Arbuthnot Latham & Co., Limited

Report and financial statements
for the year ended 31st December 2009

Registered Number 819519

Contents

Company Information

Directors

Henry Angest (Chairman)
Michael A Bussey (Vice Chairman)
Dean M Proctor (Chief Executive)
James R Cobb (Group Director)
Robin AE Herbert (Non-executive)
Steven M Hicks (Chief Operating Officer)
Stephen P Kelly (Finance Director)
John Reed (Non-executive)
Andrew A Salmon (Group Director)
Atholl D Turrell (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 819519

Auditors

KPMG Audit PLC
One Canada Square
London E14 5AG

Incorporated in the United Kingdom

Directors' Report

The Directors present the annual report and audited financial statements of Arbuthnot Latham & Co , Limited for the year ended 31 December, 2009

Principal activities

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

Business review

Arbuthnot Latham's underlying profitability continued to grow in 2009, despite the well documented turmoil in the economy and financial services sector This achievement reflects Arbuthnot Latham's strategy and strong balance sheet fundamentals The Directors believe that the bank is well placed for the future

In November 2009, Dean Proctor took over as CEO from Mike Bussey The existing strategy will be unchanged going forward

	2009	2008	Mvmt
Profit before tax on continuing operations	£0 5m	£0 0m	£0 5m
Profit for year	£0 2m	£0 3m	£(0 1)m
Customer loans and advances	£186 6m	£158 4m	£28 2m
Loans and advances to banks & debt securities held-to-maturity	£165 7m	£134 8m	£30 9m
Deposits	£341 8m	£280 6m	£61 2m
Total assets	£371 5m	£311 5m	£60 0m
Tier 1 Capital ratio	10 7%	11 1%	(0 4)%
Capital ratio	12 6%	13 0%	(0 4)%

The profit for the year of £173k (2008 £272k), includes the £536k pre-tax cost to the company of launching Gilliat Financial Solutions

The bank is run as three separate business lines, with a common management team Private banking and Gilliat Financial Solutions are included in continuing operations, whilst the leasing business, Musical Instrument Finance, is discontinued

Private banking, covering core banking and wealth management, contributed £772k pre-tax earnings (2008 £216k) The bank continues to be run from a strong capital and liquidity base, and with a conservative lending policy

The private banking strategy is to provide wealth management solutions to its clients through financial planning and discretionary investment management, and to grow its lending book with caution

In 2009 deposits grew by £61 2m to £341 8m This 22% growth over 2008 includes £37 6m of incremental client deposits This achievement reflects the bank's ability to provide a high quality service to its clients The remaining £23 6m of balance growth was from other companies within the Arbuthnot Banking Group, mainly Secure Trust Bank

Customer loans and advances grew by £28 2m to £186 6m, a 18% growth over 2008 The bank continued to lend throughout the credit cycle, and was able to widen slightly lending margins on new business Lending was of high quality, with credit losses below 1% of the asset book

Loans and advances to banks & debt securities held-to-maturity grew by £30 9m to £165 7m as the loan to deposit ratio was maintained at the conservative level of approximately 60% The bank continued to keep a strong liquidity ratio despite the relatively low yield on treasury assets, compared to the cost of new deposits, and believes this is the right strategy going forward

Treasury assets are held in CDs, FRNs and money market deposits in highly rated banks (minimum rating A2, with majority held in UK clearing banks) The majority are on 12 month or shorter durations

The bank continues to be well capitalised with the capital ratio at 12 6%, and Tier 1 capital ratio at 10 7%

Being part of the Arbuthnot Banking Group allows the Company to adopt an opportunistic approach and this was seen clearly in the launch in July 2009, of Gilliat Financial Solutions This business packages and distributes structured products to the financial intermediary market The total launch costs were £1,086k in 2009 The net cost to the company was £536k, after the £550k contribution by Arbuthnot Banking Group Plc

The wind-up of the in house company pension scheme allowed a one-off benefit of £312k in 2009 The pension scheme funds for current staff were transferred to a group personal pension with an insurance company Former staff were bought out of the scheme by the Trustees, and funds placed with an insurance company

After a number of years of trying to build a scalable platform with the leasing business, Musical Instrument Finance, it was decided to exit The consumer lending business was transferred within the Arbuthnot Banking Group to Secure Trust Bank PLC which is much better placed to operate this business within its asset finance book The remainder of the business (mainly operating leases to schools) was sold in Feb 2010 The MIFCO division lost £342k pre-tax in 2009 (2008 £286k profit)

Financial results

The profits for the year after tax were £173k (2008 £272k) The Directors paid an interim dividend of £626k in December (2008 £3,000k) The Directors do not recommend the payment of a final dividend (2008 £nil)

Going Concern

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

Financial Risk Management

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

Tangible fixed assets

Movements in tangible fixed assets during the year are shown in Note 21 to the financial statements

Directors

The Directors of the Company who served during the period were as follows

H Angest	
MA Bussey	
DM Proctor	appointed 8th July, 2009, appointed CEO 3rd November, 2009
JR Cobb	
RAE Herbert	
SM Hicks	
SP Kelly	appointed 16th September, 2009
WB Mathews	resigned 31st January 2010
J Reed	resigned 20th March, 2009, re-appointed 17th December, 2009
AA Salmon	
AD Turrell	
RJJ Wickham	

Mr DM Proctor, Mr SP Kelly and Mr J Reed retire under the Articles of Association and, being eligible, offer themselves for re-election

The Directors due to retire by rotation are Mr H Angest, Mr MA Bussey and Mr SM Hicks who, 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

During the year PriceWaterhouseCoopers LLP resigned as auditors to the Company, and KPMG Audit Plc were appointed

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

Statement of Directors' responsibilities in respect of the Directors' report and the financial statements

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

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

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgments and estimates that are reasonable and prudent,
- state whether they have been prepared in accordance with IFRSs as adopted by the EU, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business

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

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

10th March, 2010

Company Registered Number 819519

Independent Auditors' Report of Arbuthnot Latham & Co , Limited

We have audited the financial statements of Arbuthnot Latham & Co , Limited for the year ended 31 December 2009 set out on pages 7 to 33 The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006 Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 5, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's web-site at www frc org uk/apb/scope/UKNP

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 2009 and of its profit for the year then ended,
- have been properly prepared in accordance with IFRSs as adopted by the EU, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit

G R Simpson (Senior Statutory Auditor)
For and on behalf of KPMG Audit Plc, Statutory Auditor
Chartered Accountants
One Canada Square
London
E14 5AG
10th March, 2010

Arbuthnot Latham & Co., Limited

Statement of comprehensive income

	Note	Year ended 31 December 2009 £000	2008 [1,2] £000
Interest and similar income		12,535	18 990
Interest expense and similar charges		(4 163)	(10 838)
Net interest income	6	8 372	8 152
Fee and commission income	7	4 344	4,704
Fee and commission expense		(565)	(716)
Net fee and commission income		3 779	3 988
Operating income		12 151	12 140
Impairment losses on loans and advances	8	(836)	(529)
Other income	9	2,755	2 356
Gain on sale of business assets	34	-	301
Operating expenses	10	(13 522)	(14,312)
Profit / (loss) before income tax from continuing operations		548	(44)
Income tax (expense) / credit	12	(233)	110
Profit / (loss) after income tax from continuing operations		315	66
Discontinued operations profit / (loss) after income tax	35	(142)	206
Profit / (loss) for the year		173	272
Other comprehensive income, net of tax		-	-
Total comprehensive income for the year attributable to equity holder of the company		173	272

