ARBUTHNOT LATHAM

Private Bankers

Since 1833

Arbuthnot Latham & Co , Limited

Report and financial statements

for the year ended 31 December 2012

Registered Number 00819519

Contents

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)

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 2012

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 business segments 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 continues to perform well, with pre-tax profit of £1 5m (2011 £1 7m) Revenues grew across the major lines, but were impacted by the higher cost of deposits that peaked in the middle of the year

Gilliat Financial Solutions grew annual profits to £0 6m (2011 £0 2m) as the business launched in July 2009 continued to build brand and distribution momentum

The Company paid a recharge to its parent, Arbuthnot Banking Group PLC (ABG), of £1 5m (2011 £1 3m) The profit for the year was flat at £0 6m (2011 £0 6m)

On the 1 March 2012 James Fleming joined the Company as the Chief Executive replacing Dean Proctor The opportunities available to Arbuthnot Latham enabled it to attract and hire Mr Fleming and a number of other executives, mainly in the latter part of the year These additions in combination with the existing staff will facilitate the continued growth of the business, with an emphasis on wealth management, for UK and international clients

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

	2012 £m	2011 £m	Mvmt £m
Private Bank	1 5	1 7	(0 2)
Gilliat Financial Solutions	0 6	0 2	0 4
AL profit before group charge	2 1	1 9	0 2
ABG group charge	(1 5)	(1 3)	(0 2)
Pre-tax profit for the year	0 6	0 6	-
Client loans	292	242	50
Client deposits	493	420	73
Intra-group deposits	39	105	(66)
Treasury assets	232	292	(61)
Total assets	569	555	14
Assets under management	377	315	62
Gilliat Financial Solutions product sales	154	94	60
Key Performance Indicators			
Client loans to deposits ratio	59 2%	57 6%	1 6%
Tier 1 capital ratio	9 9%	10 8%	(1 1)%
Capital ratio	12 4%	13 9%	(1 7)%

Private Banking

Client loans grew by £50m to £292m, a 21% growth over 2011 The Bank continued to lend cautiously with a focus on maintaining and improving the quality of the collateral held as security, rather than maximising short term profit

Credit losses continued at less than 1% of the asset book, despite provisions against legacy transactions that are outside the Bank's current lending strategy

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 £73m to £493m in 2012, a 17% year on year increase The client loan to deposit ratio closed the year below our target at a cautious 59% The cost of deposits rose over the year as retail deposit rates peaked in the middle of 2012 These rates have since fallen across the industry

Intra-group deposits fell from £105m to £39m, reflecting a £57m reduction to £25m of deposits placed by Secure Trust Bank These funds were ring fenced for a specific acquisition by Secure Trust Bank that completed early 2012

Surplus funds are held in the Bank of England reserve account (£204m at December 2012), or placed in the interbank market (£28m), the majority of which are at the UK clearing banks The Bank has no direct exposure to the euro zone sovereign debt markets

The 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 This impact will reduce in 2013 in line with the falling retail deposit rates

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

Discretionary assets under management grew by 20% to £377m (2011 £315m) This growth is a result of high net worth clients being attracted to the full wealth management and private banking proposition

The Company, the first UK bank to achieve chartered wealth planning status, is fully compliant with the FSA Retail Distribution Review (RDR), which came into force from the start of 2013 Its business model is well placed to thrive going forward

The Bank continues to be well capitalised with the Tier 1 capital ratio at 9 7%, (2011 10 8%), and capital ratio at 12 2%, (2011 13 9%)

The Board approved its Individual Liquidity Adequacy Assessment (ILAA) document on the 27 February 2013 Various stress scenarios were modelled and the resultant cash flows assessed in order to determine its potential liquidity requirements The Directors firmly believe that sufficient liquid resources are held to allow the Bank to meet its liabilities in a stressed environment

Gilliat Financial Solutions

Gilliat increased profits to £0 6m (2011 £0 2m) with revenues growing by 79% to £2 5m (2011 £1 4m)

Product sales grew by 64% to £154m (2011 £94m) over the period benefiting from stronger brand recognition within the UK IFA network, and the first sales from a cautious expansion into offshore distribution The Directors confidently expect this profitable momentum to continue in 2013

Financial results
The profits for the year after tax were £1 1m (2011 £1 1m) with a £0 5m tax write-back resulting from ABG group tax relief and research and development tax credits No dividends were paid during the year (2011 £1 5m)

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

During the year the Company acquired a freehold office building located at 7-21 Wilson Street, London EC2M 2TD for £15 7 million It is intended that in due course the building will become the head office for Arbuthnot Banking Group PLC, the principal location for Arbuthnot Latham & Co , Limited and London offices for Secure Trust Bank PLC

