ARBUTHNOT BANKING GROUP PLC

Press Release
For Immediate Release
19 March 2015

ARBUTHNOT BANKING GROUP ("Arbuthnot", "the Group" or "ABG")
Audited Final Results for the year to 31 December, 2014

Poised for next phase of growth

Arbuthnot Banking Group today announces a record profit before tax of £22.5m, a 43% increase on the prior year.

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

FINANCIAL HIGHLIGHTS

- Profit before tax £22.5m (2013: £15.7m)
- No significant one off transactions
- Underlying profits of £30.6m (2013: £18.5m)
- Operating income grew by 26% to £126.3m (2013: £100m)
- Customer lending exceeded £1bn for the first time; 2014 £1.1bn (2013: £732m)
- Positive operating leverage of 13% (2013: 14%)*
- Earnings per share 56.5p (2013: 51.9p)
- Total dividend per share 27p (2013: 44p which included a 18p special dividend)
- Net assets per share 1,136p (2013: 570.5p) an increase of 99%

OPERATIONAL HIGHLIGHTS

Private Banking - Arbuthnot Latham

- Profit before tax £3.6m (2013: £7.7m which included a £6.5m gain on sale of Wilson Street, the Group's offices)
- Customer loans up 57% to £536.0m (2013: £341.0m)
- Customer deposits grew 12% to £585.9m (2013: £519.7m)
- Assets under management increased 26% to £666m (2013: £528m)
- Completed the purchase of £106m mortgage portfolio

Retail Banking - Secure Trust Bank

- Profit before tax £26.3m (2013: £17.2m)
- Customer lending balances increased by 59% to £622m (2013: £391m)
- Total customer numbers increased to 429,507 (2013: 350,861)
- All SME lending divisions have now extended credit
- Successful share placing raised a further £50m of capital to fund further growth

Commenting on the results, Henry Angest, Chairman and Chief Executive of Arbuthnot, said: "This has been another good year for the Group with it reporting record profits. Customer lending across the Group has been particularly strong and has now exceeded £1.1 billion. Over the recent past Secure Trust has remained the Group's main focus of strategic investment while Arbuthnot Latham has also been growing well. The Group has now generated additional capital and is well positioned further to support this growth."

*Percentage difference between the increase in Operating Income and Operating Expenses

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

ENQUIRIES:

Arbuthnot Banking Group	
Henry Angest, Chairman and Chief Executive	0207 012 2400
Andrew Salmon, Chief Operating Officer	
James Cobb, Group Finance Director	
David Marshall, Director of Communications	
Canaccord Genuity Ltd (Nominated Advisor)	
Sunil Duggal	0207 665 4500
Numis Securities Ltd (Broker)	
Chris Wilkinson	0207 260 1000
Mark Lander	
Bell Pottinger (Financial PR)	
Ben Woodford	0203 772 2566
Dan de Belder	

The 2014 Annual Report and Notice of Meeting will be posted and available on the Arbuthnot Banking Group website http://www.arbuthnotgroup.com on or before 7 April 2015. Copies may be obtained from the Company Secretary, Arbuthnot Banking Group PLC, Arbuthnot House, 7 Wilson Street, London, EC2M 2SN.

Consolidated statement of comprehensive income

	Note	Year ended 31 December 2014 £000	Year ended 31 December 2013 £000
Interest income		117,624	93,329
Interest expense		(19,371)	(20,279)
Net interest income		**98,253**	**73,050**
Fee and commission income	9	29,963	31,816
Fee and commission expense		(1,930)	(4,846)
Net fee and commission income		**28,033**	**26,970**
Operating income		**126,286**	**100,020**
Net impairment loss on financial assets	10	(18,591)	(18,807)
Gain from a bargain purchase	11	-	413
Gain on sale of building	12	-	6,535
Other income	13	-	1,183
Operating expenses	14	(85,180)	(73,631)
Profit before income tax from continuing operations		**22,515**	**15,713**
Income tax expense	16	(5,499)	(4,198)
Profit after income tax from continuing operations		17,016	11,515
Profit for the year		**17,016**	**11,515**
Other comprehensive income			
Items that are or may be reclassified to profit or loss			
Revaluation reserve			
- Amount transferred to profit and loss		(2)	-
Cash flow hedging reserve			
- Effective portion of changes in fair value		-	(15)
- Net amount transferred to profit and loss		378	-
Available-for-sale reserve		(81)	(250)
Other comprehensive income for the period, net of tax		**295**	**(265)**
Total comprehensive income for the period		**17,311**	**11,250**

Profit attributable to:			
Equity holders of the Company		8,634	7,930
Non-controlling interests		8,382	3,585
Profit for the year		**17,016**	**11,515**
Total comprehensive income attributable to:			
Equity holders of the Company		8,677	7,681
Non-controlling interests		8,634	3,569
Total comprehensive income for the period		**17,311**	**11,250**
Earnings per share for profit attributable to the equity holders of the Company during the year (expressed in pence per share):			
- basic	17	56.5	51.9
- diluted	17	55.8	51.5

Consolidated statement of financial position

	Note	At 31 December 2014 £000	2013 £000
ASSETS			
Cash and balances at central banks	18	115,938	193,046
Loans and advances to banks	19	31,844	105,061
Debt securities held-to-maturity	20	91,683	19,466
Derivative financial instruments	21	2,707	508
Loans and advances to customers	22	1,158,983	732,009
Other assets	24	16,866	17,267
Financial investments	25	1,277	1,975
Deferred tax asset	26	2,588	3,954
Investment in associate	27	943	943
Intangible assets	28	11,318	13,103
Property, plant and equipment	29	12,475	5,522
Total assets		**1,446,622**	**1,092,854**
EQUITY AND LIABILITIES			
Equity attributable to owners of the parent			
Share capital	35	153	153
Retained earnings	36	114,641	67,901
Other reserves	36	(1,263)	(1,467)
Non-controlling interests		**60,038**	**20,327**
Total equity		**173,569**	**86,914**
LIABILITIES			
Deposits from banks	30	27,657	2,003
Derivative financial instruments	21	1,067	371
Deposits from customers	31	1,194,285	957,791
Current tax liability		3,612	1,427
Other liabilities	32	34,984	31,017
Deferred tax liability	26	-	1,099
Debt securities in issue	33	11,448	12,232
Total liabilities		**1,273,053**	**1,005,940**
Total equity and liabilities		**1,446,622**	**1,092,854**

Chairman's statement

Once again I am pleased to report that Arbuthnot Banking Group ("ABG" or "the Group") has made a record profit before tax, this year of £22.5m (2013: £15.7m), which represents an increase of 43% on 2013. This result does not include any large one off transactions, so the true value of the recurring business that we are developing can now be clearly seen.

While I reflect on the financial results, I note with interest that the customer lending across the Group has now exceeded £1.1bn. This is a strong performance, given that at the start of the recent financial crisis the balance stood at £172m. This would seem to justify our cautious approach leading up to the downturn, but also reflects our decisive and entrepreneurial reaction to the opportunities that have since arisen.

The most significant decision that we took three years ago was to proceed with an IPO of Secure Trust Bank ("STB" or "the Retail Bank"). This gave our retail bank the access to the capital markets that it needed to support its expansion plans. The first phase of its development has been to grow the consumer finance lending portfolios, both organically and through acquisition. These are now well established and hence it has started the next phase, which is to build the SME lending operations.

In order to fund these plans, STB carried out a successful share placing in July which raised a further £50m of new capital. At the same time the Group took the opportunity to sell £25m of its stake in STB. The result of these transactions was nearly to double the net assets of the Group.

While STB has remained the Group's main focus of strategic investment over the recent past, Arbuthnot Latham ("AL" or "the Private Bank") has also been growing well. Now that the Group has generated additional capital, it is positioned to further support the development of AL, by allowing it to expand into other areas, where it can use its position as a highly respected and well-funded bank.

The first of such actions resulted in AL being able to buy a geographically diversified portfolio of residential mortgages from the administrator of the Dunfermline Building Society. This purchase was achieved at a good discount to the face value of the loans, but more importantly it is a well-seasoned portfolio, which allows us to predict the credit performance with a high degree of accuracy. In the longer term the assets should enable us to take advantage of the Bank of England's sterling monetary framework, giving us another source of stable funding with which to manage the Private Bank's liquidity.

AL also completed its move to our new headquarters in Wilson Street. The upgrade in facilities appears to have been well received by both our clients and employees alike and represents a clear statement of confidence in our prospects for the future.

One note of caution regarding an issue that has concerned me during the recent months is the acceleration of regulatory pronouncements emanating from both the UK and International regulators. We had hoped for a more level playing field on which to compete with the larger banks. However, the Basel Committee's recent proposed revision to the standardised capital rules would not appear to achieve this. I hope that the consultation process will enable this to be addressed, before it is implemented in the future. We will watch developments on this matter closely. Another issue is the increasing geo-political risks that emanate from various flashpoints.

Private Banking – Arbuthnot Latham & Co., Ltd

The Private Bank has reported a profit of £3.6m (2013: £7.7m). At first glance this does not seem to reflect the good progress that the business has made. However, when you exclude the £6.5m one off gain from the sale and lease back transaction in 2013, the underlying profits have more than doubled. I am also pleased to note that customer loans have exceeded £500m for the first time. Helped in part by the acquisition of the mortgage portfolio, but excluding that, the core loan book still grew at a healthy rate of 26%.

Last year, I discussed the importance of investing for the future by developing the bank's distribution capabilities. The dislocation in the financial services sector has made it possible for us to continue to attract experienced senior bankers, which has proved an effective means of increasing both the number and also the quality of clients that we serve. Outside London, the office in Dubai celebrated its first anniversary and has generated good momentum in a short space of time. Elsewhere, the Exeter office has been strengthened and we opened a new office in Manchester to cover the North West of England.

Retail Banking - Secure Trust Bank PLC

Our retail banking business has delivered a pre-tax profit of £26.3m (2013: £17.2m), which is a 53% increase on the previous year and confirms that the underlying profits of the bank are emerging as the effect of the accounting required for the acquisitions is unwinding.

All of the STB lending portfolios have grown at a good rate, but I have been particularly pleased to see the robust performance of the retail finance division. This has been largely due to the smooth integration of the V12 business. Their market leading technology and operating platform, along with the strong funding profile of STB, has combined to allow them to pitch with greater confidence and success to larger retail clients than previously. This is evidenced by amongst others, the new strategic relationship with the online retailer AO.com.

The next phase of expansion for STB began in 2014 with the start of the SME division. The largest part of this is currently Real Estate Finance which generated £133.7m of new lending volumes, most of which was secured on residential property. Furthermore, the division also launched an invoice finance business and formed a partnership with Haydock Finance to offer asset based lending.

Board Changes and Personnel

The ABG Board has once again remained unchanged throughout the year. I would like to thank my colleagues on the Board for their generous and continued support and the dedication they have shown to the Group.

The results of the Group also reflect the hard work and commitment of both existing and new members of staff. On behalf of the Board I extend our thanks to all of them for their contribution in 2014.

Dividend

The Board is proposing a final dividend of 16p per share, an increase of 1p on last year and together with the interim dividend of 11p combines to give a total dividend for the year of 27p (2013: 44p), which is an increase of 1p excluding last year's special dividend of 18p.

If approved, the dividend will be paid on 15 May 2015 to shareholders on the register at close of business on 17 April 2015.

Outlook

The economic outlook is now uncertain; deflation may become a short term reality in the UK. The Eurozone economy is still weak and the central banks seem committed to expansionary monetary policies. On top of this the General Election looms large with an uncertain outcome and potentially far reaching consequences. Despite all of this both of our banks are making good progress and we remain optimistic that this can continue.

Strategic Report

Business Review - Private Banking - Arbuthnot Latham

	2014	2013
Operating income	£28.9m	£21.7m
Other income	£2.1m	£10.3m
Operating expenses	£24.0m	£21.3m
Profit before tax	£3.6m	£7.7m
Customer loans	£536.5m	£341.0m
Customer deposits	£585.9m	£521.2m
Total assets	£700.8m	£619.7m
Customer net margin	4.4%	4.4%
Loan to deposit ratio	92%	66%

AL delivered a year of further growth across all of its key business areas, with the momentum that has been established in previous years continuing to strengthen. The core business of Private Banking and Wealth Management benefited from the evolving market conditions. Its client focused approach resonates well in its core market. As a consequence the bank has been able to increase its profile and in turn its flow of good quality borrowers. The move into the newly refurbished headquarters in London towards the end of the year was a tangible sign of the development of the business and the positive intent towards continuing this growth in the years ahead.

The year-end reported profit for AL is £3.6m (2013: £7.7m). However, the prior year's result was dominated by the gain generated by the sale and lease back transaction on the new headquarters.

The strategy to focus on key sectors of the wealth market in the UK, through the recruitment of new Senior Bankers, is proving to be increasingly effective. At the same time, the growing disenchantment of wealthy clients with the ever increasing volume of changes, in what is essentially a relationship driven market, has resulted in many of these clients moving their business to AL. Delivering on relationship led client service is at the heart of the philosophy of the bank and the foundation principle of its business. The financial results demonstrate the success of this strategy.

During the year the client loan book (excluding the acquired portfolio) grew by 26% to £430m (2013: £341m), as the bank supported its clients in pursuing their wealth preservation and enhancement strategies, through appropriate use of well-structured lending opportunities. Client deposits grew by 12% to close the year at £586m (2013: £521m). As a result of the higher number of quality private banking clients, the overall cost of deposits fell during the year as, these clients have a higher propensity to retain a proportion of their deposits at call.

The final product in the bank's full service offering to clients is wealth management. This maintained its momentum with a 26% increase in Assets Under Management which finished the year at £666m (2013: £528m).

The bank has continued to develop the strength of its business outside of the London headquarters. The office in Exeter has grown, a new office in Manchester to cover the North West has been opened and Dubai completed its first year of operation. Here strong business growth has been achieved in a short space of time, reflecting the dynamic nature of the local market and its long term potential.

Towards the end of the year, the bank successfully completed the purchase of a portfolio of residential mortgage loans. This portfolio was being sold by the Administrator of the Dunfermline Building Society. The loans are well seasoned which offers us a good insight into their underlying credit risk. They are also geographically diversified. More importantly, these loans should give us a stable asset to offer as collateral to participate in the Bank of England's sterling monetary framework. This further diversifies and strengthens our sources of liquidity.

The portfolio was purchased at a discount to face value and came onto our balance sheet at £106m. It had little impact on the results for 2014 but will be immediately accretive in 2015.

Looking ahead, the increasing profile of the bank along with the continuing positive conditions in the market, provide an encouraging scenario for the bank to continue its growth in the future.

Business Review - Retail Banking - Secure Trust Bank

	2014	2013
Operating income	£97.9m	£79.0m
Operating expenses	£56.3m	£46.7m
Profit before tax	£26.3m	£17.2m
Customer loans	£622.5m	£391.0m
Customer deposits	£608.4m	£436.6m
Customer numbers	429,507	350,861
Net interest margin	17.1%	16.9%
Cost income ratio	0.57	0.55

STB has reported record pre-tax profits of £26.3m (2013: £17.2m), which is an increase of 53% on the previous year.

This continues the favourable trend of the business since the IPO late in 2011, which now shows that underlying profits have increased by 323% and customer lending balances have followed suit with growth in excess of 300%.

The bank is also serving record numbers of customers (429,507) across its savings, basic bank account, motor finance, retail finance, unsecured lending, asset finance, invoice finance and real estate finance markets. As ever, the bank's friendly and professional staff remain fully committed to achieving good outcomes for its customers, through the provision of straightforward transparent banking solutions.