(1) The comparatives have been reclassified to align with current year presentation (see note 37)

(2) The comparatives have been represented for discontinued operations (see note 35)

The notes on pages 11 to 33 are an integral part of these financial statements

Arbuthnot Latham & Co., Limited

Statement of financial position

	Note	At 31 December 2009 £000	2008 (1) £000
ASSETS			
Cash	13	143	157
Loans and advances to banks	14	51 196	7 435
Loans and advances to customers	15	186 608	158,379
Debt securities held-to-maturity	16	114 465	127 376
Financial investments available for sale	17	4,592	3 070
Derivative financial instruments	18	236	-
Shares in subsidiary undertakings	19	56	56
Assets classified as held for sale	35	2 062	-
Intangible assets	20	5 830	6 271
Property, plant and equipment	21	692	2 546
Other assets	22	5,540	6 109
Deferred tax asset	23	98	130
Total assets		**371,518**	**311,529**
EQUITY AND LIABILITIES			
Equity attributable to owners of the parent			
Share capital	29	15,000	15 000
Retained earnings	30	8 045	8 498
Total equity		23 045	23,498
LIABILITIES			
Deposits from banks	24	33,616	6,791
Derivative financial instruments	18	-	942
Deposits from customers	25	308,155	273 760
Liabilities relating to assets classified as held for sale	35	247	-
Other liabilities	26	3 354	3 420
Debt securities in issue	27	3 100	3,100
Current tax liability	12	1	18
Total liabilities		**348,473**	**288,031**
Total equity and liabilities		**371,518**	**311,529**

(1) The comparatives have been reclassified to align with current year presentation (see note 37)

The financial statements on pages 7 to 33 were approved by the Board of directors on 10 March 2010 and were signed on behalf by

DM Proctor Director

Stephen Kelly

SP Kelly Director

Company registration number 819519

The notes on pages 11 to 33 are an integral part of these financial statements

Arbuthnot Latham & Co., Limited

Statement of changes in equity

	Note	Share capital £000	Retained earnings £000	Total £000
Balance at 1 January 2008		15 000	12,158	27 158
Total comprehensive income for 2008, net of tax		-	272	272
Total comprehensive income for period		-	272	272
Final dividend relating to 2007 (£0 06 per share)		-	(932)	(932)
Interim dividend relating to 2008 (£0 20 per share)	31	-	(3 000)	(3 000)
Total contributions by & distributions to owners		-	(3,932)	(3 932)
At 31 December 2008		15 000	8 498	23 498
At 1 January 2009		15,000	8 498	23,498
Total comprehensive income for 2009 net of tax		-	173	173
Total comprehensive income for period		-	173	173
Interim dividend relating to 2009 (£0 04 per share)	31	-	(626)	(626)
Total contributions by & distributions to owners		-	(626)	(626)
At 31 December 2009		15 000	8 045	23 045

The notes on pages 11 to 33 are an integral part of these financial statements

Arbuthnot Latham & Co., Limited

Statement of cash flows

		Year ended 31 December	
		2009	2008 [1]
	Note	£000	£000
Cash flows from operating activities			
Interest and similar income received		13 043	18 547
Interest and similar charges paid		(4,163)	(10 431)
Fees and commissions received		4 526	5 405
Other income		2 755	2 356
Cash payments to employees and suppliers		(13,773)	(16 162)
Taxation received / (paid)		(17)	958
Cash flows from operating (losses) / profits before changes in operating assets and liabilities		2 371	673
Changes in operating assets and liabilities			
- net decrease / (increase) in loans and advances to customers		(29 408)	(12 287)
- net decrease / (increase) in other assets		(444)	(967)
- net (decrease) / increase in deposits from other banks		26,825	6 373
- net (decrease) / increase in amounts due to customers		34,395	(2 112)
- net (decrease) / increase in other liabilities		(761)	2 844
Net cash (outflow) / inflow from operating activities		32 978	(5,476)
Cash flows from investing activities			
Disposal of financial investments		-	1 258
Purchase of financial investments	17	(1 522)	-
Purchase of computer software	20	(70)	(152)
Purchase of property plant and equipment	21	(287)	(500)
Proceeds from disposal of businesses		310	653
Proceeds from sale of property, plant and equipment	21	53	196
Purchases of debt securities held to maturity	16	(249 509)	(194 557)
Proceeds from sale of debt securities held to maturity	16	254 420	184 514
Net cash from investing activities		3 395	(8 588)
Cash flows from financing activities			
Dividends paid	31	(626)	(3,932)
Net cash used in financing activities		(626)	(3 932)
Net decrease in cash and cash equivalents		35 747	(17 996)
Cash and cash equivalents at beginning of year		15 592	33 588
Cash and cash equivalents at end of year	32	51 339	15 592

(1) The comparatives have been reclassified to align with current year presentation (see note 37)

For the cashflow movements of discontinued operations refer to note 35

The notes on pages 11 to 33 are an integral part of these financial statements

Arbuthnot Latham & Co., Limited

Principal accounting policies

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

1 1 Reporting entity
Arbuthnot Latham & Co Limited is a company domiciled in United Kingdom The registered address of the Arbuthnot Latham & Co , Limited is Arbuthnot House 20 Ropemaker Street London, EC2Y 9AR The Company is primarily involved in banking and financial services

1 2 Basis of presentation
The Company's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs as adopted and endorsed by the EU), IFRIC Interpretations and the Companies Act 2006 applicable to companies reporting under IFRS They have been prepared under the historical cost convention as modified by the 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 the Directors' Report 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 have adequate resources to continue in business for the foreseeable future For this reason they continue to adopt the going concern' basis for preparing accounts

1 2 a) Standards, interpretations and amendments effective in 2009

• IAS 1 (Revised) Presentation of financial statements Revises the overall requirements for the presentation of financial statements, guidance for their structure and minimum content requirements The revised standard requires the presentation of all non-owner changes in equity within a statement of comprehensive income

IFRS 7 (Amendment) 'Financial instruments Disclosure The amendment requires enhanced disclosures about fair value measurements and liquidity risk in respect of financial instruments The main change relates to fair value measurements which should now be disclosed in a 3 level hierarchy that reflects the significance of the inputs Specific disclosures are required for Level 3 (significant unobservable inputs) movements between level 1 and 2 and around changes in valuation techniques between different periods

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 2010 or later periods but the Company has not early adopted them

IAS 24 (Revised) Related party disclosures (effective from 1 January 2011) 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 The revised standard will not have a material impact on the Company's financial accounts

• IFRS 9 'Financial instruments (effective from 1 January 2013) 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

1 3 Foreign currency translation
(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 remeasured Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement

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

Principal accounting policies

1 5 Fee and commission income

Fees and commissions which are not considered integral to the effective interest rate are generally recognised on an accrual basis when the service has been provided Loan commitment fees are deferred and recognised as an adjustment to the effective interest rate on the loan Commission and fees arising from negotiating or participating in the negotiation of, a transaction for a third party — such as the issue or the acquisition of shares or other securities or the purchase or sale of businesses — are recognised on completion of the underlying transaction Asset and other management, advisory and service fees are recognised based on the applicable service contracts, usually on a time apportioned basis The same principle is applied for financial planning and insurance services that are continuously provided over an extended period of time