Arbuthnot Latham & Co,. Limited
Directors' Report

Directors
The Directors of the Company were as follows
H Angest
DM Proctor (Resigned 1 March 2012)
JW Fleming (Appointed 1 March 2012)
JR Cobb
RAE Herbert
SP Kelly
J Reed
AA Salmon
RJJ Wickham

Mr AA Salmon and Mr J Reed retire by rotation and being eligible offer themselves for re-election

Insurance of Directors
The Company maintains insurance to provide liability cover for Directors and officers of the Company

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

Auditors
A resolution to re-appoint KPMG Audit Plc as auditors to the Company will be proposed at the Annual General Meeting, in accordance with section 487 of the Companies 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
20 March 2013

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 2012 set out on pages 8 to 49 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 Financial Reporting Council's website at www frc org uk/auditscopeukprivate

Opinion on financial statements
In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2012 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

Greg Simpson (Senior Statutory Auditor)
For and on behalf of KPMG Audit Plc, Statutory Auditor
Chartered Accountants
15 Canada Square
London
E14 5GL
20 March 2013

Arbuthnot Latham & Co, Limited
Statement of comprehensive income

	Note	Year ended 31 December 2012 £000	2011 £000
Interest and similar income		17,494	16,405
Interest expense and similar charges		(6,786)	(5,811)
Net interest income	**6**	**10,708**	**10,594**
Fee and commission income	7	8,328	7,425
Fee and commission expense		(141)	(331)
Net fee and commission income		**8,187**	**7,094**
Operating income		**18,895**	**17,688**
Net impairment losses on financial assets	8	(2,038)	(2,212)
Fair value movement on Derivatives		-	(124)
Other income	9	3,073	2,631
Operating expenses	10	(19,329)	(17,367)
Profit before income tax from continuing operations		**601**	**616**
Income tax credit	12	507	448
Profit after income tax from continuing operations		**1,108**	**1,064**
Profit for the year		**1,108**	**1,064**
Other Comprehensive Income			
Movement in available-for-sale financial assets net of tax		**-**	**(142)**
Total comprehensive income net of tax for the year		**1,108**	**922**

The notes on pages 12 to 49 are an integral part of these financial statements

Arbuthnot Latham & Co, Limited
Statement of financial position

	Note	At 31 December 2012 £000	2011 £000
ASSETS			
Cash		123	133
Cash and balances at central banks		203,560	243,050
Loans and advances to banks	13	14,061	8,953
Loans and advances to customers	14	301,962	245,727
Debt securities held-to-maturity	15	13,526	40,079
Financial investments available for sale	16	2,844	2,859
Derivative financial instruments	17	623	892
Shares in subsidiary undertakings	18	25	25
Intangible assets	19	6,808	6,579
Property, plant and equipment	20	16,939	160
Other assets	21	8,054	6,384
Deferred tax asset	22	90	92
Total assets		**568,615**	**554,933**
EQUITY AND LIABILITIES			
Equity attributable to owners of the parent			
Share capital	28	15,000	15,000
Other reserves	29	1,000	-
Retained earnings	29	8,455	7,347
Total equity		**24,455**	**22,347**
LIABILITIES			
Deposits from banks	23	25,233	81,608
Derivative financial instruments	17	462	-
Deposits from customers	24	510,178	444,703
Other liabilities	25	3,784	1,774
Debt securities in issue	26	4,500	4,500
Current tax liability		3	1
Total liabilities		**544,160**	**532,586**
Total equity and liabilities		**568,615**	**554,933**

The notes on pages 12 to 49 are an integral part of these financial statements

The financial statements on pages 8 to 49 were approved by the Board of Directors on 20 March 2013 and were signed on its behalf by

J W Fleming, Director

Stephen Kelly

SP Kelly, Director

Arbuthnot Latham & Co,. Limited
Statement of changes in equity

	Note	Share capital £000	Retained earnings £000	Capital Contribution £000	Available for sale reserve £000	Total £000
At 1 January 2011		15,000	7,783	-	142	**22,925**
Net profit for the year		-	1,064	-	-	**1,064**
Net movement on available for sale financial assets		-	-	-	(142)	**(142)**
Total comprehensive income for year		-	1,064	-	(142)	**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**
At 1 January 2012		15,000	7,347	-	-	**22,347**
Net profit for the year		-	1,108	-	-	**1,108**
Other comprehensive income						
Total comprehensive income for year		-	1,108	-	-	**1,108**
Capital contribution	29	-	-	1,000	-	**1,000**
Total contributions by & distributions to owners		**-**	**-**	**1,000**	**-**	**1,000**
At 31 December 2012		**15,000**	**8,455**	**1,000**	**-**	**24,455**

Capital contribution relates to cash contributions from the parent realised and available for distribution

