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Arbuthnot Latham & Co., Limited

Report and financial statements
for the year ended 31 December 2011

Registered Number 00819519

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Company Information

Directors

Henry Angest (Chairman)

Dean M Proctor (Chief Executive) (Resigned 1 March 2012)

James W Fleming (Chief Executive) (Appointed 1 March 2012)

James R Cobb (Group Director)

Robin AE Herbert (Non-executive)

Stephen P Kelly (Finance Director)

John Reed (Non-executive)

Andrew A Salmon (Group Director)

Atholl D Turrell (Group Director) (Resigned 31 December 2011)

Robert JJ Wickham (Non-executive)

Secretary

Jeremy R Kaye F C I S

Registered office

Arbuthnot House
20 Ropemaker Street
London
EC2Y 9AR
Registered Number 00819519

Auditors

KPMG Audit PLC
15 Canada Square
London E14 5GL

Incorporated in the United Kingdom

Arbuthnot Latham & Co,. Limited

Directors' Report

The directors present the annual report and audited financial statements of Arbuthnot Latham & Co , Limited for the year ended 31 December 2011

Principal activities
Arbuthnot Latham & Co , Limited is a banking institution which is authorised and regulated by the Financial Services Authority It provides full banking, investment management and wealth planning services, all within the European Union It also packages and distributes structured products to the intermediary market

Business review
The Company has two component business lines with a common management team Arbuthnot Latham, a private bank, that seeks to provide tailored private banking and wealth management solutions to high net worth individuals, and Gilliat Financial Solutions, a business which designs, packages and distributes structured products to the financial intermediary market

The private banking business performed well, with pre-tax profit of £1 7m (2010 £1 7m) The underlying profits grew strongly but were offset by higher credit provisions on legacy exposures

Gilliat Financial Solutions made its first annual profit of £0 2m (2010 £0 6m loss) as the business launched in July 2009 continued to build momentum

The Company paid a recharge to its parent, Arbuthnot Banking Group PLC (ABG), of £1 3m (2010 £1 0m) The profit for the year increased to £0 6m (2010 £0 1m)

The Company continues to be run from a strong capital and liquidity base, and the directors believe that the Company is well placed for the future

	2011 £m	2010 £m	Mvmt £m
Private Bank	1 7	1 7	-
Gilliat Financial Solutions	0 2	(0 6)	0 8
AL profit before group charge	1 9	1 1	0 8
ABG group charge	(1 3)	(1 0)	(0 3)
Pre-tax profit for the year	0 6	0 1	0 5
Client deposits	420	350	70
Intra-group deposits	105	39	66
Client loans	242	215	27
Treasury assets	292	182	110
Total assets	555	417	138
Assets under management	315	225	90
Key Performance Indicators			
Clients loans to client deposit ratio	57 6%	61 5%	(3 9)%
Tier 1 capital ratio	10 8%	11 1%	(0 3)%
Capital ratio	13 9%	13 1%	0 8%

Private Banking

Client loans grew by £27m to £242m, a 13% growth over 2010 The bank continued to lend cautiously whilst widening margins and improving the quality of collateral held as security

Credit losses continued at less than 1% of the asset book, despite provisions against legacy transactions which would not willingly be accepted under the Bank's current strategy and credit policies

All client loans are financed by client deposits rather than through the wholesale market or intra-group deposits The board continues to believe that this prudent funding strategy is the most appropriate for the Bank

Client deposits grew by £70m to £420m in 2011, a 20% year on year increase The client loan to deposit ratio closed the year at a cautious 57 6%

Intra-group deposits, held on behalf of the Arbuthnot Banking Group and Secure Trust Bank, rose by £66m to £105m These funds are generally placed in the Bank of England reserve account held by Arbuthnot Latham

Surplus funds are held in the Bank of England reserve account (£238m at December 2011), or placed in the interbank market (£54m) with the majority with UK clearing banks The bank has no direct exposure to the euro zone sovereign debt markets

Our prudent approach to lending and liquidity management ensures the on-going security and stability of the Bank, but does incur incremental costs to the business as the historically low rates on treasury assets are significantly below the cost of raising new deposits

The Private Bank continues to focus on expanding its asset management and wealth planning offerings, with further investment in people and systems initiated in 2011 These initiatives, when fully complete, will provide a strong foundation for organic growth

Discretionary assets under management grew by 40% from a modest base to £315m, whilst wealth planning income grew by 10% This growth is a result of high net worth clients being attracted to the full wealth management and private banking proposition

During 2011 the company became the first UK bank to achieve chartered wealth planning status This is a mark of distinction and is only awarded to firms that are focused on raising standards of knowledge capability and ethical practice within the industry The business is well placed to thrive as the advisory and investment management business environment changes leading up to, and beyond the implementation of the FSA Retail Distribution Review in January 2013

The Bank continues to be well capitalised with the Tier 1 capital ratio at 10 8%, (2010 11 1%), and capital ratio at 13 9%, (2010 13 1%)

The Board approved its Individual Liquidity Adequacy Assessment (ILAA) document on the 8 February 2012 The board modelled various stress scenarios and assessed the resultant cash flows in order to determine its potential liquidity requirements The Directors firmly believe that sufficient liquid assets are held to allow the bank to meet its liabilities in a stressed environment

On 1 March 2012 CEO, Dean Proctor, resigned from the board and company Our best wishes go with him Fortunately, we were able to find a strong successor in James Fleming James joins us from Coutts where he had been a senior director

Gilliat Financial Solutions

Gilliat delivered its first profit of £0 2m (2010 £0 6m loss) This was driven by a significant increase in revenue reflecting the growing recognition of the brand within the retail distribution network since its launch in July 2009

In 2011, Gilliat generated product sales in excess of £90m, with revenues increasing steadily period on period The Directors confidently expect this profitable momentum to continue in 2012 with a wider network of advisors referring Gilliat products to their clients

Financial results
The profits for the year after tax were £1 1m (2010 £38k) with a £0 5m tax write-back resulting from ABG group tax relief The Directors paid an interim dividend of £1 5m in December (2010 £0 3m) The Directors do not recommend the payment of a final dividend (2010 £nil)

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

Financial Risk Management
Details of how the Company manages risk are set out in both the financial statements of Arbuthnot Banking Group PLC and also in Note 4 Financial Risk Management

Tangible fixed assets
Movements in tangible fixed assets during the year are shown in Note 20 to the financial statements

Arbuthnot Latham & Co,. Limited

Directors' Report

Directors
The dırectors of the Company were as follows

- H Angest
- DM Proctor (Resıgned 1 March 2012)
- JW Flemıng (Appoınted 1 March 2012)
- JR Cobb
- RAE Herbert
- SP Kelly
- J Reed
- AA Salmon
- AD Turrell (Resıgned 31 December 2011)
- RJJ Wıckham

Mr J R Cobb, Mr R A E Herbert and Mr R J J Wıckham retıre by rotatıon and beıng elıgıble offer themselves for re-electıon

Insurance of Directors
The Company maıntaıns ınsurance to provıde lıabılıty cover for Dırectors and officers of the Company

Supplier payment policy
The Company's polıcy ıs to make payment ın lıne wıth terms agreed wıth ındıvıdual supplıers, payment beıng effected on average wıthın 30 days of ınvoıce

Audıtors
A resolutıon to re-appoınt KPMG Audıt Plc as audıtors to the Company wıll be proposed at the Annual General Meetıng, ın accordance wıth sectıon 487 of the Companıes Act 2006

Arbuthnot Latham & Co,. Limited

Directors' Report

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 judgements 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

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,

a so far as each Director is aware, there is no relevant audit information of which the Company's auditors are unaware, and
b 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