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 deposits Management determines the classification of its investments at initial recognition A financial asset or financial liability is measured initially at fair value plus, for an item not at fair value through profit or loss transaction costs that are directly attributable to its acquisition or issue

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

Financial assets and liabilities at fair value through profit or loss comprising of derivatives are initially recognised on trade-date — the date on which the Company becomes a party to the contractual provisions of the instrument Financial assets and financial liabilities at fair value through profit or loss are subsequently carried at fair value

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market They arise when the 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 using the effective interest method

(c) Held-to-maturity

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

(d) Available-for-sale

Available-for-sale investments are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates exchange rates or equity prices Unquoted equity securities whose fair value cannot reliably be measured are carried at cost All other available-for-sale investments are carried at fair value Fair value changes on the equity securities are recognised in other comprehensive income (fair value reserve) until the investment is sold or impaired Once sold or impaired the cumulative gains or losses previously recognised in other comprehensive income is reclassified to profit or loss

(e) 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 expire

(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 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 A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated

The criteria that the Company uses to determine that there is objective evidence of an impairment loss include but are not limited to, the following

- Delinquency in contractual payments of principal or interest
- Cash flow difficulties experienced by the borrower,
- Initiation of bankruptcy proceedings,
- Deterioration in the value of collateral
- Deterioration of the borrower's competitive position,

If there is objective evidence that an impairment loss on loans and receivables or held to-maturity investments carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset s carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement If a loan or held-to maturity investment has a variable interest rate the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract When a loan is uncollectible, it is written off against the related provision for loan impairment Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined Subsequent recoveries of amounts previously written off decrease the amount of the provision for loan impairment in the income statement

(b) Assets classified as available for sale

The 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 an indicator that the securities are impaired If any such evidence exists for available-for-sale financial assets the cumulative loss – measured as the difference between the acquisition cost and the current fair value less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the income statement Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement

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

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 (2008 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 A growth rate of 7% (2008 7%) was used for income and 4% (2008 4%) for expenditure from 2010 to 2012, and a 4% (2008 4%) growth rate for income and expenditure thereafter 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 Cash flows were discounted at a pre-tax rate of 12% (2008 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

Impairment losses are recognised in profit or loss if the carrying amounts exceeds the recoverable amounts

(b) Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software These costs are amortised on the basis of the expected useful lives (three to five years)

Costs associated with developing or maintaining computer software programs are recognised as an expense as incurred

Arbuthnot Latham & Co., Limited

Principal accounting policies

1 11 Property, plant and equipment
Plant and equipment is stated at historical cost less depreciation Historical cost includes expenditure that is directly attributable to the acquisition of the items

Depreciation on other assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, applying the following annual rates, which are subject to regular review

Operating Leases	5% to 10%
Office equipment	5% to 15%
Computer equipment	20% to 33%
Motor vehicles	25%

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

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 income statement 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 4 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

Arbuthnot Latham & Co., Limited

Principal accounting policies

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 on 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 acquistion 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 income statement

1 20 Inventory

Inventory comprises stock of assets purchased but not yet leased It is valued at the lower of cost or net realisable value

1 21 Guarantees

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

2 Critical accounting estimates and judgements in applying accounting policies

The Company makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year Estimates and judgements are continually evaluated and are based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances

2 1 Estimation uncertainty

Credit losses

The Company reviews its loan portfolios and held-to-maturity and available for sale investments to assess impairment at least on a half-yearly basis The basis for evaluating impairment losses is described in accounting policy 1 9 Where financial assets are individually evaluated for impairment, management uses their best estimates in calculating the net present value of future cash flows Management has to make judgements on the financial position of the counterparty and the net realisable value of collateral in determining the expected future cash flows

In determining whether an impairment loss should be recorded in the income statement the Company makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans or held-to-maturity investments with similar credit characteristics before the decrease can be identified with an individual loan in that portfolio This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group or national or local economic conditions that correlate with defaults on assets in the group Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience

Goodwill impairment

The accounting policy for goodwill is described in note 1 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 CGU level and the following two items with judgements surrounding them, have a significant impact on the estimations used in determining the necessity of an impairment charge

- Future cash flows - Cash flow forecasts reflect managements view of future business forecasts at the time of the assessment A detailed three year budget is done every year and management also uses judgement in applying a growth rate
- Discount rate - Management also apply judgement in determining the discount rate used to discount future expected cash flows The discount rate is derived from the cost of capital for each CGU

At the time of the impairment testing if the future expected cash flows decline and/or the cost of capital has increased then the recoverable amount will reduce

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 objective of valuation techniques is to determine the fair value of the financial instrument at the reporting date as the price that would have been agreed between active market participants in an arm s length transaction

The 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 2009	Note	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Derivative financial instruments	18	-	236	-	236

At 31 December 2008		Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Derivative financial instruments	18	-	(942)	-	(942)

There were no transfers between level 1 and level 2 during the year

Arbuthnot Latham & Co., Limited

Notes to the financial statements

3 Maturity analysis of assets and liabilities

The table below shows the maturity analysis of assets and liabilities as at 31 December 2009

At 31 December 2009	Due within one year £000	Due after more than one year £000	Total £000
ASSETS			
Cash	143	-	143
Loans and advances to banks	51 196	-	51,196
Loans and advances to customers	160,637	25 971	186,608
Debt securities held-to-maturity	106,427	8 038	114,465
Financial investments available for sale	-	4 592	4 592
Derivative financial instruments	236	-	236
Shares in subsidiary undertakings	-	56	56
Assets classified as held for sale	2 062	-	2 062
Intangible assets	-	5 830	5 830
Property plant and equipment	-	692	692
Other assets	3 460	2 080	5 540
Deferred tax asset	-	98	98
Total assets	324,161	47 357	371 518
LIABILITIES			
Deposits from banks	33 616	-	33 616
Derivative financial instruments	-	-	-
Deposits from customers	306 739	1 416	308 155
Liabilities relating to assets classified as held for sale	247	-	247
Other liabilities	3 031	323	3,354
Debt securities in issue	-	3 100	3 100
Current tax liability	1	-	1
Total liabilities	343 634	4,839	348,473

The table below shows the maturity analysis of assets and liabilities as at 31 December 2008

At 31 December 2008	Due within one year £000	Due after more than one year £000	Total (1) £000
ASSETS			
Cash	157	-	157
Loans and advances to banks	7 435	-	7,435
Loans and advances to customers	140 282	18,097	158 379
Debt securities held-to-maturity	127,376	-	127 376
Financial investments available for sale	-	3 070	3,070
Derivative financial instruments	-	-	-
Shares in subsidiary undertakings	-	56	56
Assets classified as held for sale	-	-	-
Intangible assets	-	6,271	6 271
Property, plant and equipment	-	2 546	2,546
Other assets	3 829	2 280	6 109
Deferred tax asset	-	130	130
Total assets	279 079	32 450	311 529
LIABILITIES			
Deposits from banks	6,791	-	6 791
Derivative financial instruments	942	-	942
Deposits from customers	272 924	836	273 760
Liabilities relating to assets classified as held for sale	-	-	-
Other liabilities	2 757	663	3 420
Debt securities in issue	-	3 100	3 100
Current tax liability	18	-	18
Total liabilities	283 432	4,599	288,031