The notes on pages 12 to 49 are an integral part of these financial statements

Arbuthnot Latham & Co,. Limited
Statement of cash flows

	Year ended 31 December 2012 £000	2011 £000
Cash flows from operating activities		
Interest and similar income received	14,800	14,298
Interest and similar charges paid	(6,786)	(6,250)
Fees and commissions received	10,044	8,912
Other income	4,756	3,194
Cash payments to employees and suppliers	(19,020)	(17,328)
Taxation paid	-	475
Cash flows from operating profits before changes in operating assets and liabilities	3,794	3,301
Changes in operating assets and liabilities		
- net increase in loans and advances to customers	(57,684)	(29,494)
- net increase in other assets	(1,148)	(485)
- net (decrease)/increase in deposits from other banks	(56,375)	57,141
- net increase in amounts due to customers	62,298	81,148
- net increase/(decrease) in other liabilities	4,714	(2,076)
Net cash (outflow) / inflow from operating activities	(44,401)	109,535
Cash flows from investing activities		
Disposal of financial investments	-	1,740
Purchase of financial investments	(93)	(586)
Purchase of computer software	(406)	(960)
Purchase of property, plant and equipment	(17,045)	(54)
Proceeds from sale of property, plant and equipment	-	64
Purchase of debt securities held to maturity	(51,012)	(164,894)
Proceeds from sale of debt securities held to maturity	77,565	243,704
Net cash from investing activities	9,009	79,014
Cash flows from financing activities		
Dividends paid	-	(1,500)
Capital Contribution	1,000	-
Net cash used in financing activities	1,000	(1,500)
Net (decrease)/increase in cash and cash equivalents	**(34,392)**	**187,049**
Cash and cash equivalents at beginning of year	252,136	65,087
Cash and cash equivalents at end of year	**217,744**	**252,136**

The notes on pages 12 to 49 are an integral part of these financial statements

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 20 March 2013

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) and the Companies Act 2006 applicable to companies reporting under IFRS They have been prepared under the historical cost convention, as modified by the revaluation of land and buildings, available-for-sale financial assets, and financial assets and financial liabilities at fair value through profit or loss

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates It also requires management to exercise its judgement in the process of applying the 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 2012

- 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 2013 or later periods, but the Company has not early adopted them

- 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 and accrued based on banked product sales once any minimum volume hurdles have been achieved

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

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

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

Freehold Buildings	2%
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 initially recorded as contingent liabilities at the contracted value of the guarantee and subsequently recognised as a liability only to the extent the guarantee is called upon

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 plan with management growth estimates for periods beyond the plan 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 (2011 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 9% was used for the 5 year period (2011 5%) Costs were forecast to grow 3% (2011 3% and 5%) 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% (2011 12%) to their net present value The discount rate of 12% is considered to be appropriate after evaluating current market assessments of the time value of money and the risks specific to the assets or CGUs

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 2012	Note	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Assets					
Derivative financial instruments	17	-	623	-	623
Financial investments available for sale	16	76	-	2,768	2,844
		76	623	2,768	3,467
Liabilities					
Derivative financial instruments	17	-	(462)	-	(462)
		-	(462)	-	(462)

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

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

	2012 £000	2011 £000
Movement in level 3		
At January	2,746	2,888
Purchases	81	-
Losses recognised in the profit and loss	(59)	(142)
At December	2,768	2,746

3 Maturity analysis of assets and liabilities

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

At 31 December 2012	Due within one year £000	Due after more than one year £000	Total £000
ASSETS			
Cash	123	-	123
Cash and balances at central banks	203,560	-	203,560
Loans and advances to banks	14,061	-	14,061
Loans and advances to customers	254,446	47,516	301,962
Debt securities held-to-maturity	13,526	-	13,526
Financial investments available for sale	-	2,844	2,844
Derivative financial instruments	623	-	623
Shares in subsidiary undertakings	-	25	25
	486,339	**50,385**	**536,724**
LIABILITIES			
Deposits from banks	25,233	-	25,233
Derivative financial instruments	462	-	462
Deposits from customers	496,009	14,169	510,178
Debt securities in issue	-	4,500	4,500
	521,704	**18,869**	**540,373**

3. Maturity analysis of assets and liabilities, continued

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
	495,841	45,877	541,718
LIABILITIES			
Deposits from banks	81,608	-	81,608
Deposits from customers	438,552	6,151	444,703
Debt securities in issue	-	4,500	4,500
	520,160	10,651	530,811

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 also 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
	2012	**2011**
	£000	**£000**
Credit risk exposure relating to on-balance sheet assets are as follows		
Loans and advances to banks	14,061	8,953
Loans and advances to customers	301,962	245,727
Debt securities held-to-maturity	13,526	40,079
Financial investments available for sale	2,844	2,859
Other assets	8,054	6,384
Credit Risk exposures relating to off-balance sheet assets are as follows		
Guarantees	879	803
Loan Commitments	20,273	21,841
At 31 December	361,599	326,646