In total, the bank's lending portfolios achieved healthy double digit growth with advances to customers increasing 59% to close the year at £622.5m. Total new lending volumes grew 79% to £545.9m (2013: £304.7m).

Across the individual portfolios, motor finance increased by 20% to £137.9m, as the business continued to service the Top 100 UK car dealer groups and strengthened its relationship with specialist motor intermediaries.

Retail finance grew by 37% to £156.3m, with the encouraging performance of V12, the business acquired in 2013. The launch of its season ticket offering was well received and the funding strength provided by STB has allowed the business to pitch to larger retailers.

Personal unsecured lending balances including Everyday Loans increased to £181.4m (2013: £159.2m). These portfolios are currently being managed to maximise return rather than outright growth, however the business has now successfully launched a Guarantor Loan offering which should supplement the portfolio growth rates in 2015.

As forecast in 2013, the bank launched its SME division during the year. Real estate finance has quickly developed a portfolio of loans totalling £133.7m largely secured on residential properties.

Towards the end of the year the bank also began its invoice finance business via STB Commercial Services. The flow of new business exceeded our initial expectations and the portfolio at the end of the year totalled £5m.

Finally, asset finance was commenced via a strategic partnership with Haydock Finance, which provides a full business outsourcing service.

Given the focus that the bank puts on ensuring that its credit underwriting systems and processes generate the appropriate lending decisions, it is not surprising that the credit performance of the portfolios continues to outperform the levels expected at the time of origination.

The bank has been on a good trajectory of growth and the management teams have been careful to ensure that growth is well controlled. Improvements have been made in key areas of the bank, the risk and compliance teams have been enhanced. A new Treasurer, a Chief Internal Auditor and a Chief Technology Officer have been appointed. As ever, the team have ensured that their long established principles of ensuring a stable and secure funding base to underpin the growth have been followed. The bank remains funded from the retail deposit market and during the year customer deposits increased by 39% to close at £608.4m. Also, in July the bank successfully completed a £50m share placement, which increased the capital base of the bank by 44%.

As the good reputation of the bank continues to grow, it has been recognised by receiving external accolades. STB remains the only bank in the UK to hold the Customer Service Excellence Award (CSE), which replaced the kite mark and for the third year running it has been awarded the 4 star mark by the Fair Banking Foundation. Finally, Investors in People upgraded the bank's status from bronze to silver.

Strategic Report - Financial Review

ABG adopts a pragmatic approach to risk taking and seeks to maximise long term revenues and returns. Given its relative size, it is nimble and able to remain entrepreneurial and capable of taking advantage of favourable market opportunities when they arise.

The Group provides a range of financial services to customers and clients in its chosen markets of Private Banking and Retail Banking. The Group's revenues are derived from a combination of net interest income from lending, deposit taking and treasury activities, fees for services provided to customers and clients and commission earned on the sale of financial instruments and products.

Highlights

Summarised Income Statement	2014 £000	2013 £000
Net interest income	98,253	73,050
Net fee and commission income	28,033	26,970
Operating income	126,286	100,020
Gain from a bargain purchase	-	413
Gain from sale of building	-	6,535
Other income	-	1,183
Operating expenses	(85,180)	(73,631)
Impairment losses - financial investments	(347)	(1,073)
Impairment losses - loans and advances to customers	(18,244)	(17,734)
Profit before tax	22,515	15,713
Income tax	(5,499)	(4,198)

Profit after tax	**17,016**	**11,515**
Basic earnings per share (pence)	56.5	51.9

Underlying profit reconciliation 31 December 2014	Arbuthnot Latham & Co. £000	Secure Trust Bank £000	Arbuthnot Banking Group £000
Profit before tax	3,628	26,339	22,515
Dubai office investment	981	-	981
Regional office investment	217	-	217
ELL fair value amortisation	-	4,294	4,294
STB acquisition costs	-	198	198
STB share options	-	1,542	1,542
V12 fair value amortisation	-	893	893
Underlying profit	**4,826**	**33,266**	**30,640**
Basic earnings per share (pence)			79.8

Underlying profit reconciliation 31 December 2013	Arbuthnot Latham & Co. £000	Secure Trust Bank £000	Arbuthnot Banking Group £000
Profit before tax	7,728	17,193	15,713
Gain on sale of building	(6,535)	-	(6,535)
180th Year anniversary	-	-	436
Dubai office investment	879	-	879
ELL fair value amortisation	-	4,066	4,066
STB acquisition costs	-	854	854
STB share options	-	2,221	2,221
V12 fair value amortisation	-	893	893
Acquired portfolios	-	1	1
Underlying profit	**2,072**	**25,228**	**18,528**
Basic earnings per share (pence)			42.3

Once again the Group has traded well during 2014. The profit before tax at £22.5m is a record for the Group. It represents an increase of 43% compared to 2013 (£15.7m) which in itself is a significant increase, but this is even more impressive if the prior year results are adjusted for the £6.5m gain recognised on the sale and lease back transaction of Wilson Street.

The results are also noteworthy in that 2014 contained no significant "one off" items. This gives a better understanding to shareholders of the returns of the business that the Group has been developing over the recent few years.

This profit before tax translates into a basic earnings per share ("EPS") of 56.5p compared to the prior year of 51.9p, which is an increase of 9%. However, on an underlying basis the EPS is 79.8p up from 42.3p in the prior year, an increase of 89%.

During 2013 the Group recorded operating income in excess of £100m for the first time, which continued its robust growth in 2014 with a further 26% increase led once again by the growth in our lending balances. Net interest income now represents 78% of total revenues compared to 73% in the prior year. Also, the approximate average blended yield of net interest income compared to average customer loans increased to 13% with the continuing increased proportion of the higher yielding loan portfolios in Secure Trust Bank. However, I would expect this value to fall over time as the impact of the Real estate finance written by Secure Trust Bank becomes more significant as a proportion of the Group's overall lending portfolio.

The expense base grew by 16% to £85m as the first impact of the new business lines was recognised. However, the net operating leverage was 13% (2013: 14%), which indicates that for every pound the Group adds to its expense base it receives back £1.13 in revenues.

Impairment losses increased by 3% to £18.2m; however, compared to the increase in the loan book of 58% this would suggest that the Group credit decision process is performing well.

Balance Sheet Strength

Summarised Balance Sheet	2014 £000	2013 £000
Assets		
Loans and advances to customers	1,158,983	732,009
Liquid assets	239,465	317,573
Other assets	48,174	43,272
Total assets	**1,446,622**	**1,092,854**
Liabilities		
Customer deposits	1,194,285	957,791
Other liabilities	78,768	48,149
Total liabilities	1,273,053	1,005,940
Equity	173,569	86,914
Total equity and liabilities	**1,446,622**	**1,092,854**

During 2014 the Group's lending to customers exceeded £1bn for the first time and closed the year at over £1.1bn. This figure was increased by the purchase of the residential mortgage portfolio (£106m) toward the end of December, but excluding that the customer loans portfolio increased by 44% and all in the figure grew by 58%.

Once again the Group's lending remains almost entirely funded by customer deposits, which increased by 25% during the year. The Group's deposit base also broke through £1bn for the first time in its history. The loan to deposit ratio closed at 97% as a result of the mortgage portfolio purchase. However, the Group has significantly increased its access to sources of liquidity during the year. The share placing in July raised £75m of cash, but more importantly the mortgage portfolio should contribute collateral to the Funding for Lending Scheme ("FLS") and other schemes operated by the Bank of England.

As noted, the share placing not only raised surplus cash but it also helped to significantly increase the net assets of the Group which closed the year at £174m, double the value of the prior year.

Segmental Analysis

The segmental analysis in Note 42 of the Consolidated Financial Statements in the Annual Report highlights the disclosures required under IFRS 8 'Operating Segments'. The operating segments are Private Banking (Arbuthnot Latham & Co., Ltd) and Retail Banking (Secure Trust Bank PLC). Group costs and intercompany elimination journals are shown separately to reconcile back to the Group consolidated result.

The analysis presented below, and in the business review, is before any consolidation adjustments to reverse the impact of intergroup operating activities and also intergroup recharges and is a fair reflection of the way the Directors manage the Group.

Private Banking - Arbuthnot Latham

Summarised Income Statement	2014 £000	2013 £000
Net interest income	19,387	12,778
Net fee and commission income	9,508	8,873
Operating income	28,895	21,651
Gain from sale of building	-	6,535
Other income	2,088	3,765
Operating expenses	(23,977)	(21,309)
Impairment losses - financial investments	(334)	(824)
Impairment losses - loans and advances to customers	(3,044)	(2,090)
Profit before tax	**3,628**	**7,728**

The profit before tax for the year was reported at £3.6m (2013: £7.7m). However, the prior year results included the one off gain of £6.5m on the sale of the Wilson Street property. Once the impact of this is excluded, the core results show a robust increase of 200%. Much of this increase was driven by the growth in net interest income which grew by 52%, as the continued growth in the loan portfolio has a positive benefit to the income of the bank. It should also be noted that the purchase of the mortgage portfolio from the Dunfermline Building Society had an immaterial impact on the results for 2014, having only been completed on 19 December. The benefit to net interest will emerge in 2015.

With the continued low interest rate environment, which was helped by the extension to the Funding for Lending Scheme, the bank's net customer margin remained at 4.4% consistent with the prior year. The fees and commissions earned grew by 7% as a result of the continued success of the investment management and wealth planning businesses. Operating expenses increased by 13% with the further investment in the number and quality of our Private Bankers.

The credit impairment losses increased to £3m, but compared to the average loan portfolio the loss rate was 68 basis points, well below the 1% benchmark and trending to below 50 basis points, as the legacy portfolio continues to be worked through by our recovery team.

During 2014 the bank closed Gilliat Financial Solutions. The financial impact of this was broadly neutral, with the exit costs being offset by receipts from the sale of certain intellectual properties.

Summarised Balance Sheet	2014 £000	2013 £000
Assets		
Loans and advances to customers	536,488	340,982
Liquid assets	122,198	239,168
Other assets (including Group balances)	40,786	39,523
Total assets	**699,472**	**619,673**
Liabilities		
Customer deposits	585,867	521,183
Other liabilities (including Group balances)	73,636	71,438
Total liabilities	659,503	592,621
Equity	39,969	27,052
Total equity and liabilities	**699,472**	**619,673**

Customer assets increased by 57% and by 26% excluding the purchase of the mortgage portfolio (£106m) to close the year at £536.5m (2013: £341.0m). The loan book remains well secured with an average LTV of 48% (2013: 50%).

The fall in liquid assets is largely as a result of utilising surplus cash resources held at the Bank of England to complete the portfolio acquisition. Customer deposits increased by £64.7m (12%) to close the year at £585.9m as the bank continued to experience strong deposit growth.

In order to facilitate the bank's ambitions to grow and more specifically to complete the portfolio acquisition, the Group made further capital contributions to the bank during the year. This increased its net assets by 48% to close at £40m. As a result, the Private Bank had a total capital ratio of 10.8% (2013: 10.8%) and a core tier 1 ratio of 9.4% (2013: 8.8%).

Retail Banking - Secure Trust Bank

Summarised Income Statement	2014 £000	2013 £000
Net interest income	79,372	60,885
Net fee and commission income	18,525	18,097
Operating income	97,897	78,982
Gain from a bargain purchase	-	413
Operating expenses	(56,270)	(46,558)
Impairment losses - loans and advances	(15,288)	(15,644)
Profit after tax	**26,339**	**17,193**

The reported profit before tax is £26.3m (2013: £17.2m), which represents an increase of 53%. This increase is once again driven by the increase in net interest income from the lending portfolios, which grew by 30% to £79.4m for the full year. In total the operating income fell marginally short of £100m, a milestone that the bank expects to surpass in 2015, as the SME lending division develops.

Operating expenses increased by 21% to £56.3m but the operational efficiency of the bank is borne out by the fact that overall operating leverage was a positive 4%.

Total impairments in the year actually declined despite the increase in the bank's balance sheet. Firstly, a significant proportion of the increase in lending was as a result of the start up of the Real estate finance division. This lending is fully secured typically at LTV's of around 60%, so losses on this portfolio should be minimal and due to the short time since its inception, it is too early for any of its lending to have become impaired. Secondly, as a result of a market benchmarking exercise for non performing loans, the business concluded that the provisions held against our debt in long term recovery were excessive. This provision was therefore released. Without this the annual impairment charge would have been £17.7m.

The Current Account ended the year with 20,792 accounts (2013: 22,860) and One Bill with 22,731 (2013: 24,297).

Summarised Balance Sheet	2014 £000	2013 £000
Assets		
Consumer Finance		
Personal Lending		
STB	87,571	77,889
ELL	93,864	81,368
Motor Finance	137,853	114,570
Retail Finance	156,251	114,386
Business Finance		
Asset Finance	4,541	-
Commercial Finance	5,024	-
Real Estate Finance	133,738	1,784
Additional Services		
Debt Collection	3,058	277
Acquired Portfolios	28	110
One Bill	388	465
Other	179	179
Total loans and advances to customers	622,495	391,028
Liquid assets	117,258	71,958
Other assets (including Group balances)	42,260	56,611
Total assets	**782,013**	**519,597**
Liabilities		
Customer deposits	608,418	436,608
Other liabilities (including Group balances)	48,734	21,368
Total liabilities	657,152	457,976
Equity	124,861	61,621
Total equity and liabilities	**782,013**	**519,597**

Overall the customer lending portfolio grew by 59%. Apart from the start up of the SME finance division there was good growth in the Motor portfolio of 20% as a result of our broadening coverage of the UK broker and dealership networks and a wider offering of products across the credit spectrum. Also, the Retail finance division increased its lending by 37% as the integration of the V12 operating platform and the STB funding advantage allowed the division to successfully pitch to more and larger retailers.

The SME lending division has now extended credit in all three of its portfolios. The most significant of these is currently the Real Estate finance business, which added £132m during the year. This business is benefitting from the lack of housing stock, which is driving demand for finance from developers.

Deposits grew by 39% to close at £608m and the bank remained entirely funded by retail deposits. Deposits have been raised across all the tenors of the bank's lending, generally in the form of fixed term deposits and bonds.

Following the issuance of new shares as a result of the placement in July (£50m) and the positive earnings of the year, the net assets of the bank have more than doubled to stand at £125m.

Group & Other Costs

Summarised Income Statement	2014 £000	2013 £000

Net interest income	(105)	(195)
Subordinated loan stock interest	(401)	(418)
Operating income	(506)	(613)
Other income	-	18
Operating expenses	(7,027)	(8,364)
Impairment on financial investments	81	(249)
Profit after tax	**(7,452)**	**(9,208)**

Total Group costs fell from £9.2m to £7.5m due to a rebalancing of the share of the cost of running the London headquarters. This is a result of the increasing utilisation of the space by the expanding Private Bank. Also, the prior year impact of the 180 year anniversary has fallen away.

Capital

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

The Group's lead regulator, the Prudential Regulatory Authority ('PRA'), sets and monitors capital requirements for the Group as a whole and for the individual banking operations. The lead regulator adopted the Basel III capital requirements with effect from 1 January 2014. As a result, the Group's regulatory capital requirements were based on Basel III in 2014.

In accordance with the EU's Capital Requirements Directive (CRD) and the required parameters set out in the PRA Handbook (BIPRU 2.2), the Individual Capital Adequacy Assessment Process (ICAAP) is embedded in the risk management framework of the Group and is subject to ongoing updates and revisions when necessary. However, at a minimum, the ICAAP is updated annually as part of the business planning process. The ICAAP is a process that brings together the management framework (i.e. the policies, procedures, strategies, and systems that the Group has implemented to identify, manage and mitigate its risks) and the financial disciplines of business planning and capital management. The Group's regulated entities are also the principal trading subsidiaries as detailed in Note 41.