(1) The comparatives have been reclassified to align with current year presentation (see note 37)

Arbuthnot Latham & Co., Limited

Notes to the financial statements

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 sets out the Board s attitude to risk and internal controls Key risks identified by the Directors are formally reviewed and assessed at least once a year by the Board in addition to which key business risks are identified, evaluated and managed by operating management on an ongoing basis by means of procedures such as physical controls credit and other authorisation limits and segregation of duties The Board also receives regular reports on any risk matters that need to be brought to its attention Significant risks identified in connection with the development of new activities are subject to consideration by the Board There are 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 or in the health of a particular industry segment that represents a concentration in the Company's portfolio 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 Committee of Arbuthnot Banking Group Plc

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 and corporate and personal guarantees

The Company employs a range of policies and practices to mitigate credit risk The most traditional of these is the taking of collateral for fund advances which is common practice The principal collateral types for loans and advances include but are not limited to

- Charges over residential and commercial properties
- Charges over business assets such as premises, inventory and accounts receivable
- Charges over financial instruments such as debt securities and equities
- Personal guarantees and
- Charges over other chattels

Upon initial recognition of loans and advances, the fair value of collateral is based on valuation techniques commonly used for the corresponding assets In order to minimise any potential credit loss the 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

	2009 £000	2008 [1] £000
Credit risk exposures relating to on-balance sheet assets are as follows		
Loans and advances to banks	51 196	7 435
Loans and advances to customers	186,608	158 379
Debt securities held-to-maturity	114 465	127 376
Financial investments available for sale	4 592	3,070
Other assets	5,540	6 109
Credit risk exposures relating to off-balance sheet assets are as follows		
Guarantees	1,135	686
Loan commitments and other credit related liabilities	14 163	15 061
At 31 December	377,699	318 116

(1) The comparatives have been reclassified to align with current year presentation (see note 37)

The above table represents the maximum credit risk exposure (net of impairment) to the group at 31 December 2009 and 2008 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 of the exposures to banks including debt securities, have at least an A2 credit rating
- 94% of the loans and advances to customers are considered to be neither past due nor impaired (2008 91%),
- Only 1% of the loans and advances to customers are considered individually impaired (2008 3%)
- The average loan to collateral value of the loans and advances to customers is 54% (2008 42%)

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Notes to the financial statements

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 2009

At 31 December 2009	GBP (£) £000	USD ($) £000	Euro (€) £000	Other £000	Total £000
ASSETS					
Cash	143	-	-	-	143
Loans and advances to banks	44 585	4 587	816	1 209	51 196
Loans and advances to customers	151,599	3 579	31,430	-	186 608
Debt securities held-to-maturity	114,465	-	-	-	114 465
Financial investments available for sale	1 450	68	3 074	-	4,592
Derivative financial instruments	236	-	-	-	236
Shares in subsidiary undertakings	56	-	-	-	56
Assets classified as held for sale	2,062	-	-	-	2,062
Intangible assets	5 830	-	-	-	5 830
Property plant and equipment	692	-	-	-	692
Other assets	5 363	41	136	-	5,540
Deferred tax asset	98	-	-	-	98
Total assets	326,579	8,275	35 456	1 209	371 518
LIABILITIES					
Deposits from banks	33 588	7	21	-	33 616
Derivative financial instruments	-	-	-	-	-
Deposits from customers	279 404	8 720	18,827	1,204	308 155
Liabilities relating to assets classified as held for sale	247	-	-	-	247
Other liabilities	3 351	1	1	-	3 354
Debt securities in issue	3 100	-	-	-	3 100
Current tax liability	-	-	-	-	1
Total liabilities	319,690	8 729	18 849	1 204	348 473
Net on-balance sheet position	6 889	(453)	16 606	4	23 045
Credit commitments	15,000	3	295	-	15,298

The table below summarises the Company's exposure to foreign currency exchange risk at 31 December 2008

At 31 December 2008	GBP (£) £000	USD ($) £000	Euro (€) £000	Other £000	Total (1) £000
ASSETS					
Cash	157	-	-	-	157
Loans and advances to banks	1,877	4,410	1 092	56	7 435
Loans and advances to customers	131,347	3,160	23 872	-	158 379
Debt securities held-to-maturity	127 376	-	-	-	127,376
Financial investments	-	57	3,013	-	3 070
Derivative financial instruments	-		-	-	-
Shares in subsidiary undertakings	56		-	-	56
Assets classified as held for sale	-	-	-	-	-
Intangible assets	6 271	-	-	-	6 271
Property plant and equipment	2 546	-	-	-	2 546
Other assets	4,875	363	871	-	6 109
Deferred tax asset	130	-	-	-	130
Total assets	274 635	7,990	28 848	56	311 529
LIABILITIES					
Deposits from banks	6,716	11	64	-	6,791
Derivative financial instruments	942	-	-	-	942
Deposits from customers	245,924	7 905	19 890	41	273 760
Other liabilities	3 207	33	181	(1)	3,420
Debt securities in issue	3 100	-	-	-	3 100
Current tax liability	18	-	-	-	18
Total liabilities	259 907	7 949	20 135	40	288,031
Net on balance sheet position	14,728	41	8 713	16	23 498
Credit commitments	15 382	1	364	-	15,747

(1) The comparatives have been reclassified to align with current year presentation (see note 37)

A 10% strengthening of the pound against the US dollar would lead to £45,000 increase (2008 £4 000 decrease) in Company profits and equity while a 10% weakening of the pound against the US dollar would lead to the same decrease in Company profits and equity Similarly a 10% strengthening of the pound against the Euro would lead to £9 000 decrease (2008 £10 000 increase) in Company profits and equity, while a 10% weakening of the pound against the Euro would lead to the same increase in Group profits and equity The above results are after taking into account the effect of derivative financial instruments (see note 18) which covers most of the net exposure in each currency

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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 However this is not a perfect match and interest rate risk is present on Money market deposits 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 The interest rate mismatch is daily 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 1m to £0 2m (2008 £0 1m to £0 2m), with the same impact to equity pre-tax

4 c) Liquidity risk

The Company is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan drawdowns and guarantees The Company does not maintain cash resources to meet all of these needs, as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty The Company's liquidity is therefore managed on a mismatch basis the mismatch being the difference between the levels of assets and liabilities in the same maturity bands The Company's aim is to maintain a prudent liquidity margin when compared with the mismatch criteria set by the regulators The Company maintains long-term committed bank facilities and use is made of certificates of deposit (debt securities) in the management of liquidity The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Company It is normal practice for banks to operate liquidity on a mismatch basis

The table below analyses the contractual undiscounted cashflows into relevant maturity groupings at 31 December 2009

At 31 December 2009	Carrying amount	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	33,616	(33,665)	(30 633)	(3,032)	-	-
Derivative financial instruments	-	-	-	-	-	-
Deposits from customers	308 155	(308 333)	(265,868)	(40,955)	(1,510)	-
Liabilities relating to assets classified held for sale	247	(247)	(247)	-	-	-
Other liabilities	3 354	(3 354)	(2 617)	(414)	(323)	-
Debt securities in issue	3 100	(3 100)	-	-	(3 100)	-
Total liabilities	348,472	(348,699)	(299,365)	(44 401)	(4 933)	
Off-Balance Sheet						
Issued guarantee contracts	1 135	(1 135)	(1 135)	-	-	-
Unrecognised loan commitments	14 163	(14,163)	(14,163)	-	-	
Total off balance sheet credit commitments	15,298	(15,298)	(15,298)	-	-	-