The preceding table represents the maximum credit risk exposure (net of impairment) to the company at 31 December 2012 and 2011 without taking account of any collateral held or other credit enhancements attached For on-balance-sheet assets, the exposures are based on the net carrying amounts as reported in the 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 A3 credit rating or are deemed systemic to the UK

- 92% of the loans and advances to customers are neither past due nor impaired (2011 94%)

- 5% of the loans and advances to customers are past due but not impaired (2011 3%)

- Only 3% of the loans and advances to customers are considered individually impaired (2011 3%)

Loans where the principal security taken as collateral is residential and/or commercial property are detailed below

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

*In addition to property other security is taken, including charges over Arbuthnot Latham Investment Management portfolios, other chattels and personal guarantees

The Directors monitor concentrations of sector and geography, but do not consider them to have a significant influence on the credit risk of the Company's loans and advances

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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 2012

At 31 December 2012	GBP (£) £000	USD ($) £000	Euro (€) £000	Other £000	Total £000
ASSETS					
Cash	78	16	27	2	123
Cash and balances at central banks	203,560	-	-	-	203,560
Loans and advances to banks	1,872	9,713	738	1,738	14,061
Loans and advances to customers	269,239	4,236	28,485	2	301,962
Debt securities held-to-maturity	13,526	-	-	-	13,526
Financial investments available for sale	102	-	2,742	-	2,844
Derivative financial instruments	623	-	-	-	623
Shares in subsidiary undertakings	25	-	-	-	25
Intangible assets	6,808	-	-	-	6,808
Property, plant and equipment	16,939	-	-	-	16,939
Other assets	7,992	62	-	-	8,054
Deferred tax asset	90	-	-	-	90
Total assets	**520,854**	**14,027**	**31,992**	**1,742**	**568,615**
LIABILITIES					
Deposits from banks	25,229	4	-	-	25,233
Derivative financial instruments	462	-	-	-	462
Deposits from customers	476,962	14,469	17,019	1,728	510,178
Other liabilities	3,784	-	-	-	3,784
Debt securities in issue	4,500	-	-	-	4,500
Current tax liability	3	-	-	-	3
Total liabilities	**510,940**	**14,473**	**17,019**	**1,728**	**544,160**
Net on-balance sheet position	**9,914**	**(446)**	**14,973**	**14**	**24,455**
Credit commitments	**21,152**	-	-	-	**21,152**

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**

A 10% strengthening of the pound against the US dollar would lead to £nil effect (2011 £3,000 decrease) on 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 £34,000 increase (2011 £10,000 decrease) in Company profits and equity, while a 10% weakening of the pound against the euro would lead to the same reduction in Company profits and equity (This is after taking into account the effect of derivative financial instruments (see note 17) which covers most of the net exposure in each currency)

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 5m to £1 0m (2011 £0 2m to £0 4m), with the same impact to equity pre-tax An increase in interest rates typically results in an increase to pre-tax profits and equity, whereas a fall typically results in a loss to pre-tax profits and equity

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 Individual Liquidity Adequacy Assessment (ILAA) on the 27 February 2013 The three FSA prescribed stress scenarios Idiosyncratic, Market and Combined were considered and performed in addition to scenarios derived by the Board, specific to the Company 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 A3 or deemed systemic to the UK
- 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 2012, AL had £182 8m (2011 £165 4m) in its liquid asset buffer, with the majority placed in the Bank of England reserve account

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

The table below analyses the contractual undiscounted cashflows into relevant maturity groupings at 31 December 2012

At 31 December 2012	Carrying Amount £000	Gross nominal inflow/ (outflow) £000	Not more than 3 months £000	More than 3 months but less than 1 year £000	More than 1 year but less than 5 years £000	More than 5 years £000
Liabilities						
Deposits from banks	25,233	(25,233)	(25,233)	-	-	-
Derivative financial instruments	462	(462)	(462)	-	-	-
Deposits from customers	510,178	(511,836)	(344,787)	(159,256)	(7,793)	-
Other liabilities	3,784	(3,784)	(3,431)	(207)	(146)	-
Debt securities in issue	4,500	(5,651)	(50)	(153)	(813)	(4,635)
Current Tax Liability	3	(3)	(3)	-	-	-
Total liabilities	**544,160**	**(546,969)**	**(373,966)**	**(159,616)**	**(8,752)**	**(4,635)**
Off-Balance Sheet						
Issued guarantee contracts	879	(879)	(879)	-	-	-
Unrecognised loan commitments	20,273	(20,273)	(20,273)	-	-	-
Total off balance sheet credit commitments	**21,152**	**(21,152)**	**(21,152)**	**-**	**-**	**-**