By order of the Board

J.R. Kaye

JR Kaye
Secretary
14 March 2012

Company Registered Number 00819519

Independent Auditor's Report to the Members of Arbuthnot Latham & Co., Limited

We have audited the financial statements of Arbuthnot Latham & Co , Limited for the year ended 31 December 2011 set out on pages 8 to 48 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 auditor's 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 auditor
As explained more fully in the Directors' Responsibilities Statement set out on page 6, 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 website 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 2011 and of its profit 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
15 Canada Square
London
E14 5GL
14 March 2012

Arbuthnot Latham & Co,. Limited

Statement of comprehensive income

	Note	Year ended 31 December 2011 £000	2010 £000
Interest and similar income		16,405	13,750
Interest expense and similar charges		(5,811)	(4,370)
Net interest income	**6**	**10,594**	**9,380**
Fee and commission income	7	7,425	5,413
Fee and commission expense		(331)	(364)
Net fee and commission income		**7,094**	**5,049**
Operating income		**17,688**	**14,429**
Net impairment losses on financial assets	8	(2,212)	(979)
Fair value movement on Derivatives		(124)	-
Other income	9	2,631	2,491
Operating expenses	10	(17,367)	(15,854)
Profit before income tax from continuing operations		**616**	**87**
Income tax credit/(expense)	12	448	(49)
Profit after income tax from continuing operations		**1,064**	**38**
Profit for the year		**1,064**	**38**
Other Comprehensive Income			
Movement in available-for-sale financial assets net of tax		**(142)**	**142**
Total comprehensive income net of tax for the year		**922**	**180**

The notes on pages 12 to 48 are an integral part of these financial statements

Arbuthnot Latham & Co,. Limited

Statement of financial position

	Note	At 31 December 2011 £000	2010 £000
ASSETS			
Cash		133	154
Cash and balances at central banks		243,050	57,146
Loans and advances to banks	13	8,953	7,787
Loans and advances to customers	14	245,727	218,476
Debt securities held-to-maturity	15	40,079	117,489
Financial investments available for sale	16	2,859	4,628
Derivative financial instruments	17	892	-
Shares in subsidiary undertakings	18	25	25
Intangible assets	19	6,579	5,787
Property, plant and equipment	20	160	412
Other assets	21	6,384	4,823
Deferred tax asset	22	92	120
Total assets		**554,933**	**416,847**
EQUITY AND LIABILITIES			
Equity attributable to owners of the parent			
Share capital	28	15,000	15,000
Other reserves	29	-	142
Retained earnings	29	7,347	7,783
Total equity		**22,347**	**22,925**
LIABILITIES			
Deposits from banks	23	81,608	24,467
Derivative financial instruments	17	-	184
Deposits from customers	24	444,703	364,638
Other liabilities	25	1,774	1,406
Debt securities in issue	26	4,500	3,100
Current tax liability		1	127
Total liabilities		**532,586**	**393,922**
Total equity and liabilities		**554,933**	**416,847**

The notes on pages 12 to 48 are an integral part of these financial statements

The financial statements on pages 8 to 48 were approved by the Board of directors on 14 March 2012 and were signed on behalf by

H Angest, Director

SP Kelly, Director

Arbuthnot Latham & Co,. Limited

Statement of changes in equity

	Note	Available for sale reserve £000	Share capital £000	Retained earnings £000	Total £000
At 1 January 2010		-	15,000	8,045	**23,045**
Net profit for the year		-	-	38	**38**
Other comprehensive income					
Net movement on available for sale financial assets		142	-	-	**142**
Total comprehensive income for year		142	-	38	**180**
Interim dividend relating to 2010 (£0 02 per share)	30	-	-	(300)	**(300)**
Total contributions by & distributions to owners		-	-	(300)	**(300)**
At 31 December 2010		**142**	**15,000**	**7,783**	**22,925**
At 1 January 2011		142	15,000	7,783	**22,925**
Net profit for the year		-	-	1,064	**1,064**
Other comprehensive income					
Net movement on available for sale financial assets		(142)	-	-	**(142)**
Total comprehensive income for year		(142)	-	1,064	**922**
Interim dividend relating to 2011 (£0 10 per share)	30	-	-	(1,500)	**(1,500)**
Total contributions by & distributions to owners		-	-	(1,500)	**(1,500)**
At 31 December 2011		**-**	**15,000**	**7,347**	**22,347**

The notes on pages 12 to 48 are an integral part of these financial statements

Arbuthnot Latham & Co, Limited

Statement of cash flows

	Year ended 31 December 2011 £000	2010 £000
Cash flows from operating activities		
Interest and similar income received	14,298	12,035
Interest and similar charges paid	(6,250)	(4,278)
Fees and commissions received	8,912	6,066
Other income	3,194	3,106
Cash payments to employees and suppliers	(17,328)	(15,591)
Taxation received	475	51
Cash flows from operating profits before changes in operating assets and liabilities	3,301	1,389
Changes in operating assets and liabilities		
- net decrease/(increase) in loans and advances to customers	(29,494)	(32,341)
- net decrease in other assets	(485)	621
- net increase/(decrease) in deposits from other banks	57,141	(9,149)
- net increase in amounts due to customers	81,148	55,400
- net (decrease)/increase in other liabilities	(2,076)	1,452
Net cash (outflow) / inflow from operating activities	109,535	17,372
Cash flows from investing activities		
Disposal of financial investments	1,740	481
Purchase of financial investments	(586)	(605)
Purchase of computer software	(960)	(176)
Purchase of property, plant and equipment	(54)	(96)
Proceeds from sale of property, plant and equipment	64	96
Purchases of debt securities held to maturity	(164,894)	(301,783)
Proceeds from sale of debt securities held to maturity	243,704	298,759
Net cash from investing activities	79,014	(3,324)
Cash flows from financing activities		
Dividends paid	(1,500)	(300)
Net cash used in financing activities	(1,500)	(300)
Net decrease in cash and cash equivalents	**187,049**	**13,748**
Cash and cash equivalents at beginning of year	65,087	51,339
Cash and cash equivalents at end of year	**252,136**	**65,087**

The notes on pages 12 to 48 are an integral part of these financial statements

Arbuthnot Latham & Co,. Limited

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 The financial statements were authorised for issue by the Board of directors on 14 March 2012

1.1 Reporting Entity

Arbuthnot Latham & Co , Limited (the Company) is a company domiciled in the United Kingdom The registered address of Arbuthnot Latham & Co , Limited is Arbuthnot House, 20 Ropemaker Street, London, EC2Y 9AR The Company is primarily involved in banking and financial services

1.2 Basis of presentation

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

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates It also requires management to exercise its judgement in the process of applying the 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 Notes 2 and 4

The Company's business activities and financial position, the factors likely to affect its future development and performance, and its objectives and policies in managing the financial risks to which it is exposed and its capital are discussed in Note 4 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

In accordance with IAS 27 'Consolidated and Separate Financial Statements', no consolidated financial statements for the Company's investment in subsidiaries were prepared as the Company itself is a wholly owned subsidiary of its immediate holding company, Arbuthnot Banking Group PLC

1.2.(a) Standards, interpretation and amendments effective 2011

- IAS 24 (Revised), 'Related Party Disclosures' (effective from 1 January 2011 - early adopted) The revised standard includes an exemption from the disclosure requirements for related party transactions between "state-controlled" entities and includes a revised definition for related parties

- Improvements to IFRSs Sets out minor amendments to IFRS standards as part of annual improvements process

1.2.(b) Standards, amendments and interpretations to existing standards (applicable to the Company) 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 2012 or later periods, but the Company has not early adopted them