The table below analyses the contractual undiscounted cashflows into relevant maturity groupings at 31 December 2008

At 31 December 2008 [1]	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	6 791	(6,912)	(3,845)	(3 067)	-	-
Derivative financial instruments	942	(942)	(942)	-	-	-
Deposits from customers	273 760	(275 003)	(231 967)	(42,200)	(836)	-
Liabilities relating to assets classified held for sale		-	-	-	-	-
Other liabilities	3,420	(3,644)	(1,211)	(1 770)	(663)	-
Debt securities in issue	3 100	(3 100)	-	-	(3,100)	-
Issued guarantee contracts	686	(659)	(659)	-	-	-
Unrecognised loan commitments	15 061	(15,061)	(15 061)	-	-	-
Total liabilities	303,760	(305,321)	(253 685)	(47,037)	(4 599)	-
Off-Balance Sheet						
Issued guarantee contracts	686	(659)	(659)	-	-	-
Unrecognised loan commitments	15 061	(15 061)	(15 061)	208	-	-
Total off balance sheet credit commitments	15,747	(15,720)	(15 720)	208	-	-

(1) The comparatives have been reclassified to align with current year presentation (see note 37)

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

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Notes to the financial statements

4 d) Fair value risk

Fair values of financial assets and liabilities
The carrying amounts of those financial assets and liabilities not presented on the Company's balance sheet at fair value are not materially different from their fair values

Fiduciary activities
The Company provides trustee investment management and advisory services to third parties which involve the Company making allocation and purchase and sale decisions in relation to a wide range of financial instruments Those assets that are held in a fiduciary capacity are not included in these financial statements These services give rise to the risk that the Company may be accused of maladministration or underperformance At the balance sheet date the Company had investment management accounts amounting to approximately £179 million (2008 £193 million) Additionally the Company provides investment advisory services

4 e) 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 Internal Audit The results of the Internal Audit reviews are discussed with the company's senior management with summaries submitted to the Arbuthnot Banking Group Plc Audit Committee

5 Capital management

The Company's capital management policy is focused on optimising shareholder value There is a clear focus on delivering organic growth and ensuring capital resources are sufficient to support planned levels of growth The Board regularly reviews the capital position

Capital adequacy and the use of regulatory capital are monitored daily by the Company's management employing techniques based on the guidelines developed by the Basel Committee and the European Community Directives as implemented by the Financial Services Authority (FSA), for supervisory purposes Not all material risks can be mitigated by capital but where capital is appropriate the Board has adopted a "Pillar I plus" approach to determine the level of capital the Company needs to hold This method takes the Pillar I capital formula calculations (standardised approach for credit market and operational risk) as a starting point and then considers whether each of the calculations deliver a sufficient capital sum adequately to cover managements' anticipated risks Where the Board considered that the Pillar I calculations did not reflect the risk an additional capital add-on in Pillar II is applied, as per 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 Lower tier 2 capital cannot exceed 50% of tier 1 capital

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

	Note	2009 £000	2008 £000
Tier 1			
Share capital	29	15 000	15 000
Retained earnings	30	8 045	8 498
Goodwill	20	(5,415)	(5 725)
Computer Software	20	(415)	(546)
Total tier 1 capital		17 215	17,227
Tier 2			
Debt securities in issue	27	3 100	3 100
Total tier 2 capital		3 100	3 100
Total tier 1 & tier 2 capital		20,315	20 327
Investment is subsidiaries	19	(56)	(56)
Total capital after deductions		20 259	20 271

Arbuthnot Banking Group Plc completes a consolidated Individual Capital Assessment Process (ICAAP) incorporating all group companies The ICAAP is embedded in the risk management framework across the Group and is subject to ongoing updates and revisions when necessary However at a minimum, the ICAAP is updated annually as part of the business planning process The ICAAP is a process that brings together management framework (i e the policies procedures strategies and systems that the Group has implemented to identify, manage and mitigate its risks) and the financial disciplines of business planning and capital management

The Arbuthnot Banking Group Plc ICAAP includes a summary of the capital required to mitigate the identified risks in Arbuthnot Latham, and the amount of capital the Group has available The FSA's last review of the Group's ICAAP was conducted in December 2007 (the next review is scheduled to be completed in Q1 of 2010) and the regulatory capital requirements for Arbuthnot Latham were subsequently agreed as part of this process The company has complied with all of the externally imposed capital requirements to which they are subject

Arbuthnot Latham & Co., Limited

Notes to the financial statements

6 Net Interest Income

Interest income to customers includes loan-related fees of £845 000 (2008 £939 000) which have been recognised under the effective interest rate

	2009 £000	2008 [1,2] £000
Interest Income		
Loans and advances		
- To banks	157	498
- To customers	8 669	10 991
	8 826	11 489
Debt securities	3,709	7 501
Total Interest Income	12,535	18,990
Interest expense		
Deposits from banks	(218)	(149)
Deposits from customers	(3 922)	(10,551)
Interest on subordinated loan	(23)	(138)
Total Interest Expense	(4,163)	(10,838)
Net interest income	8,372	8,152

(1) The comparatives have been reclassified to align with current year presentation (see note 37)

(2) The comparatives have been represented for discontinued operations (see note 35)

Interest income of £79,000 (2008 £109 000) has been accrued on impaired loans and advances and is included in the impairment charge (see note 15)

7 Fee and commission income

	2009 £000	2008 [1,2] £000
Credit related fees	380	256
Banking commissions	1,071	1 158
Investment management fees and commissions	1 922	1 997
Financial planning fees and commissions	941	1,293
Structured product commissions	30	-
	4 344	4,704

(1) The comparatives have been reclassified to align with current year presentation (see note 37)

(2) The comparatives have been represented for discontinued operations (see note 35)

8 Allowances for impairment of loans and advances

A reconciliation of the allowance account for losses on loans and advances by class is as follows

	2009 £000	2008 [1 2] £000
At 1 January	684	381
Impairment losses on continuing operations	836	429
Impairment losses on discontinued operations	343	30
Loans written off during the year as uncollectible	(391)	(156)
At 31 December	1 472	684

(1) The comparatives have been reclassified to align with current year presentation (see note 37)

(2) The comparatives have been represented for discontinued operations (see note 35)

9 Other Income

Other income primarily represents cross charges made to other members of Arbuthnot Banking Group for the shared use of premises and information technology infrastructure The wind-up of the in house company pension scheme allowed a one-off benefit of £312k in 2009

Arbuthnot Latham & Co., Limited

Notes to the financial statements

10 Operating expenses

Operating expenses comprise	2009 £000	2008 (2) £000
Staff costs, including Directors		
Wages and salaries	6 082	5,623
Social security costs	625	663
Pension costs	486	526
Amortisation of computer software (Note 20)	201	210
Depreciation (Note 21)	305	363
Financial Services Compensation Scheme Levy	228	319
Operating lease rentals	1,786	1 775
Restructuring costs	85	413
Other administrative expenses	3,724	4,420
Total operating expenses	13,522	14,312

(2) The comparatives have been represented for discontinued operations (see note 35)

The auditors' remuneration for the audit of the Company s accounts was £75 000 (2008 £110 000) Remuneration of the auditors for non-audit services was services related to taxation £nil (2008 £6 000) and all other services £nil (2008 £nil)

