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Arbuthnot Securities Limited

Annual Financial Statements

31 December 2010

Registered number 762818

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Arbuthnot Securities Limited

Company information

BOARD OF DIRECTORS

H Angest	(Chairman)
N W Kirton	(Chief Executive)
A D Turrell	(Vice Chairman)
J R Cobb	
G J Foley	
A A Salmon	
J T J Steel	
R J Tipping	
N G S Tulloch	
S J Wickham	

COMPANY SECRETARY

J R Kaye

REGISTERED OFFICE

Arbuthnot House
20 Ropemaker Street
London
EC2Y 9AR

Registered in England and Wales

The Directors present their report and the audited financial statements of Arbuthnot Securities Limited ('the Company') for the year to 31 December 2010

BUSINESS REVIEW AND PRINCIPAL ACTIVITIES

Principal Activity

The principal activities of the Company are corporate finance and stock broking, focussing on corporate and institutional business The Company is authorised and regulated by the Financial Services Authority and is a direct member of the London Stock Exchange, Chi-X and Turquoise

Results and Key Performance Indicators

Arbuthnot Securities returned to profit for the first time since 2007 Profits before tax for the year to December 2010 were £0 1m (2009 loss of £0 5m)

	2010	2009	Movement
Total revenue	£17 3m	£17 0m	£0 3m
Operating profit / (loss)	£0 3m	(£0 3m)	£0 6m
Corporate clients	75	93	(18)
Gross trading & commission income	£8 2m	£7 8m	£0 4m
Corporate finance fees	£9 1m	£9 2m	(£0 1m)

In previous years, revenues in our securities business have depended heavily on contributions from the Investment Funds and Natural Resources sector teams, both of whom had separate profit sharing arrangements and left during 2010 In their absence, the remaining parts of the business showed a dramatic improvement in performance On an ongoing basis, corporate finance revenues increased by 117%, and secondary revenue (trading and commission) by 83%

Corporate Finance Fees

Twelve corporate transactions, including the £30 6m raise associated with the IPO of ShaftSinkers Holdings PLC, were completed in the second half of the year, compared with 4 in the first half For the year as a whole, primary revenue was £9 1m (2009 £9 2m) Those fundraisings completed in the year also generated good returns for investors with all stocks trading at a premium Taken as a whole, we are delighted that the combined absolute return for all our fundraises completed in the year was a gain of 128%

The number of corporate clients at the year end was 75 Encouragingly, a number of good client wins have been reported since the year end The quality of our AIM client base also improved during the year The average market capitalisation of the AIM client base increased to £32m by the year end (2009 £17m)

Gross Trading and Commission Income

Commission income has continued to be challenging, with the continuing low market volumes and increasing use of Direct Market Access (DMA) by clients However excluding the two departed teams, underlying commissions rose by 8%

For the second successive year the trading book performed very strongly, recording a profit of £4 4m (£3 7m) The book continues to be managed at the low level to which it was reduced by management actions in 2008

Outlook
The initiatives that led the company to an improved performance in 2009 and a return to operating profit in 2010 will continue

During the year the company entered into an arrangement with Anand Rhati (an established Indian stockbroker) to distribute research on Indian companies to UK institutions The Company continues to seek opportunities in other emerging markets

The business enters 2011 with a strong corporate pipeline and ongoing secondary market revenues continue to grow Furthermore, the business has recruited a new Head of Investment Funds and a new Director of Research (Natural Resources), with further recruitment planned in these areas In addition a specialist financials analyst will join in April Headcount at the end of 2010 was 68 compared to 71 at the end of 2009

Operations
The Company continues to outsource all major systems, allowing management to focus on revenue generation with a small team dedicated to supervising control of operational areas The front office uses Fidessa and back office is outsourced to BNP Paribas Securities Services under FSA approved model A and B clearing agreements In addition, payroll is outsourced to Automatic Data Processing Inc and IT support to Arbuthnot Banking Group Procedures are in place to monitor all outsourced providers actively and continually throughout the year

The Company faces the risk of direct or indirect losses from its operations across the business (such as legal and regulatory compliance, personnel, technology and processes) The Company has procedures in place, which are proportionate and commensurate to the business, to mitigate such losses Where practical the Company seeks to avoid having procedures that overly restrict initiative and productivity

Principal Risks
The principal risks faced by the Company are in the areas of human resource and market risk The former is dealt with by ensuring that staff are appropriately remunerated and by attempting to create an environment and culture in which people believe and want to work Market risk is dealt with as part of Financial Risk Management, more details are provided in Note 3 to the financial statements