Not all material risks can be mitigated by capital, but where capital is appropriate the Board has adopted a "Pillar 1 plus" approach to determine the level of capital the Group needs to hold. This method takes the Pillar 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 adequate to cover management's anticipated risks. Where the Board considers that the Pillar 1 calculations do not reflect the risk, an additional capital add-on in Pillar 2 is applied, as per the Individual Capital Guidance (ICG) issued by the PRA.

The Group's regulatory capital is divided into two tiers:

- Tier 1 comprises mainly shareholders' funds, non-controlling interests and revaluation reserves, after deducting goodwill and other intangible assets.
- Lower Tier 2 comprises qualifying subordinated loan capital and collective provisions. Lower Tier 2 capital cannot exceed 50% of Tier 1 capital.

The ICAAP includes a summary of the capital required to mitigate the identified risks in its regulated entities and the amount of capital that the Group has available. All regulated entities have complied with all of the externally imposed capital requirements to which they are subject.

Capital ratios	2014 £000	2013 £000
Core Tier 1 capital	173,721	87,270
Deductions	(11,470)	(11,405)
Tier 1 capital after deductions	162,251	75,865
Tier 2 capital	13,479	13,832
Total capital	**175,730**	**89,697**
Core Tier 1 capital ratio (Net Core Tier 1 capital/Basel III Total Risk Exposure)	**18.2%**	**14.4%**
Total Capital Ratio (Capital/Basel III Total Risk Exposure)	**18.4%**	**14.8%**

Risks and Uncertainties

The Group regards the monitoring and controlling of risks and uncertainties as a fundamental part of the management process. Consequently, senior management are involved in the development of risk management policies and in monitoring their application. A detailed description of risk management and their associated policies is set out in note 6 to the financial statements.

The principal risks inherent in the Group's business are credit, market, liquidity, operational and regulatory compliance.

Credit risk is the risk that a counterparty will be unable to pay amounts in full when due. This risk exists mainly in Arbuthnot Latham & Co., Limited and Secure Trust Bank PLC, which currently have loan books of £536.5m and £622.5m respectively. The lending portfolio in Arbuthnot Latham is extended to private banking clients, the majority of which is secured against cash, property or other assets. The portfolios within Secure Trust are extended to retail customers and are largely unsecured. However, the new Real Estate finance business lends mainly secured on properties. Credit risk is managed through the Credit Committees of each bank with significant exposures also being approved by the Group Risk Committee.

Market risk arises in relation to movements in interest rates, currencies and equity markets. The Group's treasury function operates mainly to provide a service to clients and does not take significant unmatched positions in any market for its own account. As a result, the Group's exposure to adverse movements in interest rates and currencies is limited to interest earnings on its free cash and interest rate re-pricing mismatches.

Liquidity risk is the risk that the Group cannot meet its obligations as they fall due. The Group takes a conservative approach to managing its liquidity profile. It has placed no reliance on the wholesale lending markets and is entirely funded by retail customer deposits. The loan to deposit ratios are maintained at prudent levels. Following introduction of the new liquidity regime, which came into force on 1 October 2010, the Group now maintains liquidity asset buffers which comprise high quality, unencumbered assets such as Government Securities, which can be called upon to meet the Group's liabilities.

Operational risk is the risk that the Group may be exposed to financial losses from conducting its business. The largest exposure to this risk exists in Arbuthnot Latham as mis-selling risk via its wealth management advisory service and its structured product distribution business. The Group is exposed to operational risks from its Information Technology and Operations platforms. There are additional internal controls in these processes that are designed to protect the Group from these risks. The Group's overall approach to managing internal control and financial reporting is described in the Corporate Governance section of the Annual Report.

As a financial services provider we face conduct risk, including selling products to customers which do not meet their needs; failing to deal with customers' complaints effectively; not meeting customers' expectations; and exhibiting behaviours which do not meet market or regulatory standards.

The Group maintains clear compliance guidelines and provides ongoing training to all staff. Periodic spot checks and internal audits are performed to ensure these guidelines are being maintained. The Group also has insurance policies in place to cover any claims that may arise.

Regulatory compliance risk is the risk that the Group will have insufficient capital resources to support the business or does not comply with regulatory requirements. The Group adopts a conservative approach to managing the capital of the Group. The principal regulated entities maintain capital ratios in excess of the minimum level set by the regulator. Capital requirements are forecast as part of the annual budgeting process and these are regularly monitored. Annually, the Group Board assesses the robustness of the capital requirements as part of the Individual Capital Adequacy Assessment Process (ICAAP) where stringent stress tests are performed to ensure that capital resources are adequate over a three year horizon.

Dividend

The Board proposes a final dividend of 16 pence per share to be paid on 15 May 2015, giving a total dividend for the year of 27 pence (2013: 44 pence) per share. The prior year dividend included a special dividend of 18p paid in November 2013.

Going Concern

After making appropriate enquiries which assessed strategy, profitability, funding, risk management (see note 6) and capital resources (see note 7), the directors are satisfied that the Company and the Group have adequate resources to continue in operation for the foreseeable future. The financial statements are therefore prepared on the going concern basis.

James Cobb
Group Finance Director
18 March 2015

Group Directors' Report

The Directors present their annual report and the audited consolidated financial statements for the year ended 31 December 2014.

Principal Activities and Review
The principal activities of the Group are banking and financial services. A strategic review in accordance with Section 414 C of the Companies Act 2006 forming part of this report is set out on pages 4 to 16.

Results and Dividends
The results for the year are shown on page 27. The profit after tax for the year of £17.0m (2013: £11.5m) is included in reserves.

The Company sold 1,041,667 ordinary 40p shares (6.7%) in its subsidiary Secure Trust Bank PLC on 9 July 2014 at a price of £24 per share. This resulted in a net gain of £24.3m which is included in the Group's reserves. On the same day, Secure Trust Bank PLC issued 2,083,333 ordinary 40p shares at a price of £24, which is also included in the Group's reserves at £48.8m.

The Directors recommend the payment of a final dividend of 16 pence on the ordinary shares which, together with the interim dividend of 11 pence paid on 3 October 2014, represents total dividends for the year of 27 pence (2013: 44 pence including a special dividend of 18p). The final dividend, if approved by members at the Annual General Meeting, will be paid on 15 May 2015 to shareholders on the register at close of business on 17 April 2015.

Going Concern
After making appropriate enquiries which assessed strategy, profitability, funding, risk management (see note 6) and capital resources (see note 7), the directors are satisfied that the Company and the Group have adequate resources to continue in operation for the foreseeable future. The financial statements are therefore prepared on the going concern basis.

Share Option Scheme
At the Annual General Meeting shareholders will be asked to approve an Ordinary Resolution extending the Unapproved Executive Share Option Scheme, introduced in 1995, for a further 10 years, details of which are given in the circular to shareholders dated 2 April 2015.

Share Capital
Shareholders will be asked to approve a Special Resolution renewing the authority of the Directors to make market purchases of shares not exceeding 10% of the existing issued share capital. The Directors will keep the position under review in order to maximise the Company's resources in the best interests of shareholders.

Financial Risk Management
Details of how the Group manages risk are set out in in the Strategic Report and in note 6.

Substantial Shareholders
The Company was aware at 17 March 2015 of the following substantial holdings in the ordinary shares of the Company, other than those held by one director shown below:

Holder	Ordinary Shares	%
Unicorn UK Income Fund	913,460	6.0
Liontrust UK Smaller Companies Fund	775,257	5.2
Prudential plc	624,161	4.1
Mr. R Paston	529,130	3.5

Directors

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

All directors served throughout the year.
Mr. J.R. Cobb and Mr. J.W. Fleming retire under Article 78 of the Articles of Association and, being eligible, offer themselves for re-election. Mr. Cobb has a service agreement terminable on six months' notice, while Mr. Fleming has a service agreement terminable on twelve months' notice.

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

Beneficial Interests	1 January 2014	31 December 2014	17 March 2015	%
H Angest	8,200,901	8,200,901	8,200,901	53.7
J W Fleming	4,500	4,500	4,500	-
P A Lynam	10,000	10,000	10,000	0.1
A A Salmon	51,699	51,699	51,699	0.3
R J J Wickham	3,600	3,600	3,600	-

At the year end Mr. Lynam held 9,110 and Mr. Salmon 7,500 ordinary 40p shares in Secure Trust Bank PLC, a 52% subsidiary of the Company.

On 16 April 2013 Mr. Salmon and Mr. Cobb were granted options to subscribe between April 2016 and April 2021 for 100,000 and 50,000 ordinary 1p shares respectively in the Company at 930p. The fair value of the options at grant date was £125k.

On 2 November 2014 Mr. Lynam and Mr. Salmon each exercised options granted to them on 2 November 2011 to subscribe for 141,666 ordinary 40p shares in Secure Trust Bank PLC at 720p and sold the shares at a price of £25. Mr. Lynam and Mr. Salmon continue to hold options granted to them on 2 November 2011 to subscribe for 141,667 ordinary 40p shares in Secure Trust Bank PLC at 720p between 2 November 2016 and 2 November 2021. The fair value of the options at grant date was £1.6m.

On 1 April 2014 Mr Fleming was granted an option to subscribe between April 2017 and April 2022 for 50,000 ordinary 1p shares in the Company at 1185p. The fair value of these shares at grant date was £53k.

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

No director, either during or at the end of the financial year, was materially interested in any contract with the Company or any of its subsidiaries, which was significant in relation to the Group’s business. At 31 December 2014 three directors had loans from Arbuthnot Latham & Co., Limited amounting to £5,503,000, on normal commercial terms as disclosed in note 40 to the financial statements. At 31 December 2014 three directors had deposits with Secure Trust Bank PLC amounting to £354,000 and five directors had deposits with Arbuthnot Latham & Co., Limited amounting to £2,287,000, all on normal commercial terms as disclosed in note 40 to the financial statements.

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

Board Committees

The report of the Remuneration Committee on pages 23 and 24 will be the subject of an Ordinary Resolution at the Annual General Meeting.

Information on the Audit, Nomination, Risk and Donations Committees is included in the Corporate Governance section of the Annual Report on pages 20 to 22.

Employees

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

Branches outside of the UK

During the year the Arbuthnot Latham & Co., Ltd operated a branch in Dubai which is regulated by the Dubai Financial Services Authority.

Events after the balance sheet date

There were no material post balance sheet events to report.

Political Donations

The Company made political donations of £48,000 to the Conservative Party during the year (2013: £27,000).

The Board proposes to seek renewal of the authority granted by shareholders at the 2011 Annual General Meeting to make donations to EU political parties or organisations or incur EU political expenditure within the meaning of the Political Parties, Elections and Referendums Act 2000 for a further four years limited to £250,000 in aggregate.

Auditor

A resolution for the re-appointment of KPMG LLP as auditor will be proposed at the forthcoming Annual General Meeting at a fee to be agreed in due course by the directors.

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

By order of the Board

J R Kaye

Secretary
18 March 2015

Corporate Governance

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

Directors

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

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

The Board

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

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

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

Audit Committee

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

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

Remuneration Committee

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

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

Risk Committee
The Risk Committee is chaired by Henry Angest and its other members are James Cobb, James Fleming, John Reed (non-executive of Arbuthnot Latham until 31 December 2014), Paul Lynam (appointed 27 February 2014), Andrew Salmon and Robert Wickham. The principal role of the Risk Committee is to approve significant individual credit or other exposures.

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

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

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

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

The Directors and senior management of the Group have formally adopted a Group Risk and Controls Policy which sets out the Board's attitude to risk and internal control. Key risks identified by the Directors are formally reviewed and assessed at least once a year by the Board, in addition to which key business risks are identified, evaluated and managed by operating management on an ongoing basis by means of procedures such as physical controls, credit and other authorisation limits and segregation of duties. The Board also receives regular reports on any risk matters that need to be brought to its attention. Significant risks identified in connection with the development of new activities are subject to consideration by the Board. There are well-established budgeting procedures in place and reports are presented regularly to the Board detailing the results of each principal business unit, variances against budget and prior year, and other performance data.

The effectiveness of the internal control system is reviewed regularly by the Board and the Audit Committee, which also receives reports of reviews undertaken by the internal audit function which was outsourced to EY. The Audit Committee also receives reports from the external auditors, KPMG LLP, which include details of internal control matters that they have identified, as part of the Financial Statement audit. Certain aspects of the system of internal control are also subject to regulatory supervision, the results of which are monitored closely by the Board.

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

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

• select suitable accounting policies and then apply them consistently;

• make judgments and estimates that are reasonable and prudent;

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

• prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Parent

Company will continue in business.

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

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

Statement of Disclosure of Information to Auditor

The Directors confirm that:

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

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

This confirmation is given and shall be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

Remuneration Report

Remuneration Committee

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

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

Remuneration Policy

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

Directors' Service Contracts

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

Share Option and Long Term Incentive Schemes

This part of the remuneration report is audited information.

In May 2005, the Company extended its Unapproved Executive Share Option Scheme for a further period of 10 years. An Ordinary Resolution will be put to shareholders at the Annual General Meeting proposing to extend the scheme for a further 10 years.

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

On 16 April 2013 Mr. Salmon and Mr. Cobb were granted options to subscribe between April 2016 and April 2021 for 100,000 and 50,000 ordinary 1p shares respectively in the Company at 930p. The fair value of the options at grant date was £125k.

On 1 April 2014 Mr. Fleming was granted an option to subscribe between April 2017 and April 2022 for 50,000 ordinary 1p shares in the Company at 1185p. The fair value of the options at grant date was £53k.

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

Under the Unapproved Executive Share Option Scheme of the Company's subsidiary, Secure Trust Bank PLC, established in November 2011, Paul Lynam and Andrew Salmon were each granted options over 283,333 shares in that company. The fair value of the options at grant date was £1m.

On 2 November 2014 Mr. Lynam and Mr. Salmon each exercised options granted to them on 2 November 2011 to subscribe for 141,666 ordinary 40p shares in Secure Trust Bank PLC at 720p and sold the shares at a price of £25. Mr. Lynam and Mr. Salmon continue to hold options granted to them on 2 November 2011 to subscribe for 141,667 ordinary 40p shares in Secure Trust Bank PLC at 720p between 2 November 2016 and 2 November 2021. The fair value of the options at grant date was £0.5m.

Directors' Emoluments

This part of the remuneration report is audited information.

	2014 £000	2013 £000
Fees (including benefits in kind)	98	215
Salary payments (including benefits in kind)	3,938	3,328
Pension contributions	140	140
Long term incentive	5,030	897
	9,206	**4,580**

	Salary £000	Bonus £000	Benefits £000	Pension £000	Fees £000	Long term incentive £000	Total 2014 £000	Total 2013 £000
H Angest	600	-	32	-	-	-	632	515
JR Cobb	275	200	16	35	-	-	526	791
JW Fleming	275	250	16	35	-	-	576	505
PA Lynam	600	500	21	35	-	2,515	3,671	1,031
AA Salmon	600	400	21	35	-	2,515	3,571	1,523
Ms RJ Lea	41	-	-	-	84	-	125	120
Sir Christopher Meyer	50	-	-	-	-	-	50	45
RJJ Wickham	41	-	-	-	14	-	55	50
	2,482	**1,350**	**106**	**140**	**98**	**5,030**	**9,206**	**4,580**

Details of any shares or options held by directors are presented on page 18.

