,000	-	1,000
Allotment of shares in Secure Trust Bank PLC	5,000	-	5,000
At 31 December 2012	**33,411**	**(2,564)**	**30,847**

	2012	2011
	£000	£000
Subsidiary undertakings:		
Banks	28,547	22,589
Other	2,300	2,644
Total	**30,847**	**25,233**

The principal subsidiary undertakings of Arbuthnot Banking Group PLC at 31 December 2012 were:

	Country of incorporation	Interest %	Principal activity
Secure Trust Bank PLC	UK	70.7	Retail banking
Arbuthnot Latham & Co., Limited	UK	100	Private 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.

41. 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.

Year ended 31 December 2012	Discontinued operations	Continuing operations					
	Investment banking	Retail banking	UK Private banking	International Private banking	Group (reconciling items)	**Total**	**Group Total**
	£000	£000	£000	£000	£000	**£000**	**£000**
Interest revenue	-	44,893	17,494	-	290	**62,677**	
Inter-segment revenue	-	(121)	(165)	-	(91)	**(377)**	
Interest revenue from external customers	-	44,772	17,329	-	199	**62,300**	
Fee and commission income	-	15,788	8,328	-	-	**24,116**	
Revenue from external customers	-	**60,560**	**25,657**	**-**	**199**	**86,416**	
Interest expense	-	(10,467)	(6,786)	(7)	209	**(17,051)**	
Subordinated loan note interest	-	-	-	-	(463)	**(463)**	
Segment operating income	-	47,008	18,895	(7)	(341)	**65,555**	
Gain from a bargain purchase	-	9,830	-	-	-	**9,830**	
Impairment losses	-	(8,946)	(2,038)	-	-	**(10,984)**	
Segment profit / (loss) before tax	**(383)**	17,253	2,058	(6)	(6,712)	**12,593**	
Income tax (expense) / income	**36**	(1,591)	507	-	(44)	**(1,128)**	
Segment profit / (loss) after tax	**(347)**	**15,662**	**2,565**	**(6)**	**(6,756)**	**11,465**	**11,118**
Segment total assets	-	474,599	568,615	-	(43,205)	**1,000,009**	**1,000,009**
Segment total liabilities	-	418,649	544,160	-	(31,448)	**931,361**	**931,361**
Other segment items:							
Capital expenditure	-	(810)	(17,451)	-	(13)	**(18,274)**	**(18,274)**
Depreciation and amortisation	-	(1,472)	(443)	-	(14)	**(1,929)**	**(1,929)**

The "Group" segment above includes the parent entity and all intercompany eliminations.

Year ended 31 December 2011	Discontinued operations	Continuing operations					
	Investment banking	Retail banking	UK Private banking	International Private banking	Group (reconciling items)	**Total**	**Group Total**
	£000	£000	£000	£000	£000	**£000**	**£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)	-	3	**(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**	307,840	554,933	85	(101,401)	**761,457**	**769,316**

Segment total liabilities	**2,791**	284,025	532,586	2,542	(99,599)	**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)**

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.

42. 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 39 of the consolidated financial statements includes related party transactions with Mr Angest.

43. Events after the balance sheet date

On 3 January 2013 Secure Trust Bank PLC acquired 100% of the ordinary share capital of V12 Finance Group Limited, which along with its wholly owned subsidiaries, V12 Retail Finance Limited and V12 Personal Finance Limited provides retail point of sale loans, typically for 12 months on an unsecured basis to consumers who are predominantly classified as prime borrowers. The acquisition is complementary to the Group's existing retail finance proposition and the V12 management team will continue in the business.

Cash consideration of £3.5 million was paid on completion and Secure Trust Bank PLC provided funding such that the V12 Group could redeem £7 million of subordinated debt and also repay existing bank finance amounting to £28.5 million.

The acquisition of V12 Finance Group Limited is accounted for in accordance with IFRS 3 'Business Combinations', which requires the recognition of the identifiable assets acquired and liabilities assumed at their acquisition date fair values. As part of this process, it is also necessary to identify and recognise certain assets and liabilities which are not included on the acquiree's balance sheet, for example intangible assets. The exercise to fair value the balance sheet is inherently subjective and required management to make a number of assumptions and estimates.

The unaudited net assets being acquired are expected to be fair valued at £3.4 million and the associated costs incurred by Secure Trust Bank PLC to complete the transaction are expected to be £0.7 million.

On 15 January 2013 Secure Trust Bank acquired the businesses of Debt Managers Holdings Ltd, Debt Managers (AB) Limited and Debt Managers Limited (together "Debt Managers"). Debt Managers collects delinquent debt on behalf of a range of clients including banks and utility companies. Key benefits of this acquisition to Secure Trust Bank PLC include:

• Broadening the income base of Secure Trust Bank PLC without the requirement for large amounts of capital;

• The acquisition of a scalable collections platform through which Secure Trust Bank PLC intends to channel its delinquent debt; and

• The acquisition of the latest call centre and collections technology, including market leading dialler capability, IVR technology and payment websites.

Secure Trust Bank PLC acquired Debt Managers for an initial cash payment of £0.4 million paid on completion of the transaction which includes payment for the estimated book value of the net assets of £14,000. In addition deferred consideration of up to £0.4 million in cash is payable by Secure Trust Bank PLC one year after completion subject in part to the business achieving certain income criteria. The assets acquired are expected to be fair valued at circa £0.76 million after completion.

Debt Managers generated an unaudited loss before tax of £0.1 million under UK GAAP for the year ended 31 August 2012. No material differences are anticipated under IFRS. The acquisition is initially expected to be earnings neutral.
The initial cash consideration was funded from Secure Trust Bank PLC's existing cash resources and the additional regulatory capital requirements arising as a result of this acquisition are expected to be minimal. No regulatory approvals were required in relation to the transaction. Secure Trust Bank PLC also funded the repayment of Debt Managers' outstanding overdraft of £1.7 million.

Five Year Summary

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

	2008	2009	2010	2011	2012
	£000	£000	£000	£000	£000
Profit / (Loss) before tax *	(2,150)	5,050	5,104	5,116	12,593
Earnings per share					
Basic (p) **	3.5	23.4	25.0	(33.3)	52.6
Dividends per share (p)	21.0	22.0	23.0	24.0	25.0

* The profit before tax for 2011 is shown as the results of continuing operations. 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.