The table below analyses the contractual undiscounted cash flows 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	(5,794)	(56)	(172)	(914)	(4,652)
Current tax liability	1	(1)	(1)	-	-	-
Total liabilities	**532,586**	**(535,899)**	**(380,726)**	**(143,311)**	**(7,210)**	**(4,652)**
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)**	**-**	**-**	**-**

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

4.e.) Fair value risk

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

At 31 December 2012	Derivatives held at FVTPL £000	Held to Maturity £000	Loans and receivables £000	Fair value through equity £000	Other amortised cost £000	Total Carrying Amount £000	Fair value £000
ASSETS							
Cash	-	-	123	-	-	123	123
Cash and balances at central banks	-	-	203,560	-	-	203,560	203,560
Loans and advances to banks	-	-	14,061	-	-	14,061	14,061
Loans and advances to customers	-	-	301,962	-	-	301,962	300,918
Debt securities held-to-maturity	-	13,526	-	-	-	13,526	13,623
Financial investments available for sale	-	-	-	2,844	-	2,844	2,844
Derivative financial instruments	623	-	-	-	-	623	623
	623	**13,526**	**519,706**	**2,844**	**-**	**536,699**	**535,752**
LIABILITIES							
Deposits from banks	-	-	-	-	25,233	25,233	25,233
Deposits from customers	-	-	-	-	510,178	510,178	510,178
Debt securities in issue	-	-	-	-	4,500	4,500	4,500
Derivative financial instruments	462	-	-	-	-	462	462
	462	**-**	**-**	**-**	**539,911**	**540,373**	**540,373**

At 31 December 2011	Derivatives held at FVTPL £000	Held to Maturity £000	Loans and receivables £000	Fair value through equity £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	244,802
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**	**540,768**
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**

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 externally outsourced Internal Audit firm 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

Fiduciary activities

The Company provides discretionary 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 discretionary investment management accounts amounting to £377m (2011 £315m)

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

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

	At 31 December	
	2012	**2011**
	£000	**£000**
Tier 1		
Share Capital	15,000	15,000
Capital Contribution	1,000	-
Retained Earnings	8,455	7,347
Goodwill	(5,415)	(5,415)
Computer Software	(1,393)	(1,164)
Total tier 1 capital	17,647	15,768
Tier 2		
Debt securities in issue	4,500	4,500
Total tier 2 capital	4,500	4,500
Total tier 1 & tier 2	22,147	20,268
Investment in subsidiaries	(25)	(25)
Total capital after deductions	22,122	20,243

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 During the period no breaches of externally imposed capital requirements have been reported

Pillar 3 complements the minimum capital requirements (Pillar 1) and the supervisory review process (Pillar 2) Its aim is to encourage market discipline by developing a set of disclosure requirements which will allow market participants to assess key pieces of information on a firm's capital, risk exposures and risk assessment processes Pillar 3 disclosures for the year ended 31 December 2012 are published as a separate document on the Arbuthnot Banking Group website

6. Net interest income

Interest income to customers includes loan-related fees of £1,895,000 (2011 £2,157,000) which have been recognised under the effective interest rate

	Year ended 31 December 2012 £000	2011 £000
Interest income		
Loans and advances		
- To banks	930	525
- To customers	16,114	14,476
	17,044	15,001
Debt securities	450	1,404
Total Interest Income	**17,494**	**16,405**
Interest expense		
Deposits from banks	(120)	(98)
Deposits from customers	(6,446)	(5,444)
Interest on subordinated loan	(220)	(269)
Total Interest Expense	**(6,786)**	**(5,811)**
Net interest income	**10,708**	**10,594**

Interest income of £7,000 (2011 £97,000) 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 2012 £000	2011 £000
Credit related fees	81	52
Banking commissions	1,308	1,133
Investment management fees and commissions	3,349	3,237
Financial planning fees and commissions	1,149	1,460
Structured product commissions	2,441	1,543
Fee and commission income	**8,328**	**7,425**

8. Allowances for impairments of loans and advances

Total net impairment losses on financial assets are as follows

	Year ended 31 December 2012 £000	2011 £000
Impairment losses on loans and advances	2,038	2,087
Impairment losses on available for sale assets	-	125
Net Impairment losses on financial assets	**2,038**	**2,212**

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 2012 £000	2011 £000
Staff costs, including Directors			
Salaries & wages		8,405	7,278
Social security costs		990	851
Pension		609	499
Amortisation computer software	19	177	167
Depreciation	20	266	273
Operating lease rentals		1,765	1,797
Group recharge		1,458	1,272
Other administrative expenses		5,659	5,230
Total operating expenses		**19,329**	**17,367**