The emoluments of the Chairman were £632,000 (2013: £515,000). The emoluments of the highest paid director were £3,671,000 (2013: £1,523,000) including pension contributions of £35,000 (2013: £35,000).

Mr. R J J Wickham is a director of Calando Finance Limited which received an annual fee of £14,000 (2013: £50,000) in respect of his services to the Group. These amounts are included in the table above.
Retirement benefits are accruing under money purchase schemes for five directors who served during 2014 (2013: five directors).

Henry Angest
Chairman of the Remuneration Committee
18 March 2015

Independent Auditor's Report

We have audited the financial statements of Arbuthnot Banking Group PLC for the year ended 31 December 2014 set out on pages 27 to 96. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 21, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2014 and of the Group's profit for the year then ended;

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

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

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

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

In our opinion the information given in the Strategic Report and 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 by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or

- the Parent Company financial statements 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.

Richard Gabbertas (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants

15 Canada Square
London
E14 5GL
18 March 2015

Company statement of financial position

	Note	At 31 December 2014 £000	2013 £000
ASSETS			
Due from subsidiary undertakings - bank balances		19,244	16,551
Financial investments	25	158	165
Deferred tax asset		406	441
Intangible assets	28	4	12
Property, plant and equipment	29	127	130
Other assets	24	5,472	5,415
Investment in subsidiary undertakings	41	39,966	30,995
Total assets		**65,377**	**53,709**
EQUITY AND LIABILITIES			
Equity			
Share capital	35	153	153
Other reserves	36	(1,111)	(1,030)
Retained earnings	36	50,755	31,325
Total equity		**49,797**	**30,448**
LIABILITIES			
Deposits from banks		-	2,000
Other liabilities	32	4,132	9,029
Debt securities in issue	33	11,448	12,232
Total liabilities		**15,580**	**23,261**
Total equity and liabilities		**65,377**	**53,709**

The Company has elected to take the exemption under section 408 of the Companies Act 2006 not to present the Parent Company profit and loss account. The profit for the Parent Company for the year is presented in the Statement of Changes in Equity.

Consolidated statement of changes in equity

	Attributable to equity holders of the Group								
	Share capital £000	Revaluation reserve £000	Capital redemption reserve £000	Available -for-sale reserve £000	Cash flow hedging reserve £000	Treasury shares £000	Retained earnings £000	Non-controlling interests £000	Total £000
Balance at 1 January 2014	**153**	**191**	**20**	**(169)**	**(378)**	**(1,131)**	**67,901**	**20,327**	**86,914**
Total comprehensive income for the period									
Profit for 2014	-	-	-	-	-	-	8,634	8,382	17,016
Other comprehensive income, net of tax									
Revaluation reserve									
- Adjustment	-	(91)	-	-	-	-	91	-	-
- Amount transferred to profit and loss	-	(2)	-	-	-	-	-	-	(2)
Cash flow hedging reserve									
- Adjustment	-	-	-	-	124	-	(124)	-	-
- Net amount transferred to profit and loss	-	-	-	-	254	-	-	124	378
Available-for-sale reserve	-	-	-	(81)	-	-	-	-	(81)
Total other comprehensive income	-	**(93)**	-	**(81)**	**378**	-	**(33)**	**124**	**295**
Total comprehensive income for the period	-	**(93)**	-	**(81)**	**378**	-	**8,601**	**8,506**	**17,311**
Transactions with owners, recorded directly in equity									
Contributions by and distributions to owners									

Equity settled share based payment transactions	-	-	-	-	-	-	488	3,393	3,881
Issue of new shares Secure Trust Bank	-	-	-	-	-	-	23,810	24,949	48,759
Sale of shares Secure Trust Bank	-	-	-	-	-	-	17,712	6,615	24,327
Final dividend relating to 2013	-	-	-	-	-	-	(2,233)	(2,426)	(4,659)
Interim dividend relating to 2014	-	-	-	-	-	-	(1,638)	(1,326)	(2,964)
Total contributions by and distributions to owners	-	-	-	-	-	-	**38,139**	**31,205**	**69,344**
Balance at 31 December 2014	**153**	**98**	**20**	**(250)**	-	**(1,131)**	**114,641**	**60,038**	**173,569**

	Attributable to equity holders of the Group								
	Share capital	Revaluation reserve	Capital redemption reserve	Available -for-sale reserve	Cash flow hedging reserve	Treasury shares	Retained earnings	Non-controlling interests	Total
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Balance at 1 January 2013	**153**	**140**	**20**	**81**	**(363)**	**(1,131)**	**53,372**	**16,376**	**68,648**
Total comprehensive income for the period									
Profit for 2013	-	-	-	-	-	-	7,930	3,585	11,515
Other comprehensive income, net of tax									
Revaluation reserve									
- Adjustment	-	51	-	-	-	-	(35)	(16)	-
Cash flow hedging reserve									
- Effective portion of changes in fair value	-	-	-	-	(15)	-	-	-	(15)
Available-for-sale reserve	-	-	-	(250)	-	-	-	-	(250)
Total other comprehensive income	-	**51**	-	**(250)**	**(15)**	-	**(35)**	**(16)**	**(265)**
Total comprehensive income for the period	-	**51**	-	**(250)**	**(15)**	-	**7,895**	**3,569**	**11,250**
Transactions with owners, recorded directly in equity									
Contributions by and distributions to owners									
Equity settled share based payment transactions	-	-	-	-	-	-	901	770	1,671
Sale of shares Secure Trust Bank	-	-	-	-	-	-	12,135	2,270	14,405
Final dividend relating to 2012	-	-	-	-	-	-	(2,084)	(1,970)	(4,054)
Interim dividend relating to 2013	-	-	-	-	-	-	(1,638)	(688)	(2,326)
Special dividend relating to 2013	-	-	-	-	-	-	(2,680)	-	(2,680)
Total contributions by and distributions to owners	-	-	-	-	-	-	**6,634**	**382**	**7,016**
Balance at 31 December 2013	**153**	**191**	**20**	**(169)**	**(378)**	**(1,131)**	**67,901**	**20,327**	**86,914**

Company statement of changes in equity

	Attributable to equity holders of the Company					
	Share capital	Capital redemption reserve	Available -for-sale reserve	Treasury shares	Retained earnings	Total
	£000	£000	£000	£000	£000	£000
Balance at 1 January 2013	**153**	**20**	**81**	**(1,131)**	**20,768**	**19,891**
Total comprehensive income for the period						
Profit for 2013	-	-	-	-	17,828	17,828
Other comprehensive income, net of income tax						
Total comprehensive income for the period	-	-	-	-	**17,828**	**17,828**

Transactions with owners, recorded directly in equity						
Contributions by and distributions to owners						
Share based payments settled in cash	-	-	-	-	(897)	(897)
Equity settled share based payment transactions	-	-	-	-	28	28
Final dividend relating to 2012	-	-	-	-	(2,084)	(2,084)
Interim dividend relating to 2013	-	-	-	-	(1,638)	(1,638)
Special dividend relating to 2013	-	-	-	-	(2,680)	(2,680)
Total contributions by and distributions to owners	-	-	-	-	**(7,271)**	**(7,271)**
Balance at 1 January 2014	**153**	**20**	**81**	**(1,131)**	**31,325**	**30,448**
Total comprehensive income for the period						
Profit for 2014	-	-	-	-	23,260	23,260
Other comprehensive income, net of income tax						
Available-for-sale reserve	-	-	**(81)**	-	-	(81)
Total other comprehensive income	-	-	**(81)**	-	-	**(81)**
Total comprehensive income for the period	-	-	**(81)**	-	**23,260**	**23,179**
Transactions with owners, recorded directly in equity						
Contributions by and distributions to owners						
Equity settled share based payment transactions	-	-	-	-	41	41
Final dividend relating to 2013	-	-	-	-	(2,233)	(2,233)
Interim dividend relating to 2014	-	-	-	-	(1,638)	(1,638)
Total contributions by and distributions to owners	-	-	-	-	**(3,830)**	**(3,830)**
Balance at 31 December 2014	**153**	**20**	-	**(1,131)**	**50,755**	**49,797**

Consolidated statement of cash flows

	Note	Year ended 31 December 2014 £000	Year ended 31 December 2013 £000
Cash flows from operating activities			
Interest received		116,675	91,075
Interest paid		(18,260)	(20,085)
Fees and commissions received		27,692	26,325
Net trading and other income		-	7,718
Cash payments to employees and suppliers		(91,874)	(81,157)
Taxation paid		(3,047)	(2,543)
Cash flows from operating profits before changes in operating assets and liabilities		31,186	21,333
Changes in operating assets and liabilities:			
- net (increase)/decrease in derivative financial instruments		(1,503)	49
- net increase in loans and advances to customers		(434,352)	(122,682)
- net decrease/(increase) in other assets		401	(3,572)
- net increase/increase in deposits from banks		-	1,630
- net increase in amounts due to customers		236,494	61,945
- net increase in other liabilities		3,967	6,990
Net cash outflow from operating activities		**(163,807)**	**(34,307)**
Cash flows from investing activities			
Borrowings repaid on acquisition of subsidiary undertakings	11,43	-	(36,922)
Cash acquired on purchase of subsidiary undertakings	11,43	-	1,512
Purchase of subsidiary undertakings	11,43	-	(4,026)
Disposal of financial investments		243	63
Purchase of computer software	28	(1,214)	(1,162)
Disposal of computer software	28	-	1,900

Purchase of property, plant and equipment	29	(7,803)	(746)
Investment in associate	27	-	(943)
Proceeds from sale of property, plant and equipment	29	42	23,259
Purchases of debt securities		(85,243)	(9,844)
Proceeds from redemption of debt securities		13,026	3,904
Net cash from investing activities		**(80,949)**	**(23,005)**
Cash flows from financing activities			
Increase in borrowings		25,654	2,000
Dividends paid		(7,623)	(9,060)
Proceeds from share placing by Secure Trust Bank		48,758	14,405
Proceeds from sale of Secure Trust Bank shares		24,327	-
Proceeds from exercise of Secure Trust Bank share options		3,315	-
Net cash used in financing activities		**94,431**	**7,345**
Net decrease in cash and cash equivalents		(150,325)	(49,967)
Cash and cash equivalents at 1 January		298,107	348,074
Cash and cash equivalents at 31 December	39	**147,782**	**298,107**

Company statement of cash flows

	Note	Year ended 31 December 2014 £000	Year ended 31 December 2013 £000
Cash flows from operating activities			
Dividends received from subsidiaries		6,440	11,418
Interest received		149	99
Interest paid		(661)	(714)
Net trading and other income		1,629	1,364
Cash payments to employees and suppliers		(7,866)	(8,089)
Taxation received		-	(160)
Cash flows from operating (losses)/profits before changes in operating assets and liabilities		(309)	3,918
Changes in operating assets and liabilities:			
- net (increase)/decrease in group company balances		(4,950)	3,128
- net (increase)/decrease in other assets		(3)	254
- net (decrease)/increase in other liabilities		(1)	348
Net cash (outflow)/inflow from operating activities		**(5,263)**	**7,648**
Cash flows from investing activities			
Increase investment in subsidiary	41	(10,500)	(1,000)
Disposal of share in subsidiaries	41	24,327	14,405
Net cash from investing activities		**13,827**	**13,405**
Cash flows from financing activities			
Dividends paid		(3,871)	(6,402)
(Decrease)/Increase in borrowings		(2,000)	2,000
Net cash used in financing activities		**(5,871)**	**(4,402)**
Net increase in cash and cash equivalents		2,693	16,651
Cash and cash equivalents at 1 January		16,551	(100)
Cash and cash equivalents at 31 December	39	**19,244**	**16,551**

Notes to the Consolidated Financial Statements

1. Reporting entity

Arbuthnot Banking Group PLC is a company domiciled in United Kingdom. The registered address of the Arbuthnot Banking Group PLC is 7 Wilson Street, London, EC2M 2SN. The consolidated financial statements of the Arbuthnot Banking Group PLC as at and for the year ended 31 December 2014 comprise the Arbuthnot Banking Group PLC and its subsidiaries (together referred to as the "Group" and individually as "subsidiaries"). The Company is primarily involved in banking and financial services.

2. Basis of presentation

(a) Statement of compliance

The Group's consolidated financial statements and the Company's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs as adopted and endorsed by the EU) and the Companies Act 2006 applicable to companies reporting under IFRS.

The consolidated financial statements were authorised for issue by the Board of Directors on 18 March 2015.

(b) Basis of measurement

The consolidated and company financial statements have been prepared under the historical cost convention, as modified by the revaluation of land and buildings, available-for-sale financial assets, financial assets and financial liabilities at fair value through profit or loss, and derivatives assets and liabilities.

(c) Functional and presentational currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Pound Sterling, which is the Company's functional and the Group's presentational currency.

(d) Use of estimates and judgements

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

(e) Accounting developments

• IFRS 10, 'Consolidated Financial Statements' and IAS 27 (Revised), 'Separate Financial Statements' (effective 1 January 2013). IFRS 10 supersedes IAS 27 and SIC-12, and provides a single model to be applied in the control analysis for all investees. There are some minor clarifications in IAS27, and the requirements of IAS 28 and IAS 31 have been incorporated into IAS 27. Due to the adoption of IFRS 10 the Group had to change its accounting policy for determining whether it has control over and consequently whether it consolidates other investees. According to this standard, control is now defined as when the investor is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. However, this standard did not have any material impact on the financial statements as there was no change in the investees consolidated.

• IFRS 11, 'Joint Arrangements' (effective 1 January 2013). This standard replaces the existing accounting for subsidiaries and joint ventures (now joint arrangements) and removes the choice of equity or proportionate accounting for jointly controlled entities, as was the case under IAS 31. This standard did not have any material impact on the financial statements.

• IFRS 12, 'Disclosure of Interests in Other Entities' (effective 1 January 2013). This standard replaces the existing accounting for subsidiaries and joint ventures (now joint arrangements) and contains the disclosure requirements for entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. Due to the adoption of IFRS 12 the Group has expanded its disclosures surrounding associates (see Note 27) and subsidiaries (see Note 41).

• IAS 32 (Revised), 'Offsetting Financial Assets and Financial Liabilities' (effective 1 January 2014). This standard was amended to clarify the offsetting criteria, specifically when an entity currently has a legal right of set off; and when gross settlement is equivalent to net settlement. This standard did not have any material impact on the financial statements.

• IFRIC 21, 'Levies' (effective 1 January 2014). The interpretation defines a levy as an outflow from an entity imposed by a government in accordance with legislation. That levy is recognised as a liability when, and only when, the triggering event specified in the legislation occurs. This standard did not have any material impact on the Group, due to the fact that in the prior year the Group already adjusted the trigger date for FSCS levies from 31 December to 1 April.

(f) Going concern

The financial statements have been prepared on the 'going concern' basis as disclosed in the Directors' Report.

3. Significant accounting policies

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

3.1. Consolidation

(a) Subsidiaries

Subsidiaries are all investees (including special purpose entities) controlled by the Group. The Group controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The acquisition method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired, liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest. The excess of the cost of acquisition over the fair value of the Group's shares of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the Statement of Comprehensive Income as a gain on bargain purchase.

The Parent's investments in subsidiaries are recorded at cost less, where appropriate, provisions for impairment in value.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(b) Changes in ownership and non-controlling interests

Changes in ownership interest in a subsidiary that do not result in the loss of control are accounted for as equity transactions and no gain or loss is recognised. Adjustments to non-controlling interests are based on a proportionate amount of the net assets of the subsidiary.