Creditors' 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

Dividends
The Company does not propose to pay a dividend for the year (2009 £nil)

Directors
The Directors who served during the year were as follows

Mr H Angest
Mr N W Kirton
Dr A D Turrell
Mr J R Cobb
Mr G J Foley
Mr A A Salmon
Mr J T J Steel
Mr R J Tipping
Mr N G S Tulloch
Mr S J Wickham
Mr X L A Gunner — Resigned on 3 August 2010

Donations
The Company donated £225, to health and children's charities during the year (2009 £600)

Going Concern
After making appropriate enquiries which assessed strategy, profitability, funding and capital resources, the directors are satisfied that the Company has adequate resources to continue in operation for the foreseeable future The financial statements are, therefore prepared on the going concern basis

Auditors
A resolution to re-appoint KPMG Audit Plc as auditors to the Company will be proposed at the Annual General Meeting, in accordance with section 485 of the Companies Act 2006

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE DIRECTORS REPORT AND THE FINANCIAL STATEMENTS

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year Under that law they have elected to prepare the financial statements in accordance with IFRSs as adopted by the EU and applicable law

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 Company and of the profit or loss of the Company for that period In preparing these 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 Company will continue in business

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the 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 Company and to prevent and detect fraud and other irregularities

By order of the board

J.R. Kaye

J R Kaye
Secretary
16 March 2011

Independent Auditor's Report to the Members of Arbuthnot Securities Limited

We have audited the financial statements of Arbuthnot Securities Limited for the year ended 31 December 2010 set out on pages 7 to 26 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

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 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 auditors' 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 5, 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 APB's web-site at www frc org uk/apb/scope/private cfm

Opinion on financial statements
In our opinion the financial statements

- Give a true and fair view of the state of the Company's affairs as at 31 December 2010 and of its loss for the year then ended,
- Have been properly prepared in accordance with IFRSs as adopted by the EU, and
- Have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006
In our opinion 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 matters where the Companies Act 2006 requires us to report to you if, in our opinion

- Adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- The financial statements 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

G R Simpson (Senior Statutory Auditor)
For and on behalf of **KPMG Audit Plc**, Statutory Auditor
Chartered Accountants
London
16 March 2011

Statement of Comprehensive Income for the year ended 31st December 2010

	Notes	2010 £'000	2009 £'000
REVENUE	5	**17,300**	**17,012**
TOTAL ADMINISTRATIVE EXPENSES		**(16,989)**	**(17,327)**
OPERATING PROFIT / (LOSS)	5	**311**	**(315)**
Interest and similar income receivable		2	82
Interest and similar charges payable		(234)	(234)
		(232)	**(152)**
PROFIT / (LOSS) BEFORE INCOME TAX		**79**	**(467)**
Income tax (charge) / credit	7	(145)	132
LOSS FOR THE YEAR		**(66)**	**(335)**
Other comprehensive income, net of tax		-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY		**(66)**	**(335)**

Statement of Changes in Shareholders Equity for the year ended 31 December 2010

	Share Capital £'000	Share Premium £'000	Retained Earnings £'000	Total £'000
At 1 January 2009	2,000	3,400	1,389	6,789
Total comprehensive income for 2009, net of tax	-	-	(335)	(335)
At 31 December 2009	**2,000**	**3,400**	**1,054**	**6,454**
Total comprehensive income for 2010, net of tax	-	-	(66)	(66)
At 31 December 2010	**2,000**	**3,400**	**988**	**6,388**

Arbuthnot Securities Limited

Statement of Financial Position

	Notes	2010 £'000	2009 £'000
CURRENT ASSETS			
Cash at bank - Company	8	1,778	6,516
Financial assets at fair value through profit and loss	9	3,232	2,659
Trade and other receivables	10	6,902	7,721
Corporation tax receivable		-	631
		11,912	**17,527**
NON-CURRENT ASSETS			
Property, plant and equipment	11	102	124
Intangible assets	12	42	23
Deferred tax assets	13	125	270
		269	**417**
TOTAL ASSETS		**12,181**	**17,944**
CURRENT LIABILITIES			
Financial liabilities at fair value through profit and loss	9	(775)	(959)
Trade and other payables	14	(2,768)	(8,281)
Non-cumulative preference shares	15	(750)	(750)
		(4,293)	**(9,990)**
NON-CURRENT LIABILITIES			
Financial liabilities – Subordinated loan	15	(1,500)	(1,500)
		(1,500)	**(1,500)**
TOTAL LIABILITIES		**(5,793)**	**(11,490)**
NET ASSETS		**6,388**	**6,454**
SHAREHOLDERS' EQUITY			
Ordinary shares	17	2,000	2,000
Share premium		3,400	3,400
Retained earnings		988	1,054
EQUITY SHAREHOLDERS' FUNDS		**6,388**	**6,454**