11 Average number of employees

	2009	2008
Private banking	97	117
Leasing	6	9
Structured products	18	-
	121	126

12 Income tax (credit) / expense

	Note	2009 £000	2008 £000
United Kingdom corporation tax at 28% (2008 28 5%)			
- Current		-	18
- Adjustment in respect of prior years		1	(32)
		1	(14)
Deferred tax			
- Current		(16)	(16)
- Adjustment in respect of prior years		48	-
	23	32	(16)
Income tax (credit) / expense		33	(30)
Income tax (credit) / expense from continuing operations		233	(110)
Income tax (credit) / expense from discontinued operations	35	(200)	80
Income tax (credit) / expense		33	(30)
Tax reconciliation			
Profit for the year		173	272
Total income tax expense		33	(30)
Profit excluding income tax		206	242
Tax at 28% (2008 28 5%)		58	69
Permanent differences		(74)	(67)
Prior period adjustments		49	(32)
Corporation tax (credit) / charge for the year		33	(30)

13 Cash

	2009 £000	2008 £000
Cash in hand included in cash and cash equivalents (Note 32)	143	157

Arbuthnot Latham & Co., Limited

Notes to the financial statements

14 Loans and advances to banks

	2009	2008
	£000	£000
Placements with banks included in cash and cash equivalents (Note 32)	51,196	7,435

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

	2009	2008
	£000	£000
Aaa	-	5,973
Aa1	-	63
Aa2	31	1 234
Aa3	51 104	165
Unrated Intra Group Loan	61	-
	51 196	7 435

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

15 Loans and advances to customers

	2009	2008 (1)
	£000	£000
Gross loans and advances	188 080	159 063
Less allowances for impairment on loans and advances (Note 8)	(1,472)	(684)
	186 608	158 379

(1) The comparatives have been reclassified to align with current year presentation (see note 37)

For a maturity profile of loans and advances to customers refer to Note 3

Loans and advances to customers include finance lease receivables as follows	2009	2008
	£000	£000
Gross investment in finance lease receivables		
- No later than 1 year	158	1 485
- Later than 1 year and no later than 5 years	111	108
- Later than 5 years	2	-
	271	1 593
Unearned future finance income on finance leases	(14)	(96)
Net investment in finance leases	257	1 497
The net investment in finance leases may be analysed as follows		
- No later than 1 year	150	1 396
- Later than 1 year and no later than 5 years	105	101
- Later than 5 years	2	-
	257	1 497

Loans and advances to customers can be further summarised as follows

	2009	2008 (1)
	£000	£000
Neither past due nor impaired	174 768	146 482
Past due but not impaired	10 968	10,145
Impaired	2,344	2 052
Gross	188,080	158 679
Less allowance for impairment	(1,472)	(684)
Net	186 608	157 995

(1) The comparatives have been reclassified to align with current year presentation (see note 37)

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

	2009	2008
	£000	£000
Past due up to 30 days	65	325
Past due 30 - 60 days	787	386
Past due 60 - 90 days	1 710	3 192
Over 90 days	8,406	6 242
Total	10,968	10 145

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

15 Loans and advances to customers (Continued)

b) Loans and advances renegotiated

Restructuring activities include external payment arrangements, modification and deferral of payments Following restructuring, a previously overdue customer account is reset to a normal status and managed together with other similar accounts Restructuring policies and practices are based on indicators or criteria which in the judgement of management indicate that payment will most likely continue These policies are kept under continuous review Renegotiated loans that would otherwise be past due or impaired totalled £NIL (2008 £283 000)

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

	2009	2008 [1]
	£000	£000
Past due but not impaired	20 215	31,657
Impaired	1 275	1 507
Fair value of collateral held	21 490	33,164

(1) The comparatives have been reclassified to align with current year presentation (see note 37)

The gross amount of individually impaired loans and advances to customers before taking into account the cash flows from collateral held is £2 344 000 (2008 £4 410 000)

16 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 (2008 £8 000,000) with a maturity when placed of 3 months or less included in cash and cash equivalents (Note 32)

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

	2009	2008 [1]
	£000	£000
At 1 January	127 376	122 306
Exchange difference on monetary assets	-	61
Additions	249 509	261 348
Redemptions	(262 420)	(256 339)
At 31 December	114 465	127 376

(1) The comparatives have been reclassified to align with current year presentation (see note 37)

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

	2009	2008
	£000	£000
Aaa	-	-
Aa1	-	38 417
Aa2	7 000	76 037
Aa3	107,465	12 922
A1	-	-
	114 465	127 376

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

17 Financial investments available for sale

	2009	2008
	£000	£000
Financial investments comprise		
- Listed securities	1 068	57
- Unlisted securities	3,524	3 013
Total financial investments	4 592	3 070

a) Listed securities

The Company holds investments in listed securities

b) Unlisted securities

The Company has made equity investments in unlisted special purpose vehicles set up to acquire and enhance the value of commercial properties These investments are of a medium term nature There is no open market for these investments therefore the Company has valued them using appropriate valuation methodologies The Directors intend to dispose of these assets when a suitable buyer has been identified and when the Directors believe that the underlying assets have reached their maximum value

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Notes to the financial statements

18 Derivative financial instruments

	2009			2008		
	Contract/ notional amount	Fair value assets	Fair value liabilities	Contract/ notional amount	Fair value assets	Fair value liabilities
	£000	£000	£000	£000	£000	£000
Currency swaps	16,516	236	-	8 817	-	942
	16 516	236	-	8 817	-	942

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

The Company only uses investment graded banks for derivative financial instruments

19 Shares in subsidiary undertakings

	2009 £000	2008 £000
At 1 January and 31 December	56	56

The subsidiary undertakings of the company at 31 December 2008 & 2009 were

	Country of incorporation	Interest %	Principal activity
The Musical Instrument Finance Company Ltd	UK	100	Dormant
Artillery Nominees Limited	UK	100	Dormant
Arbuthnot Property Administration Limited	UK	100	Dormant
Arbuthnot Latham (Nominees) Limited	UK	100	Dormant
John K Gilliat & Co , Limited	UK	100	Dormant
UK Regional Hotel Property Fund Manager Limited	UK	100	Unit Trust Manager

(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

20 Intangible assets

Goodwill	2009 £000	2008 £000
Opening net book amount	5,725	6 077
On acquisition	-	-
On disposal	(310)	(352)
Closing net book amount	5 415	5,725

Computer software	2009 £000	2008 £000
Cost		
At 1 January	1 700	1 548
Additions	70	152
Disposals	-	-
At 31 December	1 770	1 700
Accumulated amortisation		
At 1 January	(1 154)	(944)
Amortisation charge	(201)	(210)
Disposals	-	-
At 31 December	(1,355)	(1,154)
Net book amount		
At 31 December 2008	546	546
At 31 December 2009	415	-

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Notes to the financial statements

20 Intangible assets (Continued)

Total intangible assets	2009	2008
	£000	£000
Goodwill	5 415	5,725
Computer software	415	546
Net book amount at 31 December	5 830	6 271