- IFRS 7 (Revised), 'Disclosures - Transfers of Financial Assets' (endorsed for use in the EU for periods commencing on or after 22 November 2011) The revised standard requires additional disclosures for transfers of financial assets and where there are a disproportionate amount of transactions undertaken around the period end The revised standard will not have any material impact on the Group's financial accounts

- IFRS 7 (Revised), 'Disclosures - Offsetting Financial Assets and Financial Liabilities' (effective for periods commencing on or after 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 9, 'Financial instruments'* (effective for periods commencing on or after 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 Company's financial statements, due to the nature of the Company's operations

- IFRS 13, 'Fair Value Measurement' (effective for periods commencing on or after 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 for periods commencing on or after 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 *

* - not yet endorsed by the EU

1.3 Foreign currency transactions

(a) Functional and presentational currency

The financial statements are presented in pounds sterling, which is the Company's functional and presentational currency

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured 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

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

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

1.5 Fee and commission income

Fees and commissions, which are not considered integral to the effective interest rate, are 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

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 wealth 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

1.6 Financial assets and financial liabilities

The Company 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) 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 Company 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

(b) Held-to-maturity

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company'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

(c) 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 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 (available-for-sale 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

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

Financial assets and liabilities valued at fair value through profit or loss are financial derivatives These are recognised the date on which the Company becomes a party to the contractual provisions of the instrument

Included in Financial assets and financial liabilities at fair value through profit and loss are embedded derivatives These 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 itself is not carried at fair value through profit or loss, the embedded derivative is bifurcated and reported at fair value with gains and losses recognised in the income statement Where both the host contract and the embedded derivative are financial instruments and satisfy offsetting criteria, both the host and embedded derivative are presented net within derivative financial instruments

(e) Deposits

Deposits are non-derivative financial liabilities with fixed or determinable payments Deposits are recognised when cash is received from the depositors Deposits are carried at amortised cost using the effective interest method

(f) Derecognition

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Company 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 Company is recognised as a separate asset or liability in the statement of financial position In transactions in which the Company neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset and it retains control over the asset, the Company 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 has not been any instances where assets have only been partially derecognised

The Company derecognises a financial liability when its contractual obligations are discharged or cancelled or expired

(g) 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

(h) 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 Company establishes a fair value by using appropriate valuation techniques These include the use of recent arm's length transactions, reference to other instruments that are substantially the same for which market observable prices exist, net present value and discounted cash flow analysis

1.7 Derivative financial instruments

All derivatives, including embedded derivatives, are recognised at their fair value Derivatives are shown in the statement of financial position as assets when their fair value is positive and as liabilities when their fair value is negative Changes in the fair value of derivatives are recognised immediately in the statement of comprehensive income

1 8 Offsetting financial instruments

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

1.9 Impairment of financial assets

(a) Assets carried at amortised cost

On an ongoing basis the Company 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 impacts on the estimated future cash flows of the financial asset or group of financial assets, and can be reliably estimated

The criteria that the Company considers 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 Company assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered as objective evidence of impairment 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

Arbuthnot Latham & Co,. Limited

Principal accounting policies

1 10 Intangible assets

(a) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Company's share of the net identifiable assets of the acquired business Goodwill on acquisitions of businesses 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 Company 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 can not 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

Impairment losses are recognised in profit or 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)

1.11 Property, plant and equipment

Plant and equipment is stated at historical cost less depreciation Historical cost includes expenditure that is directly attributable to the acquisition of the items

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

Office equipment	5% to 15%
Computer equipment	20% to 33%

Gains and losses on disposals are determined by comparing proceeds with carrying amount These are included in the statement of comprehensive income

1.12 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

Leases in which the Company assumes substantially all the risks and rewards of ownership of the leased asset are classified as finance leases Leased assets by way of finance leases are stated at an amount equal to the lower of their fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability

1.13 Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprises of 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 loans and advances to banks and building societies and short-term highly liquid debt securities

1.14 Employee benefits

The Company 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 Company 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

1.15 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 financial statements However, deferred tax is not accounted for if it arises from the initial recognition of goodwill, the initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries to the extent that they probably will not reverse in the foreseeable future Deferred tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the statement of financial position date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled Deferred tax assets are recognised where it is probable that future taxable profits will be available against which the temporary differences can be utilised

1.16 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 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 designated at fair value except for derivatives, are carried at amortised cost using the effective interest method as set out in policy 1 6(g) Equity instruments, including share capital, are initially recognised at net proceeds, after deducting transaction costs Dividend and other payments to equity holders are deducted from equity

1.17 Share capital

(a) Share issue costs

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

(b) Dividends and ordinary shares

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

1.18 Fiduciary activities

The Company 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 Company

1.19 Business combinations

In accordance with the exemption offered by IFRS3, the Company deals with internal corporate reorganisations by transferring assets at their carrying value The purchase method of accounting is used to account for the acquisition of businesses by the Company 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 acquisition are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest The excess of the cost of acquisition over the fair value of the Company'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

1.20 Guarantees

The Company issues guarantees to third parties on behalf of its customers These items, which are normally secured on customer assets, are recorded as contingent liabilities at the contracted value of the guarantee

1.21 Forbearance

The Company does not actively enter into forbearance agreements with its clients Any forbearance support is assessed on a case by case basis in line with best practice and subject to regular monitoring and review

2 Critical accounting estimates and judgements in applying accounting policies

The preparation of financial statements in accordance with IFRS requires the use of certain critical accounting estimates It also requires management to exercise judgement in the process of applying the accounting policies Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances

2.1 Estimation uncertainty

Credit losses

The Company reviews its loan portfolios to assess impairment at least on a quarterly basis The basis for evaluating impairment losses is described in accounting policy 1 9 Financial assets are individually evaluated for impairment with management using their best estimate in calculating the net present value of future cash flows Management makes judgements on the financial position of the counterparty and the net realisable value of collateral in determining the expected future cash flows

Goodwill impairment

The accounting policy for goodwill is described in note 1 10 (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 cash-generating unit (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 management's view of future business forecasts at the time of the assessment These are based on the board approved 3 year budget with management growth estimates for periods beyond the budget period

- The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell Management considers the value in use for the Arbuthnot Latham core banking CGU to be the discounted cash flows over 5 years with a terminal value (2010 5 years with a terminal value) generated through its private banking and wealth management activities 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 An annualised income growth rate of 5% was used for the 5 year period (2010 between 4% and 8%) Costs were forecast to grow 4% (2010 between 4% and 9%) These rates were the best estimate of future forecasted performance, with a more conservative approach taken for latter years, as these were not budgeted for in detail as per the three year plan approved by the Directors

- 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

- Cash flows were discounted at a pre-tax rate of 12% (2010 12%) to their net present value The discount rate of 12% is considered to be appropriate after evaluating current market assessments of the time value of money and the risks specific to the assets or CGUs

2 2 Judgements

Impairment of equity securities held as available for sale

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

Valuation of financial instruments

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices If the market is not active the Company 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 valuation techniques seek 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 Company measure 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 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 tables below analyses financial instruments measured at fair value by the level in the fair value hierarchy into which the measurement is categorised

At 31 December 2011	**Note**	**Level 1 £000**	**Level 2 £000**	**Level 3 £000**	**Total £000**
Derivative financial instruments	17	-	892	-	892
Financial investments available for sale	16	113	-	2,746	2,859
		113	892	2,746	3,751

At 31 December 2010	**Note**	**Level 1 £000**	**Level 2 £000**	**Level 3 £000**	**Total £000**
Derivative financial instruments	17	-	(184)	-	(184)
Financial investments available for sale	16	1,740	-	2,888	4,628
		1,740	(184)	2,888	4,444