The financial statements on pages 7 to 26 were approved by the Board of directors on 16 March 2011

N. W. Kirton

G. J. Foley

Company registration number: 762818

Statement of Cash Flows

	Notes	2010 £'000	2009 £'000
Net cash (outflow) / inflow from operating activity	18	**(4,658)**	**3,523**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of Property Plant, Equipment and Computer Software		(82)	(119)
Disposal of Property Plant, Equipment and Computer Software		2	
Net cash used in investing activity		**(80)**	**(119)**
NET (DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS		**(4,738)**	**3,404**
Cash and cash equivalents at 1 January		**6,516**	**3,112**
Cash and cash equivalents at 31 December	8	**1,778**	**6,516**

1 **PRINCIPAL ACCOUNTING POLICIES**

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

a) Basis of presentation

The financial statements of Arbuthnot Securities Limited ('the Company'), domiciled and incorporated in the UK, have been prepared in accordance with International Financial Reporting Standards ('IFRSs as adopted by the EU'), IFRIC Interpretations and the Companies Act 2006 applicable to companies reporting under IFRS The financial statements have been prepared under the historical cost convention, as modified by financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss

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

The Directors have assessed, in the light of current and anticipated economic conditions, the Company's ability to continue as a going concern The Directors confirm they are satisfied that the Company has adequate resources to continue in business for the foreseeable future For this reason, they continue to adopt the 'going concern' basis for preparing accounts

The following Standards, amendments to standards and interpretations are mandatory for the year beginning 1 January 2010 but have no material effect on the companies Financial Statements

- IAS 24 (Revised), 'Related party disclosures'
- IFRS 2 (Amendment), 'Share-based payment'
- IFRS 3 (Revised), 'Business combinations'
- IAS 27 (Revised), 'Consolidated and separate financial statements'
- Improvements to IFRSs Sets out minor amendments to IFRS standards as part of annual improvements process

Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Company

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

- IFRS 7 (Revised), 'Disclosures - Transfers of Financial Assets' (effective from 1 July 2011)
- IFRS 9, 'Financial instruments' (effective from 1 January 2013)

1. **PRINCIPAL ACCOUNTING POLICIES (continued)**

b) Revenue

An investment banking business has no equivalent to sales, cost of sales and gross profit Revenue therefore comprises the following

i) Gross commission and other income from acting as agent in investment business,
ii) Fee income from Corporate Finance activities,
iii) Income from market making and trading activities,
iv) Other income

Gross commission and market making income are recognised on the date of the trade Market making income comprises gains less losses relating to trading assets and liabilities and includes all realised and unrealised fair value changes, interest and dividends Fees arising from negotiating, participating in the negotiation of or 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 when the related services have been performed and the income is considered receivable Retainer fees are recognised on a time apportioned basis Revenue, which is wholly attributable to UK operations, is stated exclusive of Value Added Tax

c) Interest income and expense

Interest income and expense are accounted for using the effective interest method

d) Foreign currency translation

Transactions denominated in foreign currencies are translated into sterling at the rates of exchange ruling at the dates of those transactions Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date All exchange differences are dealt with through the income statement

e) Taxation

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years

Deferred tax is provided in full, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements Deferred tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet 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 Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised

1. PRINCIPAL ACCOUNTING POLICIES (continued)

f) Intangible Assets

Acquired computer software licenses 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 of three years Costs associated with developing or maintaining computer software programs are recognised as an expense as incurred

g) Property, plant and equipment

Plant and equipment consisting of fixtures and fittings and computer hardware is stated at historical cost less depreciation Historic cost includes expenditure that is directly attributable to the acquisition of the item For all tangible fixed assets, depreciation is calculated to write down their cost to their estimated residual values by equal annual instalments over the period of their estimated useful economic lives of two to five years

h) Market and client receivables and payables

Market and client debtor and creditor balances are the amounts due to and from counterparties in respect of the Company's trading activities Market and client debtors and creditors are held gross as there are no net settlement agreements in place The balances are short term in nature, do not earn interest and are recorded at the amount receivable or payable

i) Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than three month's maturity from the date of acquisition and are offset by bank borrowings, where applicable