When control of a subsidiary is lost, the Group derecognises the assets, liabilities, non-controlling interest and all other components of equity relating to the former subsidiary from the consolidated statement of financial position. Any resulting gain or loss is recognised in profit or loss. Any investment retained in the former subsidiary is recognised at its fair value when control is lost.

(c) Special purpose entities

Special purpose entities (SPEs) are entities that are created to accomplish a narrow and well-defined objective such as the securitisation of particular assets, or the execution of a specific borrowing or lending transaction. SPEs are consolidated when the substance of the relationship between the Group and the entity and the evaluation of the Group's exposure to the risks and rewards of the SPE indicates control. The following circumstances may indicate control by the Group and would therefore require consolidation of the SPE:

- in substance, the activities of the SPE are being conducted on behalf of the entity according to its specific business needs so that the entity obtains benefits from the SPE's operation;

- in substance, the entity has the decision-making powers to obtain the majority of the benefits of the activities of the SPE or, by setting up an 'autopilot' mechanism, the entity has delegated these decision-making powers;

- in substance, the entity has rights to obtain the majority of the benefits of the SPE and therefore may be exposed to risks incident to the activities of the SPE; or

- in substance, the entity retains the majority of the residual or ownership risks related to the SPE or its assets in order to obtain benefits from its activities.

The assessment of whether the Group has control over an SPE is carried out at inception and the initial assessment is only reconsidered at a later date if there were any changes to the structure or terms of the SPE, or there were additional transactions between the Group and the SPE.

(d) Associates

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20 and 50 percent of the voting power of another entity. Associates are accounted for using the equity method and are initially recognised at cost. The Group's investment includes goodwill identified on acquisition, net of any accumulated impairment losses. The consolidated financial statements include the Group's share of the total comprehensive income and equity movements of equity accounted investees, from the date that significant influence commences until the date that significant influence ceases. When the Group's share of losses exceeds its interest in an equity accounted investee, the Group's carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee.

3.2. Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the Group Board. The Group Board, which is responsible for allocating resources and assessing performance of the operating segments, has been identified as the chief operating decision maker. All transactions between segments are conducted on an arm's length basis. Income and expenses directly associated with each segment are included in determining segment performance. There are three main operating segments:

- Retail Banking
- Private Banking
- Group Centre

3.3. Foreign currency translation

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Statement of Comprehensive Income.

3.4. Interest income and expense

Interest income and expense are recognised in the Statement of Comprehensive Income for all instruments measured at amortised cost using the effective interest method.

The effective interest method calculates the amortised cost of a financial asset or a financial liability and allocates the interest income or interest expense over the relevant period. The effective interest rate is the rate that discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group takes into account all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts. The carrying amount of the financial asset or financial liability is adjusted if the Group revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest income or expense.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income continues to be recognised using the original effective interest rate applied to the new carrying amount.

3.5. Fee and commission income

Fees and commissions which are not considered integral to the effective interest rate are generally recognised on an accrual basis when the service has been provided. Loan commitment fees are deferred and recognised as an adjustment to the effective interest rate on the loan.

Commission and fees arising from negotiating, or participating in the negotiation of, a transaction for a third party — such as the issue or the acquisition of shares or other securities or the purchase or sale of businesses — are recognised on completion of the underlying transaction. Asset and other management, advisory and service fees are recognised on an accrued basis as the related services are performed. The same principle is applied for financial planning and insurance services that are continuously provided over an extended period of time.

3.6. Financial assets and financial liabilities

The Group classifies financial assets and financial liabilities in the following categories: financial assets and financial liabilities at fair value through profit or loss; loans and receivables; held-to-maturity investments; available-for-sale financial assets and other financial liabilities. Management determines the classification of its investments at acquisition. 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

This category comprises listed securities and derivative financial instruments. Derivative financial instruments utilised by the Group include embedded derivatives and derivatives used for hedging purposes. Financial assets and liabilities at fair value through profit or loss are initially recognised on the date from which the Group becomes a party to the contractual provisions of the instrument. Subsequent measurement of financial assets and financial liabilities held in this category are carried at fair value through profit or loss.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable. Loans are recognised when cash is advanced to the borrowers. Loans and receivables are carried at amortised cost using the effective interest method.

(c) Held-to-maturity

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group has the positive intent and ability to hold to maturity and that has not been designated at fair value through profit or loss or as available-for-sale investments. Held-to-maturity investments are carried at amortised cost using the effective interest method, less any impairment loss.

(d) Available-for-sale

Available-for-sale ('AFS') investments are those not classified as another category of financial assets. These include investments in special purpose vehicles and equity investments in unquoted vehicles. They may be sold in response to liquidity requirements, interest rate, exchange rate or equity price movements. AFS investments are initially recognised at cost, which is considered as the fair value of the investment including any acquisition costs. AFS securities are subsequently carried at fair value in the statement of financial position. Fair value changes on the AFS securities are recognised directly in equity (AFS reserve) until the investment is sold or impaired. Once sold or impaired, the cumulative gains or losses previously recognised in the AFS reserve are recycled to the profit or loss.

(e) Other financial liabilities

Other financial liabilities are non-derivative financial liabilities with fixed or determinable payments. Other financial liabilities are recognised when cash is received from the depositors. Other financial liabilities are carried at amortised cost using the effective interest method. The fair value of other liabilities repayable on demand is assumed to be the amount payable on demand at the Statement of Financial Position date.

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, less any reduction for impairment.

Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

When available, the Group measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

If a market for a financial instrument is not active, the Group establishes fair value using a valuation technique. 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.

In the instance that fair values of assets and liabilities cannot be reliably measured, they are carried at cost.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Group has transferred substantially all risks and rewards of ownership. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Group is recognised as a separate asset or liability in the Statement of Financial Position. In transactions which the Group neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset and it retains control over the asset, the Group continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset. There have not been any instances where assets have only been partially derecognised.

The Group derecognises a financial liability when its contractual obligations are discharged, cancelled, expire, are modified or exchanged.

3.7. Derivative financial instruments and hedge accounting

All derivatives are recognised at their fair value. Fair values are obtained from quoted market prices in active markets, including recent arm's length transactions or using valuation techniques such as discounted cash flow models. Derivatives are shown in the Statement of Financial Position as assets when their fair value is positive and as liabilities when their fair value is negative.

(a) Fair value hedges

Fair value hedges are used to hedge against the change in fair value of a recognised asset or liability or a firm commitment that could affect profit or loss. Changes in the fair value of the derivative are recognised immediately in profit or loss together with changes in the fair value of the hedged item that are attributable to the hedged risk (in the same line item in the profit or loss as the hedged item).

If the hedging derivative expires or is sold, terminated or exercised, or the hedging relationship no longer meets the criteria for hedge accounting, the carrying amount of the hedged item is amortised over the residual period to maturity, as part of the newly calculated effective interest rate. However, if the hedged item has been derecognised, it is immediately released to the profit or loss.

(b) Cash flow hedges
These cash flow hedges are used to hedge against fluctuations in future cash flows from interest rate movements on variable rate customer deposits. On initial purchase the derivative is valued at fair value and then the effective portion of the change in the fair value of the hedging instrument is recognised in equity (cash flow hedging reserve) until the gain or loss on the hedged item is realised, when it is amortised; the ineffective portion of the hedging instrument is recognised in the immediately in the profit or loss.

If a hedging derivative expires or is sold, terminated, or exchanged, or the hedge no longer meets the criteria for cash flow hedge accounting, or the hedge designation is revoked, then hedge accounting is discontinued prospectively. In a discontinued hedge of a forecast transaction the cumulative amount recognised in other comprehensive income from the period when the hedge was effective is reclassified from equity to profit or loss as a reclassification adjustment when the forecast transaction occurs and affects profit or loss. If the forecast transaction is no longer expected to occur, then the balance in other comprehensive income is reclassified immediately to profit or loss as a reclassification adjustment.

Hedge effectiveness testing
On initial designation of the hedge, the Group formally documents the relationship between the hedging instruments and the hedged items, including the risk management objective and strategy in undertaking the hedge, together with the method that will be used to assess the effectiveness of the hedging relationship. The Group makes an assessment, both at the inception of the hedge relationship as well as on an ongoing basis, as to whether the hedging instruments are expected to be highly effective in offsetting the changes in the fair value or cash flows of the respective hedged items during the period for which the hedge is designated, and whether the actual results of each hedge are within a range of 80-125%. The Group makes an assessment for a cash flow hedge of a forecast transaction, as to whether the forecast transaction is highly probable to occur and presents an exposure to variations in cash flows that could ultimately affect profit or loss.

(c) Embedded derivatives
Embedded derivatives arise from contracts (‘hybrid contracts’) containing both a derivative (the ‘embedded derivative’) and a non-derivative (the ‘host contract’). Where the economic characteristics and risks of the embedded derivatives are not closely related to those of the host contract, and the host contract is not at fair value through profit or loss, the embedded derivative is bifurcated and reported at fair value and gains or losses are recognised in the Statement of Comprehensive Income.

3.8. Offsetting financial instruments

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

3.9. Impairment of financial assets

(a) Assets carried at amortised cost
On an ongoing basis the Group assesses whether there is objective evidence that a financial asset or group of financial assets is impaired. Objective evidence is the occurrence of a loss event, after the initial recognition of the asset, that impact on the estimated contractual future cash flows of the financial asset or group of financial assets, and can be reliably estimated.

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

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

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

(b) Assets classified as available-for-sale

The Group assesses at each Statement of Financial Position date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the Statement of Comprehensive Income. Impairment losses recognised in the Statement of Comprehensive Income on equity instruments are not reversed through the Statement of Comprehensive Income.

(c) Renegotiated loans
Loans that are either subject to collective impairment assessment or individually significant and whose terms have been renegotiated are no longer considered to be past due but are treated as new loans.

(d) Forbearance
Forbearance is available to support customers who are in financial difficulty and help them re-establish their contractual payment plan. The main option offered by the Group is an arrangement to clear outstanding arrears. If the forbearance request is granted the account is monitored in accordance with the Group's policy and procedures. All debts however retain the customer's normal contractual payment due dates. Arrears tracking and the allowance for impairment is based on the original contractual due dates for both the secured and unsecured lending channels.

3.10 Funding for Lending Scheme

Under the applicable International Accounting Standard, IAS 39, if a security is lent under an agreement to return it to the transferor, as is the case for eligible securities lent by institutions to the Bank of England under the FLS, then the security is not derecognised because the transferor retains all the risks and rewards of ownership. The UK Treasury Bills borrowed from the Bank of England under the FLS are not recognised on the Statement of Financial Position of the institution until such time as they are subject to a repurchase agreement with a third party, as they will not meet the criteria for derecognition by the Bank of England. When the UK Treasury Bills are pledged as part of a sale and repurchase agreement with a third party, amounts borrowed from the third party are recognised on the Statement of Financial Position.

3.11 Inventory

Land acquired through repossession of collateral which is subsequently held in the ordinary course of business with a view to develop and sell is accounted for as inventory.

Inventory is measured at the lower of cost or net realisable value. The cost of inventories comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

3.12. Intangible assets

(a) Goodwill
Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary or associate at the date of acquisition. Goodwill on acquisitions of subsidiaries or associates is included in 'intangible assets'. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

The Group reviews the goodwill for impairment at least annually or more frequently when events or changes in economic circumstances indicate that impairment may have taken place and carry goodwill at cost less accumulated impairment losses. Assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit" or "CGU"). For impairment testing purposes goodwill cannot be allocated to a CGU that is greater than a reported operating segment. CGUs to which goodwill has been allocated are aggregated so that the level at which impairment is tested reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the synergies of the combination. The test for impairment involves comparing the carrying value of goodwill with the present value of pre-tax cash flows, discounted at a rate of interest that reflects the inherent risks of the CGU to which the goodwill relates, or the CGU's fair value if this is higher.

(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.

(c) Other intangibles
Other intangibles include trademarks, customer relationships, broker relationships, technology and banking licences acquired. These costs are amortised on the basis of the expected useful lives (three to ten years).

3.13. Property, plant and equipment

Land and buildings comprise mainly branches and offices and are stated at the latest valuation with subsequent additions at cost less depreciation. Plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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

Freehold buildings	50 years
Office equipment	6 to 20 years
Computer equipment	3 to 5 years
Motor vehicles	4 years

Gains and losses on disposals are determined by deducting carrying amount from proceeds. These are included in the Statement of Comprehensive Income. Depreciation on revalued freehold buildings is calculated using the straight-line method over the remaining useful life. Revaluation of assets and any subsequent disposals are addressed through the revaluation reserve and any changes are transferred to retained earnings.

3.14. Leases

(a) As a lessor

Assets leased to customers under agreements which transfer substantially all the risks and rewards of ownership, with or without ultimate legal title, are classified as finance leases. When assets are held subject to finance leases, the present value of the lease payments is recognised as a receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. Lease income is recognised over the term of the lease using the net investment method, which reflects a constant periodic rate of return.

Assets leased to customers under agreements which do not transfer substantially all the risks and rewards of ownership are classified as operating leases. When assets are held subject to operating leases, the underlying assets are held at cost less accumulated depreciation, The assets are depreciated down to their estimated residual values on a straight line basis over the lease term. Lease rental income is recognised on a straight line basis over the lease term.

(b) As a lessee

Rentals made under operating leases are recognised in the Statement of Comprehensive Income on a straight line basis over the term of the lease.

Leases in which the Group 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.

3.15. Cash and cash equivalents

For the purposes of the Statement of Cash Flows, cash and cash equivalents comprises cash on hand and demand deposits, and cash equivalents are deemed 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.

3.16. Employee benefits

(a) Post-retirement obligations

The Group contributes to a defined contribution scheme and to individual defined contribution schemes for the benefit of certain employees. The schemes are funded through payments to insurance companies or trustee-administered funds at the contribution rates agreed with individual employees.

The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as an employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

There are no post-retirement benefits other than pensions.

(b) Share-based compensation

The fair value of equity settled share-based payment awards are calculated at grant date and recognised over the period in which the employees become unconditionally entitled to the awards (the vesting period). The amount is recognised as personnel expenses in the profit and loss, with a corresponding increase in equity. The Group adopts a Black-Scholes valuation model in calculating the fair value of the share options as adjusted for an attrition rate of members of the scheme and a probability of pay-out reflecting the risk of not meeting the terms of the scheme over the vesting period. The number of share options that are expected to vest are reviewed at least annually.

The fair value of cash settled share-based payments is recognised as personnel expenses in the profit or loss with a corresponding increase in liabilities over the vesting period. The liability is remeasured at each reporting date and at settlement date based on the fair value of the options granted, with a corresponding adjustment to personnel expenses.

When share-based payments are changed from cash settled to equity settled and there is no change in the fair value of the replacement award, it is seen as a modification to the terms and conditions on which the equity instruments were granted and is not seen as the settlement and replacement of the instruments. Accordingly, the liability in the Statement of Financial Position is reclassified to equity and the prospective charge to the profit or loss from the modification reflects the spreading of the initial grant date fair value of the award over the remaining vesting period in line with the policy on equity settled awards.

3.17. Taxation

Current income tax which is payable on taxable profits is recognised as an expense in the period in which the profits arise. Income tax recoverable on tax allowable losses is recognised as an asset only to the extent that it is regarded as recoverable by offset against current or future taxable profits.

Deferred tax is provided in full on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax is not accounted for if it arises from the initial recognition of goodwill, the initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries to the extent that they probably will not reverse in the foreseeable future. Deferred tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the Statement of Financial Position date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to taxes levied by the same tax authority on the same taxable entity, or on different tax entities, when they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

Deferred tax assets are recognised where it is probable that future taxable profits will be available against which the temporary differences can be utilised.