There were no transfers between levels 1, 2 or 3 during the year

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

	2011 £000	**2010 £000**
Movement in level 3		
At January	2,888	3,524
Purchases	-	131
Disposals	-	(450)
Losses recognised in the profit and loss	(142)	(317)
At December	2,746	2,888

3. Maturity analysis of assets and liabilities

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

At 31 December 2011	Due within one year £000	Due after more than one year £000	Total £000
ASSETS			
Cash	133	-	133
Cash and balances at central banks	243,050	-	243,050
Loans and advances to banks	8,953	-	8,953
Loans and advances to customers	212,240	33,487	245,727
Debt securities held-to-maturity	30,573	9,506	40,079
Financial investments available for sale	-	2,859	2,859
Derivative financial instruments	892	-	892
Shares in subsidiary undertakings	-	25	25
Intangible assets	-	6,579	6,579
Property, plant and equipment	-	160	160
Other assets	4,050	2,334	6,384
Deferred tax asset	-	92	92
Total assets	499,891	55,042	554,933
LIABILITIES			
Deposits from banks	81,608	-	81,608
Deposits from customers	438,552	6,151	444,703
Other liabilities	1,648	126	1,774
Debt securities in issue	-	4,500	4,500
Current tax liability	1	-	1
Total liabilities	521,809	10,777	532,586

3. Maturity analysis of assets and liabilities, continued

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

At 31 December 2010	Due within one year £000	Due after more than one year £000	Total £000
ASSETS			
Cash	154	-	154
Cash and balances at central banks	57,146	-	57,146
Loans and advances to banks	7,787	-	7,787
Loans and advances to customers	183,451	35,025	218,476
Debt securities held-to-maturity	101,484	16,005	117,489
Financial investments available for sale	-	4,628	4,628
Shares in subsidiary undertakings	-	25	25
Intangible assets	-	5,787	5,787
Property, plant and equipment	-	412	412
Other assets	2,618	2,205	4,823
Deferred tax asset	-	120	120
Total assets	352,640	64,207	416,847
LIABILITIES			
Deposits from banks	24,467	-	24,467
Derivative financial instruments	184	-	184
Deposits from customers	358,345	6,293	364,638
Other liabilities	1,260	146	1,406
Debt securities in issue	-	3,100	3,100
Current tax liability	127	-	127
Total liabilities	384,383	9,539	393,922

4. Financial risk management

Strategy

By their nature, the Company's activities are principally related to the use of financial instruments The Directors and senior management of the Company have formally adopted policies which set 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, the key business risks are identified and evaluated through the company's risk register and managed on an ongoing basis by means of procedures such as physical controls, credit and other authorisation limits and segregation of duties The company's risk register is formally reviewed quarterly The Board 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 principal non-operational risks inherent in the Company's business are credit, market and liquidity risks

4.a.) 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 Impairment provisions are provided for losses that have been incurred at the balance sheet date Significant changes in the economy could result in losses that are different from those provided for at the balance sheet date Credit risk is managed by the Credit Committee through an annually reviewed policy sanctioned by the Board of Directors, with significant exposures also being approved by the Risk Committee of Arbuthnot Banking Group PLC, the ultimate parent entity

The Company structures 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, corporate and personal guarantees

The Company employs a range of policies and practices to mitigate credit risk The most traditional and commonly used of these is the taking of collateral against residential property for fund advances Other collateral types for loans and advances include, but are not limited to charges over commercial properties, 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 Company will seek additional capital 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 Company 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 Company's maximum exposure to credit risk before collateral held or other credit enhancements is as follows

	At 31 December	
	2011	**2010**
	£000	**£000**
Credit risk exposure relating to on-balance sheet assets are as follows		
Loans and advances to banks	8,953	7,787
Loans and advances to customers	245,727	218,476
Debt securities held-to-maturity	40,079	117,489
Financial investments available for sale	2,859	4,628
Other assets	6,384	4,823
Credit Risk exposures relating to off-balance sheet assets are as follows		
Guarantees	803	485
Loan Commitments	21,841	23,469
At 31 December	326,646	377,157

The preceding table represents the maximum credit risk exposure (net of impairment) to the company at 31 December 2011 and 2010 without taking account of any collateral held or other credit enhancements attached For on-balance-sheet assets, the exposures are based on the net carrying amounts as reported in the balance sheet

Management is confident of its ability to continue to control the credit exposure to the Company resulting from both its loan and advances portfolio and debt securities based on the following

- All exposures to banks, including debt securities, have at least an A2 credit rating, New placements in the interbank market are invested in institutions rated Aa3 or above at the time of placing funds

- 94% of the loans and advances to customers are neither past due nor impaired (2010 96%),

- 3% of the loans and advances to customers are past due but not impaired (2010 3%),

- Only 3% of the loans and advances to customers are considered individually impaired (2010 1%),

The loan to value ratios where property is taken as part of the collateral is detailed below Other types of collateral are also taken against these loans, including charges over debt securities, equities, other chattels and personal guarantees

At December 2011	**Loans £'000**	**Property £'000**
Loan to Value		
Less than 60%	105,907	309,328
60%-80%	62,259	89,972
80%-100%	21,013	23,572
Greater than 100%	25,551	21,596
Total	214,730	444,468

At December 2010	**Loans £'000**	**Property £'000**
Loan to Value		
Less than 60%	103,320	284,285
60%-80%	47,642	65,821
80%-100%	12,060	13,578
Greater than 100%	15,081	11,357
Total	178,103	375,041

The Directors do not monitor concentrations of sector or geography as this is not considered to have a significant influence on the credit risk of the Company's loans and advances

4.b.) Market risk

Currency risk

The Company 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 Company's exposure to foreign currency exchange rate risk at 31 December 2011

At 31 December 2011	GBP (£) £000	USD ($) £000	Euro (€) £000	Other £000	Total £000
ASSETS					
Cash	77	24	31	1	133
Cash and balances at central banks	243,050	-	-	-	243,050
Loans and advances to banks	1,423	4,899	578	2,053	8,953
Loans and advances to customers	206,667	4,502	34,558	-	245,727
Debt securities held-to-maturity	40,079	-	-	-	40,079
Financial investments available for sale	113	-	2,746	-	2,859
Derivative financial instruments	892	-	-	-	892
Shares in subsidiary undertakings	25	-	-	-	25
Intangible assets	6,579	-	-	-	6,579
Property, plant and equipment	160	-	-	-	160
Other assets	6,384	-	-	-	6,384
Deferred tax asset	92	-	-	-	92
Total assets	**505,541**	**9,425**	**37,913**	**2,054**	**554,933**
LIABILITIES					
Deposits from banks	81,604	4	-	-	81,608
Deposits from customers	414,556	9,821	18,271	2,055	444,703
Other liabilities	1,774	-	-	-	1,774
Debt securities in issue	4,500	-	-	-	4,500
Current tax liability	1	-	-	-	1
Total liabilities	**502,435**	**9,825**	**18,271**	**2,055**	**532,586**
Net on-balance sheet position	**3,106**	**(400)**	**19,642**	**(1)**	**22,347**
Credit commitments	**22,290**	**20**	**334**	**-**	**22,644**