The company holds money on behalf of some clients in accordance with the Client Money Rules of the Financial Services Authority Such monies and the corresponding amounts due to clients are not shown on the face of the balance sheet as the company is not beneficially entitled to them

j) Post-retirement benefits

All eligible employees are members of the Arbuthnot Banking Group Pension Scheme This scheme is a defined contribution scheme and Company contributions are charged to the income statement in the period to which they fall due There are no post-retirement benefits other than pensions

k) Financial Instruments

The Company holds financial instruments which have been designated as held for trading and are classified as financial assets or liabilities at fair value through profit and loss These comprise long and short equity positions, purchases and sales of which are recognised on trade date, the date on which the Company commits to purchase or sell the asset

1. **PRINCIPAL ACCOUNTING POLICIES (continued)**

k) **Financial Instruments (continued)**

Financial assets and liabilities at fair value through profit and loss are initially recognised at fair value with transaction costs recognised in the income statement They are subsequently carried at fair value with gains and losses arising from changes in the fair value included in the income statement in the period in which they arise

The fair value of quoted investments in active markets is based on current bid prices for long positions and offer prices for short positions A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arms length basis Where the Company has entered into equity investments in unquoted vehicles and there is no open market for these assets, the Company has valued them using appropriate valuation methodologies (see note 2)

l) **Impairment of Financial Assets**

The Company assesses at each balance sheet date whether there is objective evidence that a financial asset is impaired A financial asset is impaired and impairment losses are incurred if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset that can be reliably estimated

m) **Derivative financial instruments**

Derivatives are initially accounted and measured at fair value on the date a derivative contract is entered into and subsequently measured at fair value The gain or loss on re-measurement is taken to the income statement

n) **Offsetting Financial Instruments**

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

o) **Issued debt and equity securities**

Issued financial instruments or their components are classified as liabilities where the contractual arrangement results in the Company 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 The Company does not have any borrowing except for subordinated loans and non cumulative preference shares (see note 15) 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

1. PRINCIPAL ACCOUNTING POLICIES (continued)

o) Issued debt and equity securities (continued)

Financial liabilities, other than trading liabilities and financial liabilities designated at fair value, are carried at amortised cost using the effective interest method 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

2. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

The Company 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

Valuation of Financial Instruments

The companies accounting policy on fair value measurements is discussed in accounting policy 1 (k) The Company holds financial instruments that are designated as financial assets or liabilities at fair value through profit and loss Where these are quoted investments in active markets they are valued based on current bid prices for long positions and offer prices for short positions Where an active market does not exist the Company establishes a fair value by using appropriate valuation techniques in order to determine the fair value at the reporting date as if that price would have been agreed between active market participants in an arm's length transaction These valuation techniques include established valuation pricing models, reference to other instruments that are substantially the same for which market observable prices exist, net present value and discounted cash flow analysis

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

- Level 1 – Quoted prices (unadjusted) in an active market 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 following tables analyse financial assets and liabilities at fair value through profit and loss into the fair value hierarchy under which it is categorised

At 31 December 2010	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Financial assets at fair value through P&L	3,232	-	-	3,232
Financial liabilities at fair value through P&L	(774)	-	-	(774)

2. **CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (continued)**

Valuation of Financial Instruments (continued)

At 31 December 2009	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Financial assets at fair value through P&L	2,633	26	-	2,659
Financial liabilities at fair value through P&L	(959)	-	-	(959)

The following table reconciles the movement in level 3 securities during the year

	2010 £'000	2009 £'000
Opening balance as at 1 January	-	272
Losses recognised in the profit and loss	-	(272)
Closing balance as at 31 December	-	-

3. **FINANCIAL RISK MANAGEMENT**

STRATEGY

The Company trades in financial instruments where it takes positions in traded equities and derivatives in order to take advantage of short-term market movements in equities prices The Board of the Company in conjunction with the Arbuthnot Banking Group Plc Risk Committee have identified key risks which are reviewed and assessed 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 placing trading limits on the level of exposure that can be taken in relation to market positions, physical controls, credit and other authorisation limits and segregation of duties The Board also receives a quarterly risk management report that updates the board on the performance of the key controls and details key risks facing the Company 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

(a) **MARKET RISK**

PRICE RISK

The Company is exposed to equity securities price risk because of investments held by the Company and classified on the balance sheet at fair value through profit and loss The Company is not exposed to commodity price risk