The auditors' remuneration for the audit of the Company's accounts pursuant to legislation was £75,000 (2011 £60,000) Remuneration for audit related assurance services was £24,000 (2011 £24,000) Remuneration of the auditors for non-audit services was services related to taxation £nil (2011 £5,700) and all other services £nil (2011 £nil)

11. Average number of employees

	Year ended 31 December 2012 £000	2011 £000
Private banking	129	122
Structured products	15	10
	144	132

12. Income tax (credit) / expense

	Year ended 31 December 2012 £000	2011 £000
United Kingdom corporation tax at 24 5% (2011 26 5%)		
- Current	(414)	52
- Adjustment in respect of prior years	(96)	(582)
	(510)	**(530)**
Deferred tax		
- Current	29	33
- Adjustment in respect of prior years	(26)	49
	3	**82**
Income tax income	**(507)**	**(448)**

Tax reconciliation	Year ended 31 December 2012 £000	2011 £000
Profit before tax for the year	**601**	**616**
United Kingdom corporation tax at 24 5% (2011 26 5%)	147	163
Permanent differences	(541)	(89)
Change in tax rate	9	12
Prior period adjustments	(122)	(534)
Corporation tax income for the year	**(507)**	**(448)**

During the year the Government substantively enacted a reduction in UK corporation tax rate to 24% with effect from 1 April 2012 and to 23% with effect from 1 April 2013 This will reduce the Company's future current tax charge accordingly Deferred tax has been calculated based on a rate of 23% to the extent that the related temporary or timing differences are expected to reverse

On 5 December 2012 the Government announced its intention to further reduce the UK corporation tax rate to 21% by April 2014 It has not yet been possible to quantify the full anticipated effect of the announced further 2% reduction, although this will further reduce the Company's future tax charge and reduce the Company's deferred tax assets and liabilities accordingly

13. Loans and advances to banks

	At 31 December 2012 £000	2011 £000
Placements with banks included in cash and cash equivalents	**14,061**	**8,953**

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 2012 £000	2011 £000
Aa1	-	581
Aa3	-	5,614
A1	6	2,257
A2	13,373	436
A3	620	-
Unrated Intra Group Placement	62	65
	14,061	8,953

None of the loans and advances to banks is either past due or impaired (2011 Nil)

14 Loans and advances to customers

	At 31 December 2012 £000	2011 £000
Gross loans and advances	306,385	248,113
Less allowances for impairment on loans and advances	(4,423)	(2,386)
	301,962	245,727

At 31 December 2012 £47,516,000 (2011 £33,487,000) 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 2012 £000	2011 £000
At 1 January	2,386	1,398
Impairment losses	2,052	2,087
Loans written off during the year as uncollectable	(15)	(1,099)
	4,423	2,386

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 (2011 nil)

Loans and advances to customers include finance lease receivables as follows

	At 31 December	
	2012	**2011**
	£000	**£000**
Gross investment in finance lease receivables		
- No later than 1 year	31	53
	31	53
Unearned future finance income on finance leases	(17)	(23)
Net investment in finance leases	14	30
The net investment in finance leases may be analysed as follows		
- No later than 1 year	14	30
	14	30

Loans and advances to customers can be further summarised as follows

	At 31 December	
	2012	**2011**
	£000	**£000**
Neither past due nor impaired	280,857	231,152
Past due but not impaired	14,148	8,406
Impaired	11,380	8,555
Gross	306,385	248,113
Less allowance for impairment	(4,423)	(2,386)
Net	301,962	245,727

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	
	2012	**2011**
	£000	**£000**
Past due up to 30 days	768	2,163
Past due 30 - 60 days	4,481	-
Past due 60 - 90 days	5,291	3,411
Over 90 days	3,608	2,832
Total	14,148	8,406

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 judgment of management, indicate that payment will most likely continue These policies are kept under continuous review Renegotiated loans that would otherwise be past due or impaired totalled £nil (2011 £nil)

c) Collateral held

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

	At 31 December 2012 £000	2011 £000
Past due but not impaired	39,162	18,764
Impaired	7,881	5,735
Fair value of collateral held	47,043	24,499

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 £6,957,000 (2011 £6,169,000)

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 (2011 £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 2012 £000	2011 £000
At 1 January	40,079	117,489
Additions	51,012	164,894
Redemptions	(77,565)	(242,304)
At 31 December	13,526	40,079

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 2012 £000	2011 £000
Aaa	8,026	15,291
Aa2	-	4,510
Aa3	1,500	11,775
A2	-	8,503
A3	4,000	-
	13,526	40,079

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

16. Financial investments available for sale

	As at 31 December 2012 £000	2011 £000
Financial investments comprise		
- Listed securities	76	113
- Unlisted securities	2,768	2,746
Total financial investments	2,844	2,859

a) Listed securities
The Company holds investments in listed securities which are valued based on quoted prices