At 31 December 2010	GBP (£) £000	USD ($) £000	Euro (€) £000	Other £000	Total £000
ASSETS					
Cash	91	23	40	-	154
Cash and balances at central banks	57,146	-	-	-	57,146
Loans and advances to banks	895	4,945	427	1,520	7,787
Loans and advances to customers	176,710	5,090	36,676	-	218,476
Debt securities held-to-maturity	117,489	-	-	-	117,489
Financial investments available for sale	1,670	71	2,887	-	4,628
Shares in subsidiary undertakings	25	-	-	-	25
Intangible assets	5,787	-	-	-	5,787
Property, plant and equipment	412	-	-	-	412
Other assets	4,823	-	-	-	4,823
Deferred tax asset	120	-	-	-	120
Total assets	**365,168**	**10,129**	**40,030**	**1,520**	**416,847**
LIABILITIES					
Deposits from banks	24,438	10	13	6	24,467
Derivative financial instruments	184	-	-	-	184
Deposits from customers	333,260	9,947	19,898	1,533	364,638
Other liabilities	1,406	-	-	-	1,406
Debt securities in issue	3,100	-	-	-	3,100
Current tax liability	127	-	-	-	127
Total liabilities	**362,515**	**9,957**	**19,911**	**1,539**	**393,922**
Net on-balance sheet position	**2,653**	**172**	**20,119**	**(19)**	**22,925**
Credit commitments	**23,600**	**20**	**334**	**-**	**23,954**

After taking into account the effect of derivative financial instruments (see note 17) which covers most of the net exposure in each currency A 10% strengthening of the pound against the US dollar would lead to £3,000 decrease (2010 £3,000 decrease) in Company profits and equity, while a 10% weakening of the pound against the US dollar would lead to the same decrease in Company profits and equity Similarly a 10% strengthening of the pound against the euro would lead to £10,000 increase (2010 £28,000 decrease) in Company profits and equity, while a 10% weakening of the pound against the euro would lead to the same increase in Company profits and equity

4.c.) 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 In particular, fixed rate savings and borrowing products expose the Company 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 Company seeks to "match" interest rate risk on either side of the balance sheet within strictly defined limits Interest rate risk is present on Money market placements of a fixed rate nature, fixed rate loans and fixed rate savings accounts The interest rate mismatch is monitored on a daily basis in conjunction with liquidity and capital In order to assess interest rate risk the interest rate mismatch is monitored, throughout the maturity bandings of the book, on a parallel scenario for both 50 and 100 basis points This typically results in a pre-tax mismatch of £0 2m to £0 4m (2010 £0 1m to £0 2m), with the same impact to equity pre-tax

4.d.) Liquidity risk

Liquidity risk is the risk that a company is not able to meet obligations as they come due This risk arises as the company's liquidity is managed on a mismatch basis, with the mismatch being the difference between the levels of assets and liabilities in the same maturity bands This maturity transformation is fundamental to the role of a bank in the wider economy The Board approved its ILAA document on the 8 February 2012, and the Directors firmly believe that sufficient liquid assets are held to allow the bank to meet its liabilities as they fall due

The key features of the company's business model are

- Client lending is funded by client deposits, with a conservative loan to deposit ratio
- Lending is short term in nature (typically 0-3 years)
- Excess customer deposits are generally invested in institutions rated Aa3 or above at the time of placing funds
- Intra-group deposits and loans are segregated and managed separately to customer balances

The aim is not to measure liquidity with a single metric but rather a range of principles and metrics which, when taken together, will ensure that the company's liquidity risk is maintained at an acceptable level The principle metrics are

- To maintain a liquidity asset buffer greater than the Board approved ILAA stress requirement, and to normally operate at least 5% above this level
- To maintain a liquidity asset buffer greater than the minimum required by the FSA as set by their Individual Liquidity Guidance, and to normally operate at least 5% above this level
- To maintain a client lending to client deposits ratio below 80%, but to operate normally at least 5% beneath this level
- To maintain adequate liquidity resources to withstand all known reasonable combinations of idiosyncratic and market risks for up to 90 days

BIPRU 12 7 defines what assets that can be included in a liquidity asset buffer At 31 December 2011, AL had £247m in its liquid asset buffer, with the majority placed in the Bank of England (£238m) reserve account

The investment limits for each counterparty are reviewed regularly, and approved in accordance with the AL Treasury Policy

Arbuthnot Latham & Co,. Limited

Notes to the financial statements

The table below analyses the contractual undiscounted cashflows 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
Liabilities						
Deposits from banks	81,608	(81,608)	(81,608)	-	-	-
Deposits from customers	444,703	(446,722)	(297,522)	(143,030)	(6,170)	-
Other liabilities	1,774	(1,774)	(1,539)	(109)	(126)	-
Debt securities in issue	4,500	(4,555)	-	-	-	(4,555)
Current Tax Liability	1	(1)	(1)	-	-	-
Total liabilities	**532,586**	**(534,660)**	**(380,670)**	**(143,139)**	**(6,296)**	**(4,555)**
Off-Balance Sheet						
Issued guarantee contracts	803	(803)	(803)	-	-	-
Unrecognised loan commitments	21,841	(21,841)	(21,841)	-	-	-
Total off balance sheet credit commitments	**22,644**	**(22,644)**	**(22,644)**	-	-	-

Arbuthnot Latham & Co,. Limited

Notes to the financial statements

The table below analyses the contractual undiscounted cashflows into relevant maturity groupings at 31 December 2010

At 31 December 2010	Carrying Amount £000	Gross nominal inflow/ (outflow) £000	Not more than 3 months £000	More than 3 months but less than 1 year £000	More than 1 year but less than 5 years £000	More than 5 years £000
Liabilities						
Deposits from banks	24,467	(24,471)	(24,471)		-	-
Derivative financial instruments	184	(184)	(184)	-	-	-
Deposits from customers	364,638	(365,052)	(263,764)	(94,961)	(6,327)	-
Other liabilities	1,406	(1,406)	(1,151)	(109)	(146)	-
Debt securities in issue	3,100	(3,101)	-	-	-	(3,101)
Current tax liability	127	(127)	(127)	-	-	-
Total liabilities	**393,922**	**(394,341)**	**(289,697)**	**(95,070)**	**(6,473)**	**(3,101)**
Off-Balance Sheet						
Issued guarantee contracts	485	(485)	(485)	-	-	-
Unrecognised loan commitments	23,469	(23,469)	(23,469)	-	-	-
Total off balance sheet credit commitments	**23,954**	**(23,954)**	**(23,954)**	**-**	**-**	**-**

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 Company and its exposure to changes in interest rates and exchange rates

Arbuthnot Latham & Co,. Limited

Notes to the financial statements

4.e.) Fair value risk

Fair values of financial assets and liabilities

The table below sets out the company's financial assets and liabilities into the respective classifications

At 31 December 2011	Derivatives £000	Held to Matrurity £000	Loans and receivables £000	Available -for-sale £000	Other amortised cost £000	Total Carrying Amount £000	Fair value £000
ASSETS							
Cash	-	-	133	-	-	133	133
Cash and balances at central banks	-	-	243,050	-	-	243,050	243,050
Loans and advances to banks	-	-	8,953	-	-	8,953	8,953
Loans and advances to customers	-	-	245,727	-	-	245,727	245,727
Debt securities held-to-maturity	-	40,079	-	-	-	40,079	40,079
Financial investments available for sale	-	-	-	2,859	-	2,859	2,859
Derivative financial instruments	892	-	-	-	-	892	892
	892	**40,079**	**497,863**	**2,859**	-	**541,693**	**541,693**
LIABILITIES							
Deposits from banks	-	-	-	-	81,608	81,608	81,608
Deposits from customers	-	-	-	-	444,703	444,703	444,703
Debt securities in issue	-	-	-	-	4,500	4,500	4,500
	-	-	-	-	**530,811**	**530,811**	**530,811**