The Company looks to manage its trading book exposure to market price risk through diversification of its portfolio Diversification is done in accordance with board imposed position and trading book limits The Board monitors these limits regularly and amends the limits to reflect prevailing market conditions Any breach of these board imposed position and trading book limits is reported on a daily basis to senior management The Company's trading book exposure to market price risk is disclosed in note 9

3. **FINANCIAL RISK MANAGEMENT (continued)**

(a) **MARKET RISK (continued)**

The Company occasionally seeks to mitigate market risk by taking offsetting positions in equity derivative instruments such as index futures and options There were none in place at 31 December 2010

Based upon the trading book exposure given in note 9, and with all other things being equal, a hypothetical movement of 10% in market prices would result in a £108,000 (2009 £203,000) movement in the Company's income and net assets on the equity trading book In the Company's trading business, positions are managed throughout the day on a continuous basis and reported to senior management at the end of each day Accordingly the result shown above is purely hypothetical

CURRENCY RISK
The Company takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its trading positions and cash balances The Board sets limits on the level of exposure for both overnight and intra-day cash balances, which are monitored and reported to senior management daily Foreign currency equity trading positions are managed continuously throughout the day alongside the Company's sterling equity trading positions The Company seeks to keep foreign currency balances to a minimum and does not hedge its currency positions

The Company had a net exposure of $24,000 as at 31 December 2010 (2009 $746,000) A 5% movement in the US dollar sterling exchange rate would result in a £1,000 (2009 £24,000) movement in the Company's income and net assets

INTEREST RATE RISK
Interest rate risk is the potential adverse impact on the Company's future cash flows from changes in interest rates, and arises from the differing interest rate risk characteristics of the Company's assets and liabilities The Company faces interest rate risk from cash at bank amounting to £1,777,805 (2009 cash at bank of £6,516,263) the subordinated loan amounting to £1,500,000 (2009 £1,500,000) and preference shares amounting to £750,000 (2009 £750,000)

In order to mitigate risk the board sets overall borrowing limits for the Company to operate within In accordance with these limits the Company then arranges borrowing facilities with its bankers annually The Company monitors trading activities continuously and manages its cash at bank on a daily basis in order to remain within agreed borrowing limits The Company's cash balances are reported to senior management daily

The interest charge on the Company's borrowings is linked to the Bank of England base rate A 0 5% movement in the Bank of England base rate would result in a £9,000 (2009 £33,000) movement in the Company's net interest income

(b) **CREDIT RISK**
The Company takes on exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due Credit risk on unsettled trades included within market and client receivables and payables is monitored on a daily basis and regulatory capital set aside in accordance with FSA regulations

3. FINANCIAL RISK MANAGEMENT (continued)

(a) CREDIT RISK (continued)

The risk is mitigated by the fact that all trades are executed on a delivery versus payment basis so that the Company's exposure is restricted to the price movement on the stocks concerned between trade date and settlement date Further, the vast majority of the Company's trading activity is with Market Counterparties and FSA-registered institutions

Credit risk on trade receivables arising from unsettled Corporate Finance fees is monitored on a monthly basis and impairment provisions are provided for losses incurred on a case-by-case basis reflecting the client's financial position and the details of the transaction Changes in these factors could result in losses that are different from those provided at the balance sheet date No collateral is held Assets with credit risk exposure are cash at bank and trade and other receivables The Company's exposure to credit risk is disclosed in notes 8 and 10 The maximum credit risk exposure is represented by the carrying value

(c) CONCENTRATION RISK

The Company faces concentration risk by trading UK listed and unlisted equities in order to take advantage of short-term market movements in price The Company seeks to mitigate its concentration risk through the following

- Setting individual stock and book position limits which are monitored continuously and reported to senior management
- Where large positions are held the Company seeks to trade out of those positions as soon as market conditions permit

(d) LIQUIDITY RISK

The Company is exposed to daily calls on its available cash resources from cash-settled trading securities and margin calls The Company manages its liquidity position on a daily basis to ensure that the Company always has sufficient cash resources to meet all known and potential cash obligations as well as to monitor its interest rate and currency exposures The Company has agreed overdraft and short term loan facilities to fund foreseeable business activities if required

The following tables analyse the Company's undisclosed liabilities as at 31 December 2010 and 31 December 2009 into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date