3.18. Issued debt and equity securities

Issued financial instruments or their components are classified as liabilities where the contractual arrangement results in the Group having a present obligation to either deliver cash or another financial asset to the holder, to exchange financial instruments on terms that are potentially unfavourable. Issued financial instruments, or their components, are classified as equity where they meet the definition of equity and confer on the holder a residual interest in the assets of the Company. The components of issued financial instruments that contain both liability and equity elements are accounted for separately with the equity component being assigned the residual amount after deducting from the instrument as a whole the amount separately determined as the fair value of the liability component.

Financial liabilities, other than trading liabilities at fair value, are carried at amortised cost using the effective interest method as set out in policy 3.4. Equity instruments, including share capital, are initially recognised as net proceeds, after deducting transaction costs and any related income tax. Dividend and other payments to equity holders are deducted from equity, net of any related tax.

3.19. Share capital

(a) Share issue costs
Incremental costs directly attributable to the issue of new shares or options or the acquisition of a business by Arbuthnot Banking Group or its subsidiaries, are shown in equity as a deduction, net of tax, from the proceeds.

(b) Dividends on ordinary shares
Dividends on ordinary shares are recognised in equity in the period in which they are approved.

(c) Share buybacks
Where any Group company purchases the Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Company's equity holders until the shares are cancelled or reissued.

3.20. Financial guarantee contracts

Financial guarantees represent undertakings that the Group will meet a customer's obligation to third parties if the customer fails to do so. Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. The Group is theoretically exposed to loss in an amount equal to the total guarantees or unused commitments, however, the likely amount of loss is expected to be significantly less; most commitments to extend credit are contingent upon customers maintaining specific credit standards. Liabilities under financial guarantee contracts are initially recorded at their fair value, and the initial fair value is amortised over the life of the financial guarantee. Subsequently, the financial guarantee liabilities are measured at the higher of the initial fair value, less cumulative amortisation, and the best estimate of the expenditure to settle obligations.

3.21. Fiduciary activities

The Group commonly acts as trustees and in other fiduciary capacities that result in the holding or placing of assets on behalf of individuals, trusts, retirement benefit plans and other institutions. These assets and income arising thereon are excluded from these financial statements, as they are not assets of the Group.

3.22. New standards and interpretations not yet adopted

The following standards, interpretations and amendments to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2015 or later periods, but the Group has not early adopted them:

• IFRS 15, 'Revenue from contracts with customers' (effective 1 January 2017). This standard establish the principles that an entity shall apply to report useful information to users of financial statements about the nature, amount, timing, and uncertainty of revenue and cash flows arising from a contract with a customer. This standard is unlikely to have a material impact on the Group. (This standard has not yet been endorsed by the EU.)

• IFRS 9, 'Financial instruments' (effective from 1 January 2018). 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'. Further development phases for IFRS 9 are scheduled to cover key areas such as impairment and hedge accounting. The potential effect of this standard together with the further development phases are currently being evaluated but it is expected to have a material impact on the Group's financial statements, due to the nature of the Group's operations.

Notes to the consolidated financial statements

4. Critical accounting estimates and judgements in applying accounting policies

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

4.1 Credit losses

The Group reviews its loan portfolios and held-to-maturity investments to assess impairment at least on a half-yearly basis. The basis for evaluating impairment losses is described in accounting policy 3.10. Where financial assets are individually evaluated for impairment, management uses their best estimates in calculating the net present value of future cash flows. Management has to make judgements on the financial position of the counterparty and the net realisable value of collateral (where held), in determining the expected future cash flows.

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

In assessing collective impairment the Group uses historical trends of the probability of default, the timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be significantly different to historic trends. Default rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

To the extent that the default rates differ from that estimated by 10%, the allowance for impairment on loans and advances would change by an estimated £3.2m (2013: £2.6m).

4.2 Goodwill impairment

The accounting policy for goodwill is described in note 3.12 (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 management's view of future business forecasts at the time of the assessment. A detailed three year budget is done every year and management also uses judgement in applying a growth rate. The accuracy of future cash flows is subject to a high degree of uncertainty in volatile market conditions. During such conditions, management would do impairment testing more frequently than annually to ensure that the assumptions applied are still valid in the current market conditions.
• Discount rate - Management also apply judgement in determining the discount rate used to discount future expected cash flows. The discount rate is derived from the cost of capital for each CGU.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. There are currently three CGU's (2013: three) with goodwill attached; the core Arbuthnot Latham CGU, the Music Finance CGU and the V12 Group CGU (subsidiary of Secure Trust Bank acquired in the year).

Management considers the value in use for the core Arbuthnot Latham CGU to be the discounted cash flows over 5 years with a terminal value (2013: 5 years with a terminal value). The 5 year discounted cash flows with a terminal value is considered to be appropriate as the goodwill relates to an ongoing well established business and not underlying assets with finite lives. The terminal value is calculated by applying a discounted perpetual growth model to the profit expected in 2017 as per the approved 3 year plan. A growth rate of 10% (2013: 9%) was used for income and 10% (2013: 7%) for expenditure from 2015 to 2017 (these rates were the best estimate of future forecasted performance), while a 3% (2013: 3%) percent growth rate for income and expenditure (a more conservative approach was taken for latter years as these were not budgeted for in detail as per the three year plan approved by the Board of Directors) was used for cash flows after the approved three year plan.

Management considers the value in use for the Music Finance CGU and V12 Group CGU to be the discounted cash flows over 5 years (2013: 5 years). Income and expenditure were kept flat (2013: 0%) over the 5 year period.

Cash flows were discounted at a pre-tax rate of 12% (2013: 12%) to their net present value. The discount rate of 12% is considered to be appropriate after evaluating current market assessments of the time value of money and the risks specific to the assets or CGUs. Currently the value in use and fair value less costs to sell far exceeds the carrying value and as such no sensitivity analysis was done.

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

4.3 Taxation

The Group is subject to direct and indirect taxation in a number of jurisdictions. There may be some transactions and calculations for which the ultimate tax determination has an element of uncertainty during the ordinary course of business. The Group recognises liabilities based on estimates of the quantum of taxes that may be due. Deferred tax assets on carried forward losses are recognised where it is probable that future taxable profits will be available to utilise it. Where the final tax determination is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax expense in the year in which the determination is made.

4.4 Acquisition of loan book

Acquired loan books are initially recognised at fair value. Significant judgement is exercised in calculating their effective interest rate ("EIR") using cash flow models which include assumptions on the likely macroeconomic environment, including HPI, unemployment levels and interest rates, as well as loan level and portfolio attributes and history used to derive prepayment rates, the probability and timing of defaults and the amount of incurred losses.

4.5 Acquisition accounting

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

Loans and advances to customers

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

Intangible assets

Identifying the separately identifiable intangible assets of an acquired company is subjective and based upon discussions with management and a review of relevant documentation. During the current and prior years the acquisition of Everyday Loans and the V12 Finance Group indicated that there were four separately identifiable intangible assets which met the criteria for separation from goodwill, these being Trademarks/Tradenames, Customer Relationships, Broker Relationships and Technology.

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

4.6 Average life of lending

IAS 39 requires interest earned from lending to be measured under the effective interest rate method. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset.
Management must therefore use judgement to estimate the expected life of each instrument and hence the expected cash flows relating to it. The accuracy of the effective interest rate would therefore be affected by unexpected market movements resulting in altered customer behaviour, inaccuracies in the models used compared to actual outcomes and incorrect assumptions.

4.7 Share option scheme valuation

The valuation of the Secure Trust Bank equity-settled share option scheme was determined at the original grant date of 2 November 2011 using Black-Scholes valuation models. In the opinion of the directors the terms of the scheme are such that there remain a number of key uncertainties to be considered when calculating the probability of pay out, which are set out below.The directors also considered the probability of option holder attrition prior to the vesting dates, details of which are also set out below.

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

Uncertainties in the regulatory environment continue, with pressure on the government to further constrain the activities of banks following the well reported catalogue of recent issues in the industry. Any tightening of capital requirements will impact on the ability of the Company to exploit future market opportunities and furthermore may inhibit its ability to maintain the required growth in distributions.

Taking these into account, the probability of pay out has been judged as 95% for the remaining share options (SOS2) which vest on 2 November 2016.

Although one participant in the share option scheme left the Company during 2012 and was consequently withdrawn from the scheme. The directors consider that there is no further uncertainty surrounding whether the remaining participants will all still be in situ and eligible at the vesting date. Therefore the directors have assumed no attrition rate for the remaining share options over the scheme period.

4.8 Impairment of equity securities

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

4.9 Valuation of financial instruments

The Group measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions. If a market for a financial instrument is not active, the Group establishes fair value using a valuation technique. 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 be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. In the instance that fair values of assets and liabilities cannot be reliably measured, they are carried at cost.

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

• Level 1: Quoted prices in active markets for identical assets or liabilities
• Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.
• Level 3: Inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The consideration of factors such as the magnitude and frequency of trading activity, the availability of prices and the size of bid/offer spreads, assist in the judgement as to whether a market is active. If in the opinion of management, a significant proportion of the instrument's carrying amount is driven by unobservable inputs, the instrument in its entirety is classified as valued using significant unobservable inputs. 'Unobservable' in this context means that there is little or no current market data available from which to determine the level at which an arm's length transaction would be likely to occur. It generally does not mean that there is no market data available at all upon which to base a determination of fair value (consensus pricing data may, for example, be used).

The tables below analyses financial instrument by the level in the fair value hierarchy into which the measurement is categorised:

At 31 December 2014	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
ASSETS				
Cash and balances at central banks	-	115,938	-	115,938
Loans and advances to banks	-	31,844	-	31,844
Debt securities held-to-maturity	-	91,683	-	91,683
Derivative financial instruments	-	2,707	-	2,707
Loans and advances to customers	-	106,285	1,052,698	1,158,983
Other assets	-	-	5,522	5,522
Financial investments	171	-	1,106	1,277
Asset	**171**	**348,457**	**1,059,326**	**1,407,954**
LIABILITIES				
Deposits from banks	-	27,657	-	27,657
Derivative financial instruments	-	1,067	-	1,067
Deposits from customers	-	-	1,194,285	1,194,285
Other liabilities	-	-	12,024	12,024
Debt securities in issue	-	-	11,448	11,448
Liability	-	**28,724**	**1,217,757**	**1,246,481**

At 31 December 2013	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
ASSETS				
Cash and balances at central banks	-	193,046	-	193,046
Loans and advances to banks	-	105,061	-	105,061
Debt securities held-to-maturity	-	19,466	-	19,466
Derivative financial instruments	-	508	-	508
Loans and advances to customers	-	-	732,009	732,009
Other assets	-	-	6,135	6,135
Financial investments	179	-	1,796	1,975
Asset	**179**	**318,081**	**739,940**	**1,058,200**
LIABILITIES				
Deposits from banks	-	2,003	-	2,003
Derivative financial instruments	-	371	-	371

Deposits from customers	-	-	957,791	957,791
Other liabilities	-	-	10,152	10,152
Debt securities in issue	-	-	12,232	12,232
Liability	-	**2,374**	**980,175**	**982,549**

5. Maturity analysis of assets and liabilities

The table below shows the maturity analysis of assets and liabilities of the Group as at 31 December 2014:

At 31 December 2014	Due within one year £000	Due after more than one year £000	Total £000
ASSETS			
Cash	115,938	-	115,938
Loans and advances to banks	31,844	-	31,844
Debt securities held-to-maturity	62,839	28,844	91,683
Derivative financial instruments	1,209	1,498	2,707
Loans and advances to customers	444,594	714,389	1,158,983
Other assets	16,516	350	16,866
Financial investments	-	1,277	1,277
Deferred tax asset	992	1,596	2,588
Investment in associate	-	943	943
Intangible assets	-	11,318	11,318
Property, plant and equipment	-	12,475	12,475
Total assets	**673,932**	**772,690**	**1,446,622**
LIABILITIES			
Deposits from banks	27,657	-	27,657
Derivative financial instruments	1,067	-	1,067
Deposits from customers	911,579	282,706	1,194,285
Current tax liability	3,612	-	3,612
Other liabilities	30,679	4,305	34,984
Debt securities in issue	-	11,448	11,448
Total liabilities	**974,594**	**298,459**	**1,273,053**

The table below shows the maturity analysis of assets and liabilities of the Group as at 31 December 2013:

At 31 December 2013	Due within one year £000	Due after more than one year £000	Total £000
ASSETS			
Cash	193,046	-	193,046
Loans and advances to banks	105,061	-	105,061
Debt securities held-to-maturity	19,466	-	19,466
Derivative financial instruments	488	20	508
Loans and advances to customers	419,694	312,315	732,009
Other assets	13,699	3,568	17,267
Financial investments	-	1,975	1,975
Deferred tax asset	-	3,954	3,954
Investment in associate	-	943	943
Intangible assets	-	13,103	13,103
Property, plant and equipment	-	5,522	5,522
Total assets	**751,454**	**341,400**	**1,092,854**
LIABILITIES			
Deposits from banks	2,003	-	2,003
Derivative financial instruments	371	-	371
Deposits from customers	781,468	176,323	957,791

Current tax liability	1,427	-	1,427
Other liabilities	26,702	4,315	31,017
Deferred tax liability	-	1,099	1,099
Debt securities in issue	-	12,232	12,232
Total liabilities	**811,971**	**193,969**	**1,005,940**

The table below shows the maturity analysis of assets and liabilities of the Company as at 31 December 2014:

At 31 December 2014	Due within one year £000	Due after more than one year £000	Total £000
ASSETS			
Due from subsidiary undertakings - bank balances	19,244	-	19,244
Financial investments	-	158	158
Deferred tax asset	-	406	406
Intangible assets	-	4	4
Property, plant and equipment	-	127	127
Other assets	622	4,850	5,472
Shares in subsidiary undertakings	-	39,966	39,966
Total assets	**19,866**	**45,511**	**65,377**
LIABILITIES			
Other liabilities	4,132	-	4,132
Debt securities in issue	-	11,448	11,448
Total liabilities	**4,132**	**11,448**	**15,580**

The table below shows the maturity analysis of assets and liabilities of the Company as at 31 December 2013:

At 31 December 2013	Due within one year £000	Due after more than one year £000	Total £000
ASSETS			
Due from subsidiary undertakings - bank balances	16,551	-	16,551
Financial investments	-	165	165
Deferred tax asset	-	441	441
Intangible assets	-	12	12
Property, plant and equipment	-	130	130
Other assets	565	4,850	5,415
Shares in subsidiary undertakings	-	30,995	30,995
Total assets	**17,116**	**36,593**	**53,709**
LIABILITIES			
Deposits from banks	2,000	-	2,000
Other liabilities	9,029	-	9,029
Debt securities in issue	-	12,232	12,232
Total liabilities	**11,029**	**12,232**	**23,261**

6. Financial risk management

Strategy

By their nature, the Group's activities are principally related to the use of financial instruments. The Directors and senior management of the Group have formally adopted a Group Risk and Controls Policy which sets out the Board's attitude to risk and internal controls. Key risks identified by the Directors are formally reviewed and assessed at least once a year by the Board, in addition to which key business risks are identified, evaluated and managed by operating management on an ongoing basis by means of procedures such as physical controls, credit and other authorisation limits and segregation of duties. The Board also receives regular reports on any risk matters that need to be brought to its attention. Significant risks identified in connection with the development of new activities are subject to consideration by the Board. There are budgeting procedures in place and reports are presented regularly to the Board detailing the results of each principal business unit, variances against budget and prior year, and other performance data.