At 31 December 2010	Derivatives £000	Held to Matrurity £000	Loans and receivables £000	Available -for-sale £000	Other amortised cost £000	Total Carrying Amount £000	Fair value £000
ASSETS							
Cash	-	-	154	-	-	154	154
Cash and balances at central banks	-	-	57,146	-	-	57,146	57,146
Loans and advances to banks	-	-	7,787	-	-	7,787	7,787
Loans and advances to customers	-	-	218,476	-	-	218,476	218,476
Debt securities held-to-maturity	-	117,489	-	-	-	117,489	117,489
Financial investments available for sale	-	-	-	4,628	-	4,628	4,628
	-	**117,489**	**283,563**	**4,628**	-	**405,680**	**405,680**
LIABILITIES							
Deposits from banks	-	-	-	-	24,467	24,467	24,467
Derivative financial instruments	184	-	-		-	184	184
Deposits from customers	-	-	-	-	364,638	364,638	364,638
Debt securities in issue	-	-	-	-	3,100	3,100	3,100
	184	-	-	-	392,205	**392,389**	**392,389**

Fiduciary activities

The Company provides trustee, investment management and advisory services to third parties, which involve the Company making allocation, 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 Company may be accused of maladministration or underperformance At the balance sheet date, the Company had investment management accounts amounting to approximately £315m (2010 £225m) Additionally the Company provides wealth planning services

4.f.) Operational risk

The Company's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Company's reputation with overall cost effectiveness and to avoid control procedures that restrict initiatives and creativity

Compliance with Company standards is supported by a programme of periodic reviews undertaken by an external 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 PLC Audit Committee

5. Capital management

The Company'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

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 Community Directives, as implemented by the Financial Services Authority (FSA), for supervisory purposes 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 Company 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 managements' 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, and further modified by the Individual Capital Guidance issued by the FSA

The Company's regulatory capital is divided into two tiers

- Tier 1 comprises shareholders' funds after deducting goodwill and other intangible assets
- Lower tier 2 comprises qualifying subordinated loan capital and other reserves Lower tier 2 capital cannot exceed 50% of tier 1 capital

Arbuthnot Latham & Co,. Limited

Notes to the financial statements

The following table shows the regualtory capital resources as managed by the Company

	At 31 December 2011 £000	2010 £000
Tier 1		
Share Capital	15,000	15,000
Retained Earnings	7,347	7,783
Goodwill	(5,415)	(5,415)
Computer Software	(1,164)	(372)
Total tier 1 capital	15,768	16,996
Tier 2		
Debt securities in issue	4,500	3,100
Available for sale reserve	-	(142)
Total tier 2 capital	4,500	2,958
Total tier 1 & tier 2	20,268	19,954
Investment in subsidiaries	(25)	(25)
Total capital after deductions	20,243	19,929

Arbuthnot Banking Group PLC completes a consolidated Individual Capital Assessment Process (ICAAP), incorporating all group companies The ICAAP is embedded in the risk management framework across 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 Arbuthnot Banking Group PLC ICAAP includes a summary of the capital required to mitigate the identified risks in Arbuthnot Latham, and the amount of capital the Group has available The Company has complied with all of the externally imposed capital requirements to which it is subject

6 Net interest income

Interest income to customers includes loan-related fees of £2,157,000 (2010 £1,714,000) which have been recognised under the effective interest rate

	Year ended 31 December 2011 £000	2010 £000
Interest income		
Loans and advances		
- To banks	525	18
- To customers	14,476	11,926
	15,001	11,944
Debt securities	1,404	1,806
Total Interest Income	**16,405**	**13,750**
Interest expense		
Deposits from banks	(98)	(170)
Deposits from customers	(5,444)	(4,110)
Interest on subordinated loan	(269)	(90)
Total Interest Expense	**(5,811)**	**(4,370)**
Net interest income	**10,594**	**9,380**

Interest income of £97,000 (2010 £13,000) has been accrued on impaired loans and advances and is included in the impairment charge (see note 8)

7. Fee and commission income

	Year ended 31 December 2011 £000	2010 £000
Credit related fees	52	133
Banking commissions	1,133	1,097
Investment management fees and commissions	3,237	2,219
Financial planning fees and commissions	1,460	1,328
Structured product commissions	1,543	636
Fee and commission income	**7,425**	**5,413**

8. Allowances for impairments of loans and advances

Total net impairment losses on financial assets are as follows

	Year ended 31 December 2011 £000	2010 £000
Impairment losses on loans and advances	2,087	754
Impairment losses on available for sale assets	125	225
Net Impairment losses on financial assets	**2,212**	**979**

9. Other Income

Other income primarily represents cross charges made to other members of the Arbuthnot Banking Group for the shared use of premises and information technology infrastructure

10. Operating expenses

Operating expenses comprise

	Note	Year ended 31 December 2011 £000	2010 £000
Staff costs, including Directors			
Salaries & wages		7,278	6,674
Social security costs		851	748
Pension		499	499
Amortisation computer software	19	167	219
Depreciation	20	273	332
Operating lease rentals		1,797	1,800
Restructuring costs		-	262
Group recharge		1,272	960
Other administrative expenses		5,230	4,360
Total operating expenses		**17,367**	**15,854**

The auditors' remuneration for the audit of the Company's accounts pursuant to legislation was £60,000 (2010 £59,000) Remuneration for audit related assurance services was £24,000 (2010 £23,000) Remuneration of the auditors for non-audit services was services related to taxation £5,700 (2010 £21,000) and all other services £nil (2010 £nil)

11. Average number of employees

	Year ended 31 December 2011 £000	2010 £000
Private banking	122	115
Structured products	10	10
	132	125

12. Income tax (credit) / expense

	Year ended 31 December 2011 £000	2010 £000
United Kingdom corporation tax at 26 5% (2010 28%)		
- Current	52	104
- Adjustment in respect of prior years	(582)	23
	(530)	**127**
Deferred tax		
- Current	33	(43)
- Adjustment in respect of prior years	49	(35)
	82	**(78)**
Income tax (income)/expense	**(448)**	**49**

Tax reconciliation	Year ended 31 December 2011 £000	2010 £000
Profit before tax for the year	**616**	**87**
Tax at 26 5% (2010 28%)	163	24
Permanent differences	(89)	30
Change in tax rate	12	7
Prior period adjustments	(534)	(12)
Corporation tax (income)/charge for the year	**(448)**	**49**

The Government implemented a reduction in the main rate of corporation tax from the year beginning 1 April 2011 from 28% to 26% This results in a weighted average rate of 26 5% for 2011 (2010 28%) Furthermore it has announced further reductions of 1% per annum until the year beginning 1 April 2014 The reduction to 25% was substantively enacted on 5 July 2011 These changes will reduce the Company's future current tax charge

13. Loans and advances to banks

	At 31 December 2011 £000	2010 £000
Placements with banks included in cash and cash equivalents	8,953	7,787

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

	At 31 December 2011 £000	2010 £000
Aaa	-	-
Aa1	581	-
Aa2	-	4,633
Aa3	5,614	3,090
A1	2,257	-
A2	436	-
Unrated Intra Group Loan	65	64
	8,953	7,787

None of the loans and advances to banks is either past due or impaired (2010 Nil)

14. Loans and advances to customers

	At 31 December 2011 £000	2010 £000
Gross loans and advances	248,113	219,874
Less allowances for impairment on loans and advances	(2,386)	(1,398)
	245,727	218,476

At 31 December 2011 £33,487,000 (2010 £35,025,000) of loans and advances to customers are expected to be recovered more than 12 months after the reporting date For a maturity profile of loans and advances to customers, refer to Note 3

A reconciliation of the impairment losses on loans and advances is as follows

	At 31 December 2011 £000	2010 £000
At 1 January	1,398	1,472
Impairment losses	2,087	754
Loans written off during the year as uncollectable	(1,099)	(828)
	2,386	1,398

The directors have assessed loans and advances with similar risk profiles collectively for any impairment The directors do not believe that there is any requirement for a collective provision (2010 nil)