21 Property, plant and equipment

	Assets acquired under finance leases	Computer and other equipment	Operating leases	Motor vehicles	Total
	£000	£000	£000	£000	£000
Cost or valuation					
At 1 January 2008	-	2,110	1 934	262	4,306
Additions	206	57	157	80	500
Disposals	-	-	-	(342)	(342)
At 31 December 2008	206	2,167	2 091	-	4,464
Additions	39	244	4	-	287
Disposals	(85)	-	-	-	(85)
Transfer to Assets held for Sale	-	-	(2 095)	-	(2 095)
At 31 December 2009	160	2 411	-	-	2 571
Accumulated depreciation					
At 1 January 2008	-	(1 273)	(161)	(116)	(1 550)
Depreciation charge	(29)	(304)	(151)	(30)	(514)
Disposals	-	-	-	146	146
At 31 December 2008	(29)	(1 577)	(312)	-	(1 918)
Depreciation charge	(56)	(249)	(156)	-	(461)
Disposals	32	-	-	-	32
Transfer to Assets held for Sale	-	-	468	-	468
At 31 December 2009	(53)	(1,826)	-	-	(1 879)
Net book amount					
At 31 December 2008	177	590	1 779	-	2 546
At 31 December 2009	107	585	-	-	692

Depreciation on Continuing Operations amounted to £305 000 (2008 £363 000) while depreciation on discontinued operations amounted to £156 000 (2008 £151 000)

Operating leases have been transferred to assets held for sale (refer note 35)

The Company leases vehicles under non-cancellable finance lease agreements with original lease terms of three years Assets acquired under finance leases are as follows

	2009	2008
	£000	£000
Cost - capitalised finance leases	160	206
Accumulated depreciation	(53)	(29)
Net book amount	107	177

22 Other assets

	2009	2008 [1]
	£000	£000
Inventory	-	358
Trade receivables	1,918	2 023
Prepayments and accrued income	1 672	1 815
Other Assets	1 950	1 913
	5 540	6 109

(1) The comparatives have been reclassified to align with current year presentation (see note 37)

23 Deferred taxation

	2009 £000	2008 £000
The deferred tax asset comprises		
Accelerated capital allowances and other short term timing differences	98	130
Tax losses	-	-
Deferred tax asset	98	130
At 1 January	130	114
Profit and loss account - accelerated capital allowances and other short term timing differences	(32)	16
Deferred tax asset / (liability) at 31 December	98	130

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

24 Deposits from banks

	2009 £000	2008 [1] £000
Deposits from other banks	33,616	6,791

(1) The comparatives have been reclassified to align with current year presentation (see note 37)

Included in Deposits from other banks is £33,336,000 (2008 £6,546 000) from Secure Trust Bank PLC (part of the Arbuthnot Banking Group)

25 Deposits from customers

	2009 £000	2008 [1] £000
Retail customers		
- current/demand accounts	147 778	117 223
- term deposits	160 377	156 537
	308,155	273 760

(1) The comparatives have been reclassified to align with current year presentation (see note 37)

Included in customer accounts are deposits of £15 440 000 (2008 £11,185 000) held as collateral for loans and advances For a maturity profile of deposits from customers, refer to Note 3

26 Other liabilities

	2009 £000	2008 [1] £000
Trade payables	1 199	1,911
Finance lease liabilities	112	181
Accruals and deferred income	2 043	1 328
	3 354	3 420

(1) The comparatives have been reclassified to align with current year presentation (see note 37)

The Financial Services Compensation Scheme (FSCS) provides compensation to customers of financial institutions in the event that an institution is unable, or is likely to be unable, to pay claims against it During 2008 a number of institutions failed In order to meet its obligations to the depositors of these institutions the FSCS has borrowed £19 7 billion from HM Treasury, which is on an interest only basis until September 2011 These borrowings are anticipated to be repaid wholly or substantially from the realisation of the assets of the above named institutions The FSCS raises annual levies from the banking industry to meet its management expenses and compensation costs Individual institutions make payments based on their of market participation (in the case of deposits the proportion that their protected deposits represent of total market protected deposits) at 31st December each year If an institution is a market participant on this date it is obligated to pay a levy The Company was a market participant at 31st December 2008 and 2009 The Company has accrued £414 000 within 'Accruals and deferred income for its share of levies that will be raised by the FSCS including the interest on the loan from HM Treasury in respect of the levy years to 31st March 2010 The accrual includes the Directors' estimates for the interest FSCS will pay on the loan and estimates of the Company's market participation in the relevant period Interest will continue to accrue on the HM Treasury loan to the FSCS until September 2011 and will form part of future FSCS management expenses levies If the assets of the failed institutions are insufficient to repay the HM Treasury loan in 2011, the FSCS will agree a schedule of repayments with HM Treasury which will be recouped from the industry in the form of additional levies At the date of these financial statements, it is not possible to estimate the quantum and timing of additional levies on the industry, the level of the Company's market participation or other factors that may affect the amounts or timing of amounts that may ultimately become payable nor the effect that such levies may have upon operating results in any particular financial period

26 Other liabilities (Continued)

a) Finance lease liabilities

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

	2009 £000	2008 £000
Gross finance lease liabilities - minimum lease payments		
Within 1 year	61	95
Later than 1 year and no later than 5 years	58	95
Later than 5 years	-	-
	119	190
Future finance charges on finance leases	(7)	(9)
Present value of finance lease liabilities	112	181

	2009 £000	2008 £000
The present value of finance lease liabilities is as follows		
Within 1 year	58	90
Later than 1 year and no later than 5 years	54	91
Later than 5 years	-	-
	112	181

27 Debt securities in issue

	2009 £000	2008 £000
Subordinated loan notes	3,100	3 100

The subordinated loan is provided by Arbuthnot Banking Group PLC It had a maturity date of 30 August 2012, which was extended to 30 August 2014 in August 2008 The subordinated loan carries interest at the interbank rate for one week deposits

28 Contingent liabilities and commitments

Capital commitments

At 31 December 2009, the Company had no capital commitments (2008 £NIL) in respect of equipment purchases

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

	2009 £000	2008 £000
Guarantees and other contingent liabilities	1,135	686
Commitments to extend credit		
- Original term to maturity of one year or less	14 163	15 061
	15 298	15 747

Operating lease commitments

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

	2009 £000	2008 £000
Expiring		
Within 1 year	1,848	1 848
Later than 1 year and no later than 5 years	1 967	3 783
Later than 5 years	89	120
	3 904	5 751

Other commitments

At 31 December 2009 a commitment exists to make further payments with regard to the Financial Compensation Scheme Levy for 2010 and thereafter Due to uncertainties regarding the calculation of the levy and the Company's share thereof the Directors consider this cost to be unquantifiable (see note 26)

29 Share capital

	Number of shares	Ordinary shares
Authorised, allotted, called up and fully paid shares of £1 each		£000
At 31 December 2008 and 31 December 2009	15,000,000	15 000

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30 Reserves and retained earnings

	2009	2008
	£000	£000
Retained earnings	8 045	8 498
Total reserves as 31 December	8,045	8 498

Movements in retained earnings were as follows

	2009	2008
	£000	£000
At 1 January	8,498	12 158
Profit for the year	173	272
Interim dividend for the year	(626)	(3,000)
Final dividend for prior year	-	(932)
At 31 December	8,045	8 498

31 Dividends

The Directors paid an interim dividend of £626 000 in December (2008 £3,000,000) This is £0 04 per share (2008 £0 20 per share) The Directors do not recommend the payment of a final dividend (2008 £ nil)