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

17. Derivative financial instruments

At 31 December 2012

	Contract/ Notional amount £000	Fair value assets £000	Fair value liabilities £000
Currency swaps	41,206	623	462
	41,206	**623**	**462**

At 31 December 2011

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

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

In the prior year included in derivative financial instruments are structured notes These notes contain embedded derivatives (embedded options to buy and sell indices) and non-derivative host contracts (discounted bonds) Both the host and the 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 2012 £000	2011 £000
At 1 January and 31 December	25	25

The subsidiary undertakings of the company at 31 December 2011 & 2012 were

	Country of incorporation	Interest %	Principal activity
Artillery Nominees Limited	UK	100	Dormant
Arbuthnot Securities Limited	UK	100	Dormant
Arbuthnot Latham (Nominees) Limited	UK	100	Dormant
John K Gilliat & Co , Limited	UK	100	Dormant

The following was a subsidiary undertaking at 31 December 2011

	Country of incorporation	Interest %	Principal activity
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 2012 £000	2011 £000
Goodwill		
Opening net book amount	5,415	5,415
Closing net book amount	**5,415**	**5,415**

Computer software	At 31 December 2012 £000	2011 £000
Cost		
At 1 January	2,905	1,946
Additions	406	959
At 31 December	**3,311**	**2,905**
Accumulated amortisation		
At 1 January	(1,741)	(1,574)
Amortisation charge	(177)	(167)
At 31 December	**(1,918)**	**(1,741)**
Net book amount at 31 December	1,393	1,164

Goodwill	5,415	5,415
Computer software	1,393	1,164
Net book amount at 31 December	**6,808**	**6,579**

Software additions of £406k (2011 £959k) include the cost of a new Investment Management system This project was initiated in 2011 and will come into use during 2013

20. Property, plant and equipment

	Freehold Property £000	Assets Acquired under finance Lease £000	Computer and other equipment £000	Total £000
Cost or valuation				
At 1 January 2011	-	64	2,507	2,571
Additions	-	-	54	54
Disposals	-	(64)	-	(64)
At 31 December 2011	-	-	2,561	2,561
Additions	16,789	-	256	17,045
At 31 December 2012	16,789	-	2,817	19,606
Accumulated depreciation				
At 1 January 2011	-	(31)	(2,128)	(2,159)
Depreciation charge	-	-	(273)	(273)
Disposals	-	31	-	31
At 31 December 2011	-	-	(2,401)	(2,401)
Depreciation charge	(121)	-	(145)	(266)
At 31 December 2012	(121)	-	(2,546)	(2,667)
Net book amount				
At 31 December 2011	-	-	160	160
At 31 December 2012	16,668	-	271	16,939

Freehold property additions relate to the acquisition of the freehold of an office building located at 7-21 Wilson Street, London EC2M 2TD for £15 7 million plus acquisition costs (including stamp duty) of £1 1m It is intended that in due course the building will become the head office for Arbuthnot Banking Group PLC, the principal location for Arbuthnot Latham & Co , Limited and London offices for Secure Trust Bank PLC

21. Other Assets

	At 31 December 2012 £000	2011 £000
Trade receivables	2,489	1,100
Prepayments and accrued income	1,481	1,712
Other Assets	2,586	2,335
Amount due from group companies	1,498	1,237
	8,054	6,384

Other assets include repossessed collateral held for sale

22. Deferred tax

	At 31 December	
	2012	2011
	£000	£000
At 1 January	92	120
Profit and loss account - accelerated capital allowances and other short-term timing differences	(2)	(28)
Deferred tax asset at 31 December	90	92

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

On 5 December 2012 the Government announced its intention to further reduce the UK corporation tax rate to 21% by April 2014 It has not yet been possible to quantify the full anticipated effect of the announced further 2% reduction, although this will further reduce the Group's future tax charge and reduce the Group's deferred tax assets and liabilities accordingly

23. Deposits from banks

	At 31 December	
	2012	2011
	£000	£000
Deposits from other banks	25,233	81,608

Included in Deposits from other banks is £25,233,000 (2011 £81,601,000) from Secure Trust Bank PLC (part of the Arbuthnot Banking Group)

24. Deposits from customers

	At 31 December	
	2012	2011
	£000	£000
Retail customers		
- current/demand accounts	242,403	194,612
- term deposits	267,775	250,091
	510,178	444,703

25. Other liabilities

	At 31 December 2012 £000	2011 £000
Trade payables	1,898	644
Accruals & deferred income	1,886	1,130
	3,784	1,774

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

At 31 December 2012, the Company had accrued £387,000 (2011 £231,000) in respect of the levy, based on the bank's estimated share of total market protected deposits