Loans and advances to customers include finance lease receivables as follows

	At 31 December 2011 £000	2010 £000
Gross investment in finance lease receivables		
- No later than 1 year	53	92
- Later than 1 year and no later than 5 years	-	24
- Later than 5 years	-	2
	53	118
Unearned future finance income on finance leases	(23)	(15)
Net investment in finance leases	30	103
The net investment in finance leases may be analysed as follows		
- No later than 1 year	30	80
- Later than 1 year and no later than 5 years	-	21
- Later than 5 years	-	2
	30	103

Loans and advances to customers can be further summarised as follows

	At 31 December 2011 £000	2010 £000
Neither past due nor impaired	231,152	210,566
Past due but not impaired	8,406	6,223
Impaired	8,555	3,085
Gross	248,113	219,874
Less allowance for impairment	(2,386)	(1,398)
Net	245,727	218,476

a) Loans and advances past due but not impaired

Gross amounts of loans and advances to customers that were past due but not impaired were as follows

	At 31 December 2011 £000	2010 £000
Past due up to 30 days	2,163	2,997
Past due 30 - 60 days	-	-
Past due 60 - 90 days	3,411	190
Over 90 days	2,832	3,036
Total	8,406	6,223

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

b) Loans and advances renegotiated

Restructuring activities include external payment arrangements, modification and deferral of payments Following restructuring, a previously overdue customer account is reset to a normal status and managed together with other similar accounts "Restructuring policies and practices are based on indicators or criteria which, in the judgement of management, indicate that payment will most likely continue These policies are kept under continuous review " Renegotiated loans that would otherwise be past due or impaired totalled £nil (2010 £nil)

c) Collateral held

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

	At 31 December 2011 £000	2010 £000
Past due but not impaired	18,764	16,065
Impaired	5,735	1,403
Fair value of collateral held	24,499	17,468

The net amount of individually impaired loans and advances to customers after provisions but before taking into account the cash flows from collateral held is £6,169,000 (2010 £1,687,000)

15. Debt securities held to maturity

Debt securities represent certificates of deposit, and fixed rated notes The Company's intention is to hold them to maturity and, therefore, they are stated in the balance sheet at amortised cost Amounts include £nil (2010 £nil) with a maturity, when placed, of 3 months or less included in cash and cash equivalents (Note 31)

The movement in debt securities held to maturity may be summarised as follows

	At 31 December 2011 £000	2010 £000
At 1 January	117,489	114,465
Additions	164,894	301,783
Redemptions	(242,304)	(298,759)
At 31 December	40,079	117,489

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

	At 31 December	
	2011	2010
	£000	£000
Aaa	15,291	4,005
Aa1	-	-
Aa2	4,510	8,018
Aa3	11,775	105,466
A2	8,503	-
	40,079	117,489

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

16 Financial investments available for sale

	As at 31 December	
	2011	2010
	£000	£000
Financial investments comprise		
- Listed securities	113	1,740
- Unlisted securities	2,746	2,888
Total financial investments	2,859	4,628

a) Listed securities
The Company holds investments in listed securities

b) Unlisted securities
The Company 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 Company has valued them using appropriate valuation methodologies 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

17. Derivative financial instruments

	At 31 December 2011		
	Contract/ Notional amount	Fair value assets	Fair value liabilities
	£000	£000	£000
Currency swaps	20,840	325	-
Structured Notes	691	567	-
	21,531	**892**	-

	At 31 December 2010		
	Contract/ Notional amount	Fair value assets	Fair value liabilities
	£000	£000	£000
Currency swaps	20,073	-	184
	20,073	-	**184**

The principal derivatives used by the Company are exchange rate contracts Exchange rate related contracts include forward foreign exchange contracts and currency swaps 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

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

18. Shares in subsidiary undertakings

	At 31 December	
	2011	**2010**
	£000	**£000**
At 1 January and 31 December	25	25

The subsidiary undertakings of the company at 31 December 2010 & 2011 were

	Country of incorporation	Interest %	Principal activity
Artillery Nominees Limited	UK	100	Dormant
Arbuthnot Property Administration Limited	UK	100	Dormant
Arbuthnot Latham (Nominees) Limited	UK	100	Dormant
John K Gilliat & Co , Limited	UK	100	Dormant
UK Regional Hotel Property Fund Manager Limited	Jersey	100	Dormant

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

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

No investments in subsidiary undertakings are impaired

19. Intangible assets

	At 31 December 2011 £000	2010 £000
Goodwill		
Opening net book amount	5,415	5,415
Closing net book amount	**5,415**	**5,415**

Computer software	At 31 December 2011 £000	2010 £000
Cost		
At 1 January	1,946	1,770
Additions	959	176
At 31 December	**2,905**	**1,946**
Accumulated amortisation		
At 1 January	(1,574)	(1,355)
Amortisation charge	(167)	(219)
At 31 December	**(1,741)**	**(1,574)**
Net book amount at 31 December	1,164	372

Goodwill	5,415	5,415
Computer software	1,164	372
Net book amount at 31 December	**6,579**	**5,787**

Software additions of £960k includes the cost of a new Investment Management system This project was initiated in 2011 and will go live in 2012

20. Property, plant and equipment

	Assets acquired under finance leases	Computer and other equipment	Total
	£000	£000	£000
Cost or valuation			
At 1 January 2010	160	2,411	2,571
Additions	-	96	96
Disposals	(96)	-	(96)
At 31 December 2010	**64**	**2,507**	**2,571**
Additions	-	54	54
Disposals	(64)	-	(64)
At 31 December 2011	**-**	**2,561**	**2,561**
Accumulated depreciation			
At 1 January 2010	(53)	(1,826)	(1,879)
Depreciation charge	(30)	(302)	(332)
Disposals	52	-	52
At 31 December 2010	**(31)**	**(2,128)**	**(2,159)**
Depreciation charge	-	(273)	(273)
Disposals	31	-	31
At 31 December 2011	**-**	**(2,401)**	**(2,401)**
Net book amount			
At 31 December 2010	33	379	412
At 31 December 2011	-	160	160

21 Other Assets

	At 31 December 2011	2010
	£000	£000
Trade receivables	1,100	342
Prepayments and accrued income	1,712	1,700
Other Assets	2,335	2,211
Amount due from group companies	1,237	570
	6,384	4,823

Other assets includes repossessed collateral held for sale

22. Deferred tax

	At 31 December	
	2011	**2010**
	£000	**£000**
At 1 January	120	98
Profit and loss account - accelerated capital allowances and other short-term timing differences	(28)	22
Deferred tax asset at 31 December	92	120

The deferred tax assets comprises accelerated capital allowances and other short-term timing differences Deferred tax assets are recognised for tax losses to the extent that the realisation of the related tax benefit through future taxable profits is probable

During the year the Government substantively enacted a reduction in UK corporation tax rate to 26% with effect from 1 April 2011 and to 25% with effect from 1 April 2012 This will reduce the Company's future current tax charge accordingly Deferred tax has been calculated at the corporation tax rates applicable to the financial years in which it is expected that the assets will be realised

Furthermore, on 23 March 2011 the Government announced its intention to further reduce the UK corporation tax rate to 23% by April 2014 It has not yet been possible to quantify the full anticipated effect of the announced 2% reduction, although this will further reduce the Company's future tax charge and reduce the Group's deferred tax assets accordingly

23. Deposits from banks

	At 31 December	
	2011	**2010**
	£000	**£000**
Deposits from other banks	81,608	24,467

Included in Deposits from other banks is £81,601,000 (2010 £23,629,000) from Secure Trust Bank PLC (part of the Arbuthnot Banking Group)