At 31 December 2010	Carrying Value £'000	Gross nominal (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
Financial liabilities – short security positions	(775)	(775)	(775)	-	-	
Other current liabilities	(2,768)	(2,768)	(2,768)	-	-	
Subordinated Loan	(1,500)	(2,091)	(23)	(68)	(363)	(1,637)
Non-cumulative Preference shares	(750)	(750)	(750)	-	-	-
Total liabilities	**(5,793)**	**(6,384)**	**(4,316)**	**(68)**	**(363)**	**(1,637)**

3. FINANCIAL RISK MANAGEMENT (continued)

(d) LIQUIDITY RISK (continued)

At 31 December 2009	Carrying Value £'000	Gross nominal (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
Financial liabilities – short security positions	(959)	(959)	(959)	-	-	-
Other current liabilities	(8,281)	(8,281)	(7,781)	-	(500)	-
Subordinated Loan	(1,500)	(2,066)	(23)	(68)	(863)	(1,112)
Non-cumulative Preference shares	(750)	(764)	(14)	(750)	-	-
Total liabilities	**(11,490)**	**(12,070)**	**(8,777)**	**(818)**	**(1,363)**	**(1,112)**

4. CAPITAL MANAGEMENT

The Company's capital management policy is focused on ensuring that capital resources are sufficient to support the planned activities of the Company The Board constantly reviews the capital position

Capital adequacy and the use of regulatory capital are monitored daily by the Company's management, employing techniques based on the guidelines developed by the Basel Committee and the European Union Directives, as implemented by the Financial Services Authority ('FSA'), for supervisory purposes

The Company's regulatory capital or financial resources is divided into two tiers
- Tier 1 comprises equity shareholders funds after deducting intangible assets
- Tier 2 comprises subordinated loan capital and preference shares

The following table summarises the regulatory resources of the Company as at 31 December

	2010 £'000	2009 £'000
Tier one	6,412	6,766
Tier two	1,500	2,250
Total Financial resources	**7,912**	**9,016**

The Company's financial resource requirement consists of risk weighted assets that are determined according to the risk weighting that the FSA applies to each class of assets, exposures or counterparties During the year the Company complied with FSA capital requirements

5 OPERATING PROFIT / (LOSS)

Operatıng profıt / (loss) ıs stated after

	2010 £'000	2009 £'000
(a) Net income from financıal ınstruments desıgnated at faır value	**4,456**	**3,662**
Fee and commıssıon ıncome	12,949	13,580
Fee and commıssıon expense	(194)	(230)
Net Fee and commıssıon ıncome	**12,755**	**13,350**
Other Income	89	-
Revenue	**17,300**	**17,012**

	2010 £'000	2009 £'000
(b) The followıng items of expense·		
Staff costs consıstıng of		
Wages and salarıes	7,644	8,705
Socıal securıty costs	968	1,116
Pensıon costs	747	654
Other staff costs	410	354
Restructurıng costs	89	243
	9,858	11,072
Amortısatıon (note 12)	14	5
Depreciatıon of owned assets (note 11)	69	54
Trade receıvables ımpaırment (note 10)	47	202

Restructurıng costs are the costs assocıated wıth redundancıes the fırm completed ın the year

Fees payable to the Company's audıtors for the audıt of the Company's annual fınancıal statements are £45,000 (2009 £45,000)

The average monthly number of employees employed by the Company was 72 (2009 72)

6. DIRECTORS' EMOLUMENTS

(a) The total emoluments of the Dırectors of the Company were as follows

	2010 £'000	2009 £'000
Dırectors' remuneratıon	1,458	971
Pensıon contrıbutıons	114	111
	1,572	1,082

The emoluments of Mr Angest, Mr Cobb, Mr Salmon and Dr Turrell, were paıd by the parent company Theır total emoluments are dısclosed ın the fınancıal statements of the parent company

6. DIRECTORS' EMOLUMENTS (continued)

(b) The Directors' remuneration includes amounts paid to the highest paid Director in respect of

	2010 £'000	2009 £'000
Emoluments	383	237
Pension contributions	35	35
	418	272

7. INCOME TAX CREDIT

	2010 £'000	2009 £'000
(a) United Kingdom corporation tax at 28% (2009 28%)		
Current	-	-
Adjustment in respect of prior periods	-	71
	-	71
Deferred tax		
Current	92	(103)
Adjustment in respect of prior periods	53	(100)
	145	(203)
Income tax charge / (credit)	145	(132)

(b) Factors affecting tax credit for the period

The tax credit for the period is higher (2009 lower) than the standard rate of corporation tax in the UK (28%) due to the differences explained below