32 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

	2009	2008 (1)
	£000	£000
Cash (Note 13)	143	157
Loans and advances to banks (Note 14)	51 196	7 435
Debt securities held to maturity (Note 16)	-	8,000
	51 339	15 592

(1) The comparatives have been reclassified to align with current year presentation (see note 37)

33 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

	2009	2008 (1)
	£000	£000
Loans		
Loans outstanding at 1 January	8,439	9 483
Loans issued during the year	15 203	724
Loan repayments during the year	(14 913)	(1 768)
Loans outstanding at 31 December	8 729	8 439
Interest income earned	82	470

	2009	2008
	£000	£000
Deposits		
Deposits at 1 January	25 266	18,609
Deposits received during the year	133,098	19 436
Deposits repaid during the year	(109 522)	(12 779)
Deposits at 31 December	48,842	25 266
Interest expense on deposits	343	703

(1) The comparatives have been reclassified to align with current year presentation (see note 37)

Arbuthnot Banking Group PLC contributed £550,000 to the start-up costs of Gilliat Financial Solutions a structured products provider launched in July 2009

The Company uses Arbuthnot Securities Limited a fellow group undertaking, to execute a number of securities transactions on behalf of discretionary asset management clients During 2009, commissions of £14,000 were paid (2008 £18 000) There were no balances outstanding at 31 December 2009

Included in the Income Statement are costs recharged to Arbuthnot Banking Group PLC and Arbuthnot Securities Limited in respect of property costs, IT support and usage of fixed assets, amounting to £2 283,000 (2008 £2,216 000) The balances outstanding at 31 December 2009 were £538 000 (2008 £832 000)

Arbuthnot Banking Group PLC provides the Company with a subordinated loan (note 27)

The Company paid a £626 000 interim dividend to Arbuthnot Banking Group PLC in December (note 31)

33 Related-party transactions (Continued)

ii Transactions with directors and key management personnel

	2009 £000	2008 £000
Loans		
Loans outstanding at 1 January	1 071	715
Loans issued during the year	1 814	1 419
Loan repayments during the year	(115)	(1 063)
Loans outstanding at 31 December	2 770	1 071
Interest income earned	115	48

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 (2008 £nil)

	2009 £000	2008 £000
Deposits		
Deposits at 1 January	4,226	1 260
Deposits received during the year	6,328	7 737
Deposits repaid during the year	(4 344)	(4,771)
Deposits at 31 December	6 210	4 226
Interest expense on deposits	43	66

Directors' remuneration

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

	2009 £000	2008 £000
Fees	4	8
Other emoluments	864	958
Compensation for loss of office	30	50
Pension contributions	43	77
	941	1 093

Pension contributions are being accrued under money purchase schemes for 3 directors (2008 4 directors) in respect of qualifying service The emoluments of H Angest JR Cobb AA Salmon, PN Sheriff, AD Turrell and RJJ Wickham were paid by the immediate parent company which makes no recharge to the 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

	2009 £	2008 £
Emoluments	251 391	351 450
Amounts payable to a money purchase pension scheme	-	-
	251 391	351 450

34 Gain on sale of business assets

In June 2008, the Company sold its pension administration business to Premier Pension Services This generated a gain on disposal of business assets of £301 000

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35 Discontinued Operations

	Note	2009 £000	2008 £000
Interest and similar income		508	829
Net interest income		508	829
Fee and commission income		406	494
Net fee and commission income		406	494
Operating income		914	1 323
Impairment losses on loans and advances		(343)	(30)
Operating expenses		(913)	(1,007)
Profit / (loss) before income tax		(342)	286
Income tax (expense) / credit	12	200	(80)
Profit / (loss) for the year		(142)	206

Discontinued operations represents the leasing business, Musical Instrument Finance The Company transferred its consumer lending book in June 2009 to Secure Trust Bank PLC (part of the Arbuthnot Banking Group) at par The remainder of the leasing business (mainly operating leases to schools) was sold on 26 February 2010 There was no gain or loss on disposal with sale proceeds of £1 945 000 and associated costs of disposal equivalent to the net book value of the assets and liabilities held for sale (refer Note 38)

Cash flows from discontinued operation	2009	2008
Net cash (outflow) / inflow from operating activities	1,113	927
Net cash from investing activities	310	-
Cash flows from financing activities	-	-
Net cash flows from discontinued operation	1,423	927

Assets classified as held for sale	2009 £000
Inventory	358
Trade receivables	56
Operating Leases	1 627
Prepayments and accrued income	21
	2 062

Liabilities relating to assets classified as held for sale	2009 £000
Deferred Income	247
	247

36 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 52 6% of the issued share capital of Arbuthnot Banking Group PLC and is regarded by the Directors as the ultimate controlling entity A copy of the consolidated financial statements of Arbuthnot Banking Group PLC may be obtained from One Arleston Way Solihull B90 4LH

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Notes to the financial statements

37 Reclassification of 2008 numbers

The reclassifications below took place to align with the current year presentation Loan credit related fees have been reclassified from fee and commission income to interest and similar income Derivative financial instruments have been separated out from other assets and other liabilities onto separate lines Interest receivable was reclassified from other assets to loans and advances to banks loans and advances to customers and debt securities held-to-maturity Interest payable was reclassified from other liabilities to deposits from customers Interest receivable and payable is now reflected with the principal amount outstanding

The following reclassifications took place on the statement of comprehensive income for 2008

	Balance as per 2008 financial statements	Reclas-sification of interest	Discontinued (1)	Comparative balance 2009 financial statements (1)
Interest and similar income	18 880	939	(829)	18 990
Fee and commission income	6 137	(939)	(494)	4 704

(1) The comparatives have been further representated for discontinuing operations (see note 35)

The following reclassifications took place on the statement of financial position for 2008

	Balance as per 2008 financial statements	Reclas-sification of interest / other assets	Comparative balance 2009 financial statements
ASSETS			
Loans and advances to banks	7,435	-	7,435
Loans and advances to customers	159,908	(1 529)	158 379
Debt securities held-to-maturity	124 644	2 732	127,376
Other assets	7,312	(1 203)	6 109
	299,299	-	299,299
LIABILITIES			
Deposits from banks	6 789	2	6 791
Derivative financial instruments	-	942	942
Deposits from customers	272,614	1 146	273 760
Other liabilities	5 510	(2 090)	3,420
	284,913	-	284,913

The following reclassifications took place on the statement of cash flows for 2008

	Balance as per 2008 financial statements	Reclas-sification of interest / other assets	Comparative balance 2009 financial statements
Changes in operating assets and liabilities			
- net decrease / (increase) in loans and advances to customers	(13 816)	1 529	(12,287)
- net decrease / (increase) in other assets	562	(1 529)	(967)
- net (decrease) / increase in deposits from banks	6,375	(2)	6,373
- net (decrease) / increase in amounts due to customers	(966)	(1 146)	(2,112)
- net (decrease) / increase in other liabilities	1,696	1 148	2 844
Net cash (outflow) from operating activities	(5,476)	-	(5 476)

38 Events after the balance sheet date

Assets and liabilities held for sale represents the remaining portion of the leasing business, Musical Instrument Finance This leasing business (mainly operating leases to schools) was sold on 26 February 2010 There was no gain or loss on disposal with sale proceeds of £1,945 000 and associated costs of disposal equivalent to the net book value of the assets and liabilities held for sale (refer note 35)