24 Deposits from customers

	At 31 December	
	2011	**2010**
	£000	**£000**
Retail customers		
- current/demand accounts	194,612	166,854
- term deposits	250,091	197,784
	444,703	364,638

25. Other liabilities

	At 31 December 2011 £000	2010 £000
Trade payables	644	405
Finance lease liabilities	-	25
Accruals & deferred income	1,130	976
	1,774	1,406

The Financial Services Compensation Scheme ('FSCS') has provided compensation to consumers following the collapse of a number of deposit takers The compensation paid out to consumers is currently funded through loans from the Bank of England and HM Treasury

At 31 December 2011, the Company had accrued £231,000 (2010 £254,000) in respect of the management expenses levy, based on the bank's estimated share of total market protected deposits

a) Finance lease liabilities

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

	At 31 December 2011 £000	2010 £000
Gross finance lease liabilities - minimum lease payments		
Within 1 year	-	26
	-	26
Future finance charges on finance leases	-	(1)
Present value of finance lease liabilities	**-**	**25**
The present value of finance lease liabilities is as follows		
Within 1 year	-	25
	-	25

26. Securities in issue

	At 31 December 2011 £000	2010 £000
Subordinated loan notes	**4,500**	**3,100**

The subordinated loan is provided by Arbuthnot Banking Group PLC In August 2011, the loan was increased to £4 5m (previously £3 1m) and the maturity extended to 30 August 2017 (previously 30 August 2016) The subordinated loan carries interest at the interbank rate for three month deposits plus 4%

27. Contingent liabilities and commitments

Capital commitments

At 31 December 2011, the Company had capital commitments of £85,000 (2010 £nil) in respect of an investment management system

Credit commitments

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

	At 31 December	
	2011	2010
	£000	£000
Guarantees and other contingent liabilities	803	485
Commitments to extend credit		
- Original term to maturity of one year or less	21,841	23,469
	22,644	23,954

Operating lease commitments

Where the Company is the lessee, the future aggregate lease payments under non-cancellable operating leases are as follows

	At 31 December	
	2011	2010
	£000	£000
Expiring		
Within 1 year	1,759	1,737
Later than 1 year and no later than 5 years	6,899	127
Later than 5 years	43	57
	8,701	1,921

Other commitments

FSCS Levy

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

Structured Product Hedges

As at the year end the company had entered into agreements with counterparty banks to distribute structured product notes In the event that the company was not able to distribute the full amount of the product, it is possible that the product may be unwound at either a cost or credit to the company The amount of the unwind would be dependant in part on the counter party's funding and underlying market indices The quantum of these factors cannot be reliable estimated at the year end and so no provision has been made

28. Share capital

Authorised, allotted, called up and fully paid shares of £1 each	Number of Shares	Ordinary Shares £000
At 31 December 2010 and 31 December 2011	**15,000,000**	**15,000**

29 Reserves and retained earnings

	At 31 December 2011 £000	2010 £000
Retained earnings	7,347	7,783
Other reserves	-	142
Total reserves as 31 December	**7,347**	**7,925**

Movements in retained earnings were as follows

	Year ended 31 December 2011 £000	2010 £000
At 1 January	7,783	8,045
Profit for the year	1,064	38
Interim dividend for the year	(1,500)	(300)
At 31 December	**7,347**	**7,783**

30. Dividends

The Directors paid an interim dividend of £1,500,000 (2010 £ 300,000) This is £0 10 per share (2010 £0 02 per share) The Directors do not recommend the payment of a final dividend (2010 £nil)

31. Cash and cash equivalents

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

	Note	At 31 December 2011 £000	2010 £000
Cash		133	154
Cash and Balances at central banks		243,050	57,146
Loans and advances to banks	13	8,953	7,787
		252,136	**65,087**

32. Related-party transactions

Related parties of the Company includes Arbuthnot Banking Group PLC and its 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

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 The volumes of related-party transactions, outstanding balances at the year end, and relating expense and income for the year are as follows

i. Transactions with group companies

	At 31 December 2011 £000	2010 £000
Loans		
Loans outstanding at 1 January	7,788	8,729
Loans issued during the year	18,226	4,550
Loan repayments during the year	(18,426)	(5,491)
Loans outstanding at 31 December	**7,588**	**7,788**
Interest income earned	149	140

	At 31 December 2011 £000	2010 £000
Deposits		
Deposits at 1 January	38,790	48,842
Deposits received during the year	152,514	71,781
Deposits repaid during the year	(86,235)	(81,833)
Deposits at 31 December	**105,069**	**38,790**
Interest expense on deposits	186	234

Following the year end, on 20th January 2012 the parent company, Arbuthnot Banking Group PLC completed its sale of Arbuthnot Securities Limited, a former fellow group undertaking, to Westhouse Holdings plc

The Company used Arbuthnot Securities Limited to execute a number of securities transactions on behalf of discretionary asset management clients During 2011, commissions of £53,000 were paid (2010 £12,000) There were no balances outstanding at 31 December 2011

	At 31 December 2011 £000	2010 £000
Amounts recharged to the parent company	1,076	1,152
Amounts recharged to fellow subsidiaries	1,219	1,268

	At 31 December 2011 £000	2010 £000
Balances due from the parent company	(9)	(323)
Balances due from fellow subsidiaries	1,246	893

Arbuthnot Banking Group PLC provides the Company with a subordinated loan (Note 26)

Interest paid on the loan totalled £269,000 (2010 £90,000)

The Company paid a £1,500,000 interim dividend (2010 £300,000) to Arbuthnot Banking Group PLC in December (Note 30)

ii. Transactions with directors and key management personnel

The company considers the Board of Directors as the key management personnel Therefore the following disclosure relates entirely to directors

	2011 £000	2010 £000
Loans		
Loans outstanding at 1 January	2,827	2,770
Loans issued during the year	2,827	382
Loan repayments during the year	(2,752)	(325)
Loans outstanding at 31 December	**2,902**	**2,827**
Interest income earned	154	130

The loans issued to directors during the year consist of credit card transactions and term loans All loans were on normal commercial terms and are all repayable on demand No provisions have been recognised in respect of loans given to related parties (2010 £nil)

	2011 £000	2010 £000
Deposits		
Deposits at 1 January	5,558	6,210
Deposits received during the year	6,887	3,726
Deposits repaid during the year	(6,348)	(4,378)
Deposits at 31 December	**6,097**	**5,558**
Interest expense on deposits	146	73

The Directors' emoluments (including pension contributions and benefits in kind) for the year were as follows

	2011 £000	2010 £000
Fees	38	45
Other emoluments	432	631
Compensation for loss of office	-	50
Pension contributions	34	51
	504	**777**

Pension contributions are being accrued under money purchase schemes for 2 directors (31 December 3 directors) in respect of qualifying service The emoluments of H Angest, JR Cobb, AA Salmon, AD Turrell and RJJ Wickham were paid by the immediate parent company Their total emoluments are disclosed in the financial statements of the parent company

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

	2011 £000	2010 £000
Emoluments	237	282
Amounts payable to a money purchase pension scheme	20	20
	257	**302**

33. Ultimate controlling party

The Directors regard Arbuthnot Banking Group PLC, a company registered in England and Wales, as the ultimate parent company Henry Angest, the Group Chairman and CEO has a beneficial interest in 53 6% of the issued share capital of Arbuthnot Banking Group PLC and is regarded by the Directors as the controlling entity A copy of the consolidated financial statements of Arbuthnot Banking Group PLC may be obtained from One Arleston Way, Solihull, B90 4LH

34. Events after the balance sheet date

There were no events after the balance sheet date that required disclosure under the Companies Act 2006 or International Financial Reporting Standards