	2010 £'000	2009 £'000
Profit / (loss) before income tax	79	(467)
Profit / (loss) before corporation tax multiplied by standard rate of UK corporation tax of 28% (2009 28%)	22	(131)
Effects of		
Expenses not deductible and other permanent timing differences	70	(27)
Adjustment in respect of prior periods	53	28
Income tax charge / (credit)	145	(132)

8. CASH AND CASH EQUIVALENTS

	2010 £'000	2009 £'000
(a) Cash at bank - Company	1,778	6,516
	1,778	6,516

As at 31 December 2010 the company held money on behalf of some clients in accordance with the Client Money Rules of the Financial Services Authority Such monies and the corresponding amounts due to clients are not shown on the face of the balance sheet as the company is not beneficially entitled to them

9 FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT & LOSS

	2010 £'000	2009 £'000
Financial assets at fair value through profit and loss:		
Listed equity securities	3,167	2,579
Unlisted equity securities	65	80
	3,232	2,659
Financial liabilities at fair value through profit and loss:		
Listed equity securities	(775)	(959)

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

	Highest exposure £'000	Lowest exposure £'000	Average exposure £'000	Exposure as at 31 December £'000
Listed equity securities				
Financial assets	4,807	1,734	3,311	3,232
Financial liabilities	(2,247)	(137)	(987)	(775)

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

	Highest exposure £'000	Lowest exposure £'000	Average exposure £'000	Exposure as at 31 December £'000
Listed equity securities				
Financial assets	4,298	1,575	2,824	2,659
Financial liabilities	(1,976)	(516)	(1,131)	(959)

The carrying value of financial assets and liabilities does not differ materially from fair value

10. TRADE AND OTHER RECEIVABLES

		2010 £'000	2009 £'000
(a)	Trade receivables	812	1,011
	Less provision for impairment of receivables	(167)	(425)
		645	586
	Market and client receivables	5,273	6,348
	Amounts owed from group undertakings	456	279
	Prepayments and accrued income	412	479
	Sundry receivables	116	29
		6,902	**7,721**

10. TRADE AND OTHER RECEIVABLES (continued)

(b) Trade, market and client receivables can be further summarised as follows

	2010 £'000	2009 £'000
Neither past due nor impaired	5,710	6,690
Past due but not impaired	208	235
Impaired	167	434
Gross	**6,085**	**7,359**
Less allowances for impairment	(167)	(425)
Net	**5,918**	**6,934**

(c) Trade, market and client receivables past due but not impaired

	2010 £'000	2009 £'000
Up to 3 months	160	132
3 – 6 months	15	52
6 – 9 months	33	51
Total	**208**	**235**

(d) Movement in provision for impairment of receivables

	2010 £'000	2009 £'000
At 1 January	(425)	(223)
Provisions released against debtors during the year	305	-
Bad debts provided for during the year	(47)	(202)
At 31 December	**(167)**	**(425)**

11. PROPERTY, PLANT AND EQUIPMENT

	2010 £'000	2009 £'000
COMPUTER EQUIPMENT		
COST		
At 1 January	743	648
Additions in the year	49	95
Disposals in the year	(2)	-
At 31 December	790	743
DEPRECIATION		
At 1 January	619	565
Charge for the year	69	54
Disposals in the year	-	-
At 31 December	688	619
NET BOOK AMOUNT		
At 1 January	124	83
At 31 December	**102**	**124**

12. INTANGIBLE FIXED ASSETS

	2010	2009
COMPUTER SOFTWARE	**£'000**	**£'000**
COST		
At 1 January	200	176
Additions in the year	33	24
At 31 December	233	200
AMORTISATION		
At 1 January	177	172
Charge for the year	14	5
At 31 December	191	177
NET BOOK AMOUNT		
At 1 January	23	4
At 31 December	**42**	**23**

13. DEFERRED TAX ASSET

The deferred tax assets comprise of accelerated capital allowances and tax losses

	2010 £'000	2009 £'000
At 1 January	270	67
Deferred tax (charge) / credit in respect of prior years	(53)	100
Charge / credit to the Income statement in the year	(92)	103
At 31 December	**125**	**270**

14. TRADE AND OTHER PAYABLES

	2010 £'000	2009 £'000
Market and client payables	850	2,822
Accruals and deferred income	1,246	4,518
Amounts owed to group undertakings	135	233
Other payables	265	478
Taxation and social security	272	230
	2,768	8,281