The principal non-operational risks inherent in the Group's business are credit, market and liquidity risks.

(a) Credit risk

The Company and Group take on exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Impairment provisions are provided for losses that have been incurred at the balance sheet date. Significant changes in the economy, or in the health of a particular industry segment that represents a concentration in the Company and Group's portfolio, could result in losses that are different from those provided for at the balance sheet date. Credit risk is managed through the Credit Committees of the banking subsidiaries, with significant exposures also being approved by the Group Risk Committee.

The Company and Group structure the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower or groups of borrowers. Such risks are monitored on a revolving basis and subject to an annual or more frequent review. The limits are approved periodically by the Board of Directors and actual exposures against limits are monitored daily.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees.

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

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

Upon initial recognition of loans and advances, the fair value of collateral is based on valuation techniques commonly used for the corresponding assets. In order to minimise any potential credit loss the Group will seek additional collateral from the counterparty as soon as impairment indicators are noticed for the relevant individual loans and advances. Repossessed collateral, not readily convertible into cash, is made available for sale in an orderly fashion, with the proceeds used to reduce or repay the outstanding indebtedness, or held as inventory where the Group intends to develop and sell in the future. Where excess funds are available after the debt has been repaid, they are available either for other secured lenders with lower priority or are returned to the customer.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards.

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

	2014 £000	2013 £000
Credit risk exposures relating to on-balance sheet assets are as follows:		
Cash and balances at central banks	115,938	193,046
Loans and advances to banks	31,844	105,061
Debt securities held-to-maturity	91,683	19,466
Derivative financial instruments	2,707	508
Loans and advances to customers - Arbuthnot Latham	536,488	340,981
Loan and advances to customers - Secure Trust Bank	622,495	391,028
Other assets	5,522	6,135
Financial investments	1,277	1,975
Credit risk exposures relating to off-balance sheet assets are as follows:		
Guarantees	714	805
Loan commitments and other credit related liabilities	139,423	37,094
At 31 December	**1,548,091**	**1,096,099**

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

	2014 £000	2013 £000
Credit risk exposures relating to on-balance sheet assets are as follows:		

Due from subsidiary undertakings - bank balances	19,244	16,551
Financial investments	158	165
Other assets	5,365	5,310
Credit risk exposures relating to off-balance sheet assets are as follows:		
Guarantees	-	2,500
At 31 December	**24,767**	**24,526**

The above tables represents the maximum credit risk exposure (net of impairment) to the Group and Company at 31 December 2014 and 2013 without taking account of any collateral held or other credit enhancements attached. For on-balance-sheet assets, the exposures are based on the net carrying amounts as reported in the Statement of Financial Position.

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

	31 December 2014		31 December 2013	
	Loan Balance	Collateral	Loan Balance	Collateral
Loan to value	£000	£000	£000	£000
Less than 60%	300,384	824,044	176,713	464,460
60% - 80%	179,527	269,673	94,295	136,786
80% - 100%	28,176	29,899	24,188	26,907
Greater than 100%	23,497	18,382	17,089	13,816
Total	**531,584**	**1,141,998**	**312,285**	**641,969**

Renegotiated loans and forbearance

The contractual terms of a loan may be modified due to factors that are not related to the current or potential credit deterioration of the customer (changing market conditions, customer retention, etc.). In such cases, the modified loan may be derecognised and the renegotiated loan recognised as a new loan at fair value.

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

In June 2012, the Group acquired Everyday Loans whose policy on forbearance is that a customer’s account may be modified to assist customers who are in or, have recently overcome, financial difficulties and have demonstrated both the ability and willingness to meet the current or modified loan contractual payments. These may be modified by way of a reschedule or deferment of repayments. Rescheduling of debts retains the customers’ contractual due dates, whilst the deferment of repayments extends the payment schedule up to a maximum of four payments in a twelve month period. As at 31 December 2014 the gross balance of rescheduled loans included in the Consolidated Statement of Financial Position was £14.7m, with an allowance for impairment on these loans of £1.0m. The gross balance of deferred loans was £3.0m with an allowance for impairment on these of £0.4m. (31 December 2013: the gross balance of rescheduled loans was £13.9m, with an allowance for impairment of £1.1m. The gross balance of deferred loans was £2.8m with an allowance for impairment of £0.4m).

Concentration risk

The Group is well diversified in the UK, being exposed to retail banking and private banking. Management assesses the potential concentration risk from a number of areas including:

- product concentration
- geographical concentration; and
- high value residential properties

Due to the well diversified nature of the Group and the significant collateral held against the loan book, the Directors do not consider there to be a potential material exposure arising from concentration risk. The table below show the concentration in the loan book.

	Loans and advances to customers		Loan Commitments	
	2014	2013	2014	2013

	£000	£000	£000	£000
Concentration by product				
Cash collateralised	19,934	17,709	-	-
Commercial	164,154	31,625	95,790	12,492
Residential mortgages	451,645	253,845	43,428	19,548
Non-Performing	11,940	15,717	-	-
Other Collateral	32,587	8,399	-	-
Unsecured	11,203	27,150	-	-
Personal Lending	87,571	77,799	-	-
Motor	137,853	114,667	205	893
Music	13,829	10,590	-	-
Cycle	33,310	23,274	-	-
Pay4Later	14,013	18,784	-	-
ELL	93,864	81,368	-	-
Consumer electronics	24,792	7,739	-	-
Sport and leisure	6,882	6,810	-	-
Healthcare	8,756	5,165	-	-
Rentsmart	25,504	25,548	-	-
Furniture	5,263	3,679	-	-
Other	15,883	2,141	-	4,161
At 31 December	**1,158,983**	**732,009**	**139,423**	**37,094**
Concentration by location				
East Anglia	44,359	33,138	7,195	-
East Midlands	44,869	27,790	-	-
London	463,333	220,028	64,329	11,608
Midlands	13,208	3,214	-	-
North East	39,292	18,934	17,638	-
North West	76,349	56,603	-	-
Northern Ireland	8,622	6,054	-	-
Scotland	53,177	39,149	-	-
South East	174,912	112,694	17,845	7,671
South West	58,627	45,964	10,825	1,629
Wales	32,799	25,086	-	-
West Midlands	44,146	36,139	1,262	-
Yorkshire & Humber	38,176	33,741	-	-
Other	67,114	73,475	20,329	16,186
At 31 December	**1,158,983**	**732,009**	**139,423**	**37,094**

For unsecured lending, concentration by location is based on the customer's country of domicile and for lending secured by property it is based on the location of the collateral.

(b) Operational risk (unaudited)

The Group's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Group's reputation with overall cost effectiveness and to avoid control procedures that restrict initiatives and creativity. Operational risk arises from all of the Group's operations.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to the senior management within each subsidiary.

Compliance with Group standards is supported by a programme of periodic reviews undertaken by Internal Audit. The results of the Internal Audit reviews are discussed with senior management, with summaries submitted to the Arbuthnot Banking Group Audit Committee.

(c) Market risk

Price risk

The Company and Group is exposed to equity securities price risk because of investments held by the Group and classified in the Consolidated Statement of Financial Position either as available-for-sale or at fair value through the profit and loss. The Group is not exposed to commodity price risk. To manage its price risk arising from investments in equity securities, the Group diversifies its portfolio. Diversification of the portfolio is done in accordance with the limits set by the Group.

Based upon the financial investment exposure in Note 25, a stress test scenario of a 10% (2013: 10%) decline in market prices, with all other things being equal, would result in a £127,000 (2013: £394,000) decrease in the Group's income and a decrease of £103,000 (2013: £140,000) in the Group's equity. The Group consider a 10% stress test scenario appropriate after taking the current values and historic data into account.

Based upon the financial investment exposure given in Note 25, a stress test scenario of a 10% (2013: 10%) decline in market prices, with all other things being equal, would result in a £15,000 (2013: £15,000) decrease in the Company's income and a decrease of £13,000 (2013: £13,000) in the Company's equity.

Currency risk

The Company and Group take on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board sets limits on the level of exposure for both overnight and intra-day positions, which are monitored daily. The table below summarises the Group's exposure to foreign currency exchange rate risk at 31 December 2014. Included in the table below are the Group's assets and liabilities at carrying amounts, categorised by currency.

	GBP (£)	USD ($)	Euro (€)	Other	Total
At 31 December 2014	£000	£000	£000	£000	£000
ASSETS					
Cash and balances at central banks	115,891	17	28	2	115,938
Loans and advances to banks	22,381	5,428	3,099	936	31,844
Debt securities held-to-maturity	76,124	15,559	-	-	91,683
Derivative financial instruments	2,707	-	-	-	2,707
Loans and advances to customers	1,107,440	8,437	43,106	-	1,158,983
Other assets	5,522	-	-	-	5,522
Financial investments	158	-	1,119	-	1,277
	1,330,223	**29,441**	**47,352**	**938**	**1,407,954**
LIABILITIES					
Deposits from banks	27,489	168	-	-	27,657
Derivative financial instruments	1,067	-	-	-	1,067
Deposits from customers	1,147,299	28,081	18,146	759	1,194,285
Other liabilities	12,024	-	-	-	12,024
Debt securities in issue	-	-	11,448	-	11,448
	1,187,879	**28,249**	**29,594**	**759**	**1,246,481**
Net on-balance sheet position	**142,344**	**1,192**	**17,758**	**179**	**161,473**
Credit commitments	140,137	-	-	-	**140,137**

The table below summarises the Group's exposure to foreign currency exchange risk at 31 December 2013:

	GBP (£)	USD ($)	Euro (€)	Other	Total
At 31 December 2013	£000	£000	£000	£000	£000
ASSETS					
Cash and balances at central banks	192,972	53	20	1	193,046
Loans and advances to banks	85,365	16,703	1,160	1,833	105,061
Debt securities held-to-maturity	16,423	3,043	-	-	19,466
Derivative financial instruments	508	-	-	-	508
Loans and advances to customers	682,925	3,748	45,336	-	732,009
Other assets	6,135	-	-	-	6,135
Financial investments	179	-	1,796	-	1,975
	984,507	**23,547**	**48,312**	**1,834**	**1,058,200**
LIABILITIES					
Deposits from banks	2,003	-	-	-	2,003

Derivative financial instruments	371	-	-	-	371
Deposits from customers	916,465	20,292	19,388	1,646	957,791
Other liabilities	10,152	-	-	-	10,152
Debt securities in issue	-	-	12,232	-	12,232
	928,991	**20,292**	**31,620**	**1,646**	**982,549**
Net on-balance sheet position	**55,516**	**3,255**	**16,692**	**188**	**75,651**
Credit commitments	37,899	-	-	-	**37,899**

A 10% strengthening of the pound against the US dollar would lead to a £1,000 decrease (2013: £5,000 increase) in Group profits and equity, while a 10% weakening of the pound against the US dollar would lead to the same decrease in Group profits and equity. Similarly a 10% strengthening of the pound against the Euro would lead to a £6,000 increase (2013: £20,000 increase) in Group profits and equity, while a 10% weakening of the pound against the Euro would lead to the same increase in Group profits and equity. The above results are after taking into account the effect of derivative financial instruments (see note 21), which covers most of the net exposure in each currency.

The table below summarises the Company's exposure to foreign currency exchange rate risk at 31 December 2014:

	GBP (£)	Euro (€)	Total
At 31 December 2014	£000	£000	£000
ASSETS			
Due from subsidiary undertakings - bank balances	7,276	11,968	19,244
Financial investments	158	-	158
Other assets	5,365	-	5,365
	12,799	**11,968**	**24,767**
LIABILITIES			
Other liabilities	3,028	-	3,028
Debt securities in issue	-	11,448	11,448
	3,028	**11,448**	**14,476**
Net on-balance sheet position	**9,771**	**520**	**10,291**

The table below summarises the Company's exposure to foreign currency exchange rate risk at 31 December 2013:

	GBP (£)	Euro (€)	Total
At 31 December 2013	£000	£000	£000
ASSETS			
Due from subsidiary undertakings - bank balances	3,827	12,724	16,551
Financial investments	165	-	165
Other assets	5,310	-	5,310
	9,302	**12,724**	**22,026**
LIABILITIES			
Deposits from banks	2,000	-	2,000
Other liabilities	7,768	-	7,768
Debt securities in issue	-	12,232	12,232
	9,768	**12,232**	**22,000**
Net on-balance sheet position	**(466)**	**492**	**26**

A 10% strengthening of the pound against the Euro would lead to £28,000 (2013: £24,000) decrease in the Company profits and equity, conversely a 10% weakening of the pound against the Euro would lead to the same increase in the Company profits and equity.

Interest rate risk

Interest rate risk is the potential adverse impact on the Company and Group's future cash flows from changes in interest rates; and arises from the differing interest rate risk characteristics of the Company and Group's assets and liabilities. In particular, fixed rate savings and borrowing products expose the Group to the risk that a change in interest rates could cause either a reduction in interest income or an increase in interest expense relative to variable rate interest flows. The Group seeks to "match" interest rate risk on either side of the Statement of Financial Position. However, this is not a perfect match and interest rate risk is present on: Money market transactions of a fixed rate nature, fixed rate loans and fixed rate savings accounts. There is interest rate mismatch in Arbuthnot

Latham and Secure Trust Bank. This is monitored on a daily basis in conjunction with liquidity and capital. The interest rate mismatch is daily monitored, throughout the maturity bandings of the book on a parallel shift scenario for 50, 100 and 200 basis points movement. The Group consider the 50, 100 and 200 basis points movement to be appropriate for scenario testing given the current economic outlook and industry expectations. This typically results in a pre-tax mismatch of £0.3m to £1.1m (2013: £0.5m to £1.8m) for the Group, with the same impact to equity pre-tax. The Company has no fixed rate exposures, but a upward change of 50 basis points on variable rates would increase pre-tax profits and equity by £60,000 (2013: increase pre-tax profits and equity by £12,000).

The following tables summarise the re-pricing periods for the assets and liabilities in the Company and Group, including derivative financial instruments which are principally used to reduce exposure to interest rate risk. Items are allocated to time bands by reference to the earlier of the next contractual interest rate re-price and the maturity date.