26. Securities in issue

	At 31 December 2012 £000	2011 £000
Subordinated loan notes	**4,500**	**4,500**

The subordinated loan is provided by Arbuthnot Banking Group PLC In July 2012, the maturity of the loan was extended to 30 August 2018 (previously 30 August 2017) 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 2012, the Company had capital commitments of £58,000 (2011 £85,000) 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 2012 £000	2011 £000
Guarantees and other contingent liabilities	879	803
Commitments to extend credit		
- Original term to maturity of one year or less	20,273	21,841
	21,152	22,644

Arbuthnot Latham & Co,. Limited
Notes to the financial statements

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	
	2012	**2011**
	£000	**£000**
Expiring		
Within 1 year	1,751	1,759
Later than 1 year and no later than 5 years	2,558	6,899
Later than 5 years	-	43
	4,309	8,701

Other commitments
Structured Product Hedges
As at 31 December 2011, the Company had entered into agreements with counterparty banks to distribute structured products In the event that the Company was not able to distribute the full amount of the product, it was possible that the product may have been unwound at either a cost or credit to the Company The amount of the unwind would have been dependant on the counter party's funding and underlying market indices The quantum of these factors could not reliably be estimated at the 2011 year end and so no provision was made No such commitment existed as at 31 December 2012

28. Share capital

	Number of Shares	**Ordinary Shares £000**
Authorised, allotted, called up and fully paid shares of £1 each		
At 31 December 2011 and 31 December 2012	**15,000,000**	**15,000**

29. Reserves and retained earnings

	At 31 December	
	2012	**2011**
	£000	**£000**
Retained earnings	8,455	7,347
Capital contribution	1,000	-
Total reserves as 31 December	**9,455**	**7,347**

Movements in retained earnings were as follows

	At 31 December	
	2012	**2011**
	£000	**£000**
At 1 January	7,347	7,783
Profit for the year	1,108	1,064
Interim dividend for the year	-	(1,500)
At 31 December	**8,455**	**7,347**

Capital contribution relates to cash contributions from the parent which are realised and available for distribution

30. Dividends

The Directors do not recommend the payment of a dividend (2011 £1,500,000)

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

		At 31 December	
		2012	2011
	Note	£000	£000
Cash		123	133
Cash and Balances at central banks		203,560	243,050
Loans and advances to banks	13	14,061	8,953
		217,744	**252,136**

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	
	2012	2011
	£000	£000
Loans		
Loans outstanding at 1 January	7,588	7,788
Loans issued during the year	5,099	18,226
Loan repayments during the year	-	(18,426)
Loans outstanding at 31 December	**12,687**	**7,588**
Interest income earned	166	149

	At 31 December	
	2012	2011
	£000	£000
Deposits		
Deposits at 1 January	105,069	38,790
Deposits received during the year	5,542	152,514
Deposits repaid during the year	(71,229)	(86,235)
Deposits at 31 December	**39,382**	**105,069**
Interest expense on deposits	230	186

On the 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 formerly used Arbuthnot Securities Limited to execute a number of securities transactions on behalf of discretionary asset management clients During 2012, no commissions were paid (2011 £53,000) There were no balances outstanding at 31 December 2012

	At 31 December	
	2012	**2011**
	£000	**£000**
Amounts recharged to the parent company	2,356	1,076
Amounts recharged to fellow subsidiaries	61	1,219

	At 31 December	
	2012	**2011**
	£000	**£000**
Balances due from/(to) the parent company	1,056	(9)
Balances due from fellow subsidiaries	443	1,246

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

Interest paid on the loan totalled £220,000 (2011 £269,000)

The Company paid no dividends during the year (2011 £1,500,000) to Arbuthnot Banking Group PLC (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

	2012	**2011**
	£000	**£000**
Loans		
Loans outstanding at 1 January	2,902	2,827
Loans issued during the year	2,393	2,827
Loan repayments during the year	(2,257)	(2,752)
Loans outstanding at 31 December	**3,038**	**2,902**
Interest income earned	133	154

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 (2011 £nil)

	2012	**2011**
Deposits	**£000**	**£000**
Deposits at 1 January	6,097	5,558
Deposits received during the year	2,428	6,887
Deposits repaid during the year	(3,682)	(6,348)
Deposits at 31 December	**4,843**	**6,097**
Interest expense on deposits	112	146

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

	2012	**2011**
	£000	**£000**
Fees	38	38
Emoluments	675	432
Pension contributions	49	34
	762	**504**

Pension contributions are being accrued under money purchase schemes for 3 Directors (2011 2 Directors) in respect of qualifying service The emoluments of H Angest, JR Cobb, AA Salmon, 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

	2012	2011
	£000	£000
Emoluments	430	237
Amounts payable to a money purchase pension scheme	29	20
	459	**257**

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