Amounts owed to group undertakings are in respect of Arbuthnot Latham & Co Ltd, Secure Trust Bank and Arbuthnot Banking Group PLC, these are unsecured, interest free and have no fixed date for repayment

15. FINANCIAL LIABILITIES

	2010 £'000	2009 £'000
Current liabilities		
750,000 Redeemable Preference Shares of £1 each	750	750
	750	**750**
Non current liabilities		
Long term subordinated loan from group undertaking	1,500	1,500
	1,500	**1,500**

The subordinated loan is unsecured and carries interest at a margin over LIBOR at the date of drawdown The subordinated loan constitutes regulatory capital under the Financial Services Authority rules It is repayable thirteen years from date of drawdown with the earliest repayment date being December 2016 The maximum available facility is £2,000,000 (2009 £2,000,000)

The Company issued 750,000 £1 non-cumulative redeemable preference shares at par on 22 March 2005 These shares are entitled to a non-cumulative dividend of 3% p a over 6 months LIBOR and were redeemable from 23 March 2010 subject to the Company or holder of the preference shares giving one month's written notice of redemption The terms of the preference shares were extended on the 11 February 2011, and are now redeemable from 23 March 2017

16. DIVIDENDS

No dividend will be paid for the year ended 31st December 2010 (2009 nil)

17. ISSUED SHARE CAPITAL

	2010 £'000	2009 £'000
Authorised		
2,000,000 (2009 2,000,000) Ordinary Shares of £1 each	2,000	2,000
2,000,000 (2009 2,000,000) Redeemable Preference Shares of £1 each	2,000	2,000
	4,000	**4,000**
Issued and fully paid		
2,000,000 (2009 2,000,000) Ordinary Shares of £1 each	**2,000**	**2,000**

750,000 (2009 750,000) Issued preference shares of £1 each have been presented as Financial Liabilities (see note 15)

18. CASH FLOW FROM OPERATING ACTIVITIES

Reconciliation of operating profit / (loss) to net cash (outflow) / inflow from operating Activities

	2010 £'000	2009 £'000
Operating profit / (loss)	**311**	**(315)**
Adjustments for:		
Depreciation and amortisation	83	59
Impairment provision	47	231
Changes in working capital:		
(Increase) / decrease in securities positions	(757)	787
Increase in market and client balances	(871)	(442)
Increase / (decrease) in trade and other receivables	303	(413)
(Decrease) / Increase in trade and other payables	(3,542)	2,300
Cash flows from operating activities before interest and tax	**(4,426)**	**2,207**
Tax received	-	1,469
Interest and similar income received	2	82
Interest and similar charges paid	(234)	(235)
Net cash (outflow) / inflow from Operating Activities	**(4,658)**	**3,523**

19. CONTINGENT LIABILITIES

In the ordinary course of business the Company has been party to letters of indemnity in respect of lost certified stock transfers and share certificates, and as an entity authorised and regulated by the Financial Services Authority is potentially liable to make contributions to the Financial Services Compensation Scheme The contingent liabilities arising there from cannot be quantified

20. RELATED PARTY TRANSACTIONS

For details of transactions with key management personnel, see note 6 (a) The summary of related party transactions during the year is as follows

	31 December 2010		31 December 2009	
	£'000 Fellow Subsidiaries	£'000 Parent Company	£'000 Fellow Subsidiaries	£'000 Parent Company
Revenue				
Commission income	12	-	14	-
Expenditure				
Property, IT & recharged services	(1,700)	(1,383)	(1,385)	(587)
Interest on loans	(77)	(91)	(85)	(90)
Dividends on Preference shares	-	(57)	-	(57)

20. RELATED PARTY TRANSACTIONS (continued)

Amounts receivable from or payable to group undertakings are disclosed in notes 10 and 14 respectively In addition, the balance on the Subordinated Loan from a group undertaking is disclosed in note 15 Arbuthnot Banking Group PLC provides a guarantee over the Company's bank borrowing facilities

21. PARENT UNDERTAKING

The ultimate parent company and the Company which heads both the smallest and largest group for which consolidated financial statements are prepared at 31 December 2010 was Arbuthnot Banking Group PLC, incorporated in Great Britain and registered in England and Wales Copies of the financial statements of Arbuthnot Banking Group PLC are available from One Arleston Way, Solihull, B90 4LH

Arbuthnot Banking Group PLC owns 59 6% of the share capital of the Company Henry Angest, the Group chairman and CEO has a beneficial interest of 52 8% of the issued share capital of Arbuthnot Banking Group PLC and is regarded by the directors as the ultimate controlling party