Group **As at 31 December 2014**	Within 3 months £000	More than 3 months but less than 6 months £000	More than 6 months but less than 1 year £000	More than 1 year but less than 5 years £000	More than 5 years £000	Non interest bearing £000	Total £000
ASSETS							
Cash and balances at central banks	115,938	-	-	-	-	-	115,938
Loans and advances to banks	31,844	-	-	-	-	-	31,844
Debt securities held-to-maturity	86,462	-	-	5,221	-	-	91,683
Derivative financial instruments	1,209	-	-	-	1,498	-	2,707
Loans and advances to customers	615,599	74,042	116,012	383,698	200	(30,568)	1,158,983
Other assets	-	-	-	-	-	44,190	44,190
Financial investments	-	-	-	-	-	1,277	1,277
Total assets	**851,052**	**74,042**	**116,012**	**388,919**	**1,698**	**14,899**	**1,446,622**
LIABILITIES							
Deposits from banks	27,657	-	-	-	-	-	27,657
Derivative financial instruments	1,067	-	-	-	-	-	1,067
Deposits from customers	615,005	119,973	138,515	253,360	29,670	37,762	1,194,285
Other liabilities	-	-	-	-	-	38,596	38,596
Debt securities in issue	11,448	-	-	-	-	-	11,448
Equity	-	-	-	-	-	173,569	173,569
Total liabilities	**655,177**	**119,973**	**138,515**	**253,360**	**29,670**	**249,927**	**1,446,622**
Impact of derivative instruments	(16,200)	20,000	-	(3,800)	-	-	
Interest rate sensitivity gap	**179,675**	**(25,931)**	**(22,503)**	**131,759**	**(27,972)**	**(235,028)**	
Cumulative gap	**179,675**	**153,744**	**131,241**	**263,000**	**235,028**	**-**	

Group **As at 31 December 2013**	Within 3 months £000	More than 3 months but less than 6 months £000	More than 6 months but less than 1 year £000	More than 1 year but less than 5 years £000	More than 5 years £000	Non interest bearing £000	Total £000
ASSETS							
Cash and balances at central banks	193,046	-	-	-	-	-	193,046
Loans and advances to banks	105,061	-	-	-	-	-	105,061
Debt securities held-to-maturity	16,423	-	-	3,043	-	-	19,466
Derivative financial instruments	488	-	-	-	-	20	508
Loans and advances to customers	394,714	56,077	84,819	220,038	150	(23,789)	732,009
Other assets	-	-	-	-	-	40,789	40,789
Financial investments	-	-	-	-	-	1,975	1,975
Total assets	**709,732**	**56,077**	**84,819**	**223,081**	**150**	**18,995**	**1,092,854**
LIABILITIES							
Deposits from banks	1,943	-	-	-	-	60	2,003
Derivative financial instruments	371	-	-	-	-	-	371
Deposits from customers	437,888	212,070	90,206	178,713	5,347	33,567	957,791
Other liabilities	-	-	-	-	-	33,543	33,543

Debt securities in issue	12,232	-	-	-	-	-	12,232
Equity	-	-	-	-	-	86,914	86,914
Total liabilities	**452,434**	**212,070**	**90,206**	**178,713**	**5,347**	**154,084**	**1,092,854**
Impact of derivative instruments	(16,200)	-	-	16,200	-	-	
Interest rate sensitivity gap	**241,098**	**(155,993)**	**(5,387)**	**60,568**	**(5,197)**	**(135,089)**	
Cumulative gap	**241,098**	**85,105**	**79,718**	**140,286**	**135,089**	-	

(d) Liquidity risk

The current Liquidity regime came into force on the 1 October 2010. The PRA requires a firm to maintain at all times liquidity resources which are adequate, both as to amount and quality, to ensure that there is no significant risk that its liabilities cannot be met as they fall due. There is also a requirement that a firm ensures its liquidity resources contain an adequate buffer of high quality, unencumbered assets (i.e. Government securities in the liquidity asset buffer); and it maintains a prudent funding profile. The liquid assets buffer is a pool of highly liquid assets that can be called upon to create sufficient liquidity to meet liabilities on demand, particularly in a period of liquidity stress. The liquidity resources outside the buffer must either be marketable assets with a demonstrable secondary market that the firm can access, or a credit facility that can be activated in times of stress.

The banking entities both prepared and approved their Individual Liquidity Adequacy Assessment (“ILAA”). The liquidity buffers required by the ILAA have all been put in place and maintained since. Liquidity resources outside of the buffer are made up of certificates of deposit and fixed rate notes (debt securities). The Company and Group also maintain long-term committed bank facilities. At 31 December 2014 AL had £119.8m (2013: £205.3m) and STB £122.3m (2013: £111.6m) in their liquidity asset buffers.

The tables below show the undiscounted contractual maturity analysis of the Group's financial liabilities and assets as at 31 December 2014:

At 31 December 2014	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
Financial liability by type						
Non-derivative liabilities						
Deposits from banks	27,657	(27,657)	(12,627)	(15,030)	-	-
Deposits from customers	1,194,285	(1,227,753)	(510,423)	(382,230)	(299,841)	(35,259)
Other liabilities	12,024	(18,674)	(17,084)	(125)	-	(1,465)
Debt securities in issue	11,448	(13,248)	(90)	(270)	(1,440)	(11,448)
Issued financial guarantee contracts		(714)	(714)	-	-	-
Unrecognised loan commitments		(139,423)	(139,423)	-	-	-
	1,245,414	**(1,427,469)**	**(680,361)**	**(397,655)**	**(301,281)**	**(48,172)**
Derivative liabilities						
Risk management:	1,067	-	-	-	-	-
- Outflows		(1,067)	(1,067)	-	-	-
	1,067	**(1,067)**	**(1,067)**	-	-	-

At 31 December 2014	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
Financial asset by type						
Non-derivative assets						
Cash and balances at central banks	115,938	115,938	115,938	-	-	-
Loans and advances to banks	31,844	31,843	31,843	-	-	-
Debt securities held-to-maturity	91,683	92,511	50,832	12,359	29,320	-
Loans and advances to customers	1,158,983	1,353,592	205,066	319,221	800,860	28,445
Other assets	5,522	5,522	5,522	-	-	-
Financial investments	1,277	1,277	-	1,119	158	-

	1,405,247	**1,600,683**	**409,201**	**332,699**	**830,338**	**28,445**
Derivative assets						
Risk management:	2,707	-	-	-	-	-
- Inflows		2,707	1,209	-	-	1,498
	2,707	**2,707**	**1,209**	**-**	**-**	**1,498**

The tables below show the undiscounted contractual maturity analysis of the Group's financial liabilities and assets as at 31 December 2013:

At 31 December 2013	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
Financial liability by type						
Non-derivative liabilities						
Deposits from banks	2,003	(2,003)	(2,003)	-	-	-
Deposits from customers	957,791	(1,013,314)	(435,868)	(388,573)	(185,953)	(2,920)
Other liabilities	10,152	(8,892)	(7,857)	(1,025)	(10)	-
Debt securities in issue	12,232	(14,224)	(100)	(299)	(1,593)	(12,232)
Issued financial guarantee contracts		(805)	(805)	-	-	-
Unrecognised loan commitments		(37,094)	(37,094)	-	-	-
	982,178	**(1,076,332)**	**(483,727)**	**(389,897)**	**(187,556)**	**(15,152)**
Derivative liabilities						
Risk management:	371	-	-	-	-	-
- Outflows		(371)	(371)	-	-	-
	371	**(371)**	**(371)**	**-**	**-**	**-**

At 31 December 2013	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
Financial asset by type						
Non-derivative assets						
Cash and balances at central banks	193,046	193,046	193,046	-	-	-
Loans and advances to banks	105,061	105,061	105,061	-	-	-
Debt securities held-to-maturity	19,466	19,701	2,491	141	17,069	-
Loans and advances to customers	732,009	878,370	167,005	169,645	540,159	1,561
Other assets	6,135	6,135	6,135	-	-	-
Financial investments	1,975	1,975	-	1,810	165	-
	1,057,692	**1,204,288**	**473,738**	**171,596**	**557,393**	**1,561**
Derivative assets						
Risk management:	508	-	-	-	-	-
- Inflows		508	508	-	-	-
	508	**508**	**508**	**-**	**-**	**-**

The table below analyses the contractual maturity analysis of the Company's financial liabilities and assets as at 31 December 2014:

At 31 December 2014	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

Financial liability by type						
Non-derivative liabilities						
Other liabilities	3,028	(3,028)	(1,438)	(125)	-	(1,465)
Debt securities in issue	11,448	(13,248)	(90)	(270)	(1,440)	(11,448)
	14,476	**(16,276)**	**(1,528)**	**(395)**	**(1,440)**	**(12,913)**

At 31 December 2014	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
Financial asset by type						
Non-derivative assets						
Due from subsidiary undertakings - bank balances	19,244	19,244	3,776	15,000	-	468
Other assets	5,365	5,365	5,365	-	-	-
Financial investments	158	158	-	-	158	-
	24,767	**24,767**	**9,141**	**15,000**	**158**	**468**

The table below analyses the contractual maturity analysis of the Company's financial liabilities and assets as at 31 December 2013:

At 31 December 2013	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
Financial liability by type						
Non-derivative liabilities						
Deposits from banks	2,000	(2,000)	(2,000)	-	-	-
Other liabilities	7,768	(7,768)	(5,143)	(1,025)	(10)	(1,590)
Debt securities in issue	12,232	(14,224)	(100)	(299)	(1,593)	(12,232)
Issued financial guarantee contracts		(2,500)	(2,500)	-	-	-
	22,000	**(26,492)**	**(9,743)**	**(1,324)**	**(1,603)**	**(13,822)**

At 31 December 2013	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
Financial asset by type						
Non-derivative assets						
Due from subsidiary undertakings - bank balances	16,551	16,551	15,327	-	-	1,224
Other assets	5,310	5,310	5,310	-	-	-
Financial investments	165	165	-	-	165	-
	22,026	**22,026**	**20,637**	-	**165**	**1,224**

The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature are important factors in assessing the liquidity of the Group and its exposure to changes in interest rates and exchange rates.

Fiduciary activities

The Group provides investment management and advisory services to third parties, which involve the Group making allocation and purchase and sale decisions in relation to a wide range of financial instruments. Those assets that are held in a fiduciary capacity are not included in these financial statements. These services give rise to the risk that the Group may be accused of maladministration or underperformance. At the balance sheet date, the Group had investment management accounts amounting to approximately £666m (2013: £528m). Additionally the Group provides investment advisory services.

(e) Financial assets and liabilities

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

At 31 December 2014	Fair value through profit or loss £000	Held-to-maturity £000	Loans and receivables £000	Available-for-sale £000	Other amortised cost £000	Total carrying amount £000	Fair value £000
ASSETS							
Cash and balances at central banks	-	-	115,938	-	-	115,938	115,938
Loans and advances to banks	-	-	31,844	-	-	31,844	31,844
Debt securities held-to-maturity	-	91,683	-	-	-	91,683	91,683
Derivative financial instruments	2,707	-	-	-	-	2,707	2,707
Loans and advances to customers	-	-	1,158,983	-	-	1,158,983	1,162,554
Other assets	-	-	5,522	-	-	5,522	5,522
Financial investments	171	-	-	1,106	-	1,277	1,277
	2,878	**91,683**	**1,312,287**	**1,106**	**-**	**1,407,954**	**1,411,525**
LIABILITIES							
Deposits from banks	-	-	-	-	27,657	27,657	27,657
Derivative financial instruments	1,067	-	-	-	-	1,067	1,067
Deposits from customers	-	-	-	-	1,194,285	1,194,285	1,203,613
Other liabilities	-	-	12,024	-	-	12,024	12,024
Debt securities in issue	-	-	-	-	11,448	11,448	11,448
	1,067	**-**	**12,024**	**-**	**1,233,390**	**1,246,481**	**1,255,809**

At 31 December 2013	Fair value through profit or loss £000	Held-to-maturity £000	Loans and receivables £000	Available-for-sale £000	Other amortised cost £000	Total carrying amount £000	Fair value £000
ASSETS							
Cash and balances at central banks	-	-	193,046	-	-	193,046	193,046
Loans and advances to banks	-	-	105,061	-	-	105,061	105,061
Debt securities held-to-maturity	-	19,466	-	-	-	19,466	19,466
Derivative financial instruments	508	-	-	-	-	508	508
Loans and advances to customers	-	-	732,009	-	-	732,009	730,706
Other assets	-	-	6,135	-	-	6,135	6,135
Financial investments	(244)	-	-	2,219	-	1,975	1,975
	264	**19,466**	**1,036,251**	**2,219**	**-**	**1,058,200**	**1,056,897**
LIABILITIES							
Deposits from banks	-	-	-	-	2,003	2,003	2,003
Derivative financial instruments	371	-	-	-	-	371	371
Deposits from customers	-	-	-	-	957,791	957,791	957,791
Other liabilities	-	-	10,152	-	-	10,152	10,152
Debt securities in issue	-	-	-	-	12,232	12,232	12,232
	371	**-**	**10,152**	**-**	**972,026**	**982,549**	**982,549**

Cash, loans and advances to banks, debt securities held-to-maturity, deposits from banks and deposits from customers are classified as level 2 financial instruments, on the basis that they are liquid but not traded in an active market. Loans and advances to customers and debt securities in issue are classified as level 3 as there is no observable market data for these instruments.

7. Capital management

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

The Group's lead regulator, the Prudential Regulatory Authority ('PRA'), sets and monitors capital requirements for the Group as a whole and for the individual banking operations. The lead regulator adopted the Basel III capital requirements with effect from 1 January 2014. As a result, the Group's regulatory capital requirements were based on Basel III in 2014.

In accordance with the EU's Capital Requirements Directive (CRD) and the required parameters set out in the Prudential Regulatory Authority ('PRA') Handbook (BIPRU 2.2), the Individual Capital Adequacy Assessment Process (ICAAP) is embedded in the risk management framework of the Group and is subject to ongoing updates and revisions when necessary. However, at a minimum, the ICAAP is updated annually as part of the business planning process. The ICAAP is a process that brings together management framework (i.e. the policies, procedures, strategies, and systems that the Group has implemented to identify, manage and mitigate its risks) and the financial disciplines of business planning and capital management. The Group's regulated entities are also the principal trading subsidiaries as detailed in Note 41.

Not all material risks can be mitigated by capital, but where capital is appropriate the Board has adopted a "Pillar 1 plus" approach to determine the level of capital the Group needs to hold. This method takes the Pillar 1 capital formula calculations (standardised approach for credit, market and operational risk) as a starting point, and then considers whether each of the calculations delivers a sufficient capital sum adequately to cover management's anticipated risks. Where the Board considered that the Pillar 1 calculations did not reflect the risk, an additional capital add-on in Pillar 2 is applied, as per the Individual Capital Guidance (ICG) issued by the PRA.

The Group's regulatory capital is divided into two tiers:

- Tier 1 comprises mainly shareholders' funds, non-controlling interests and revaluation reserves, after deducting goodwill and other intangible assets.
- Lower Tier 2 comprises qualifying subordinated loan capital and collective provisions. Lower Tier 2 capital cannot exceed 50% of Tier 1 capital.

The following table shows the regulatory capital resources as managed by the Group:

	2014 £000	2013 £000
Tier 1		
Share capital	153	153
Retained earnings	114,641	67,901
Other reserves	(1,111)	(1,111)
Non-controlling interests	60,038	20,327
Goodwill	(2,695)	(2,695)
Deductions for other intangibles	(8,623)	(8,710)
Revaluation reserve	(152)	22
Total tier 1 capital	**162,251**	**75,887**
Tier 2		
Collective provisions	2,031	1,578
Debt securities in issue	11,448	12,232
Total tier 2 capital	**13,479**	**13,810**
Total tier 1 & tier 2 capital	**175,730**	**89,697**

The ICAAP includes a summary of the capital required to mitigate the identified risks in its regulated entities and the amount of capital that the Group has available. The PRA sets ICG for each UK bank calibrated by reference to its Capital Resources Requirement, broadly equivalent to 8 percent of risk weighted assets and thus representing the capital required under Pillar 1 of the Basel III framework. The ICAAP is a key input into the PRA's ICG setting process, which addresses the requirements of Pillar 2 of the Basel III framework. The PRA's approach is to monitor the available capital resources in relation to the ICG requirement. Each entity maintains an extra internal buffer and capital ratios are reviewed on a monthly basis to ensure that external requirements are adhered to. All regulated entities have complied with all of the externally imposed capital requirements to which they are subject.

Pillar 3 complements the minimum capital requirements (Pillar 1) and the supervisory review process (Pillar 2). Its aim is to encourage market discipline by developing a set of disclosure requirements which will allow market participants to assess key pieces of information on a firm's capital, risk exposures and risk assessment processes. Our Pillar 3 disclosures for the year ended 31 December 2014 are published as a separate document on the Group website under Investor Relations (Announcements & Shareholder Info).

8. Net interest income

	Year ended 31 December 2014 £000	Year ended 31 December 2013 £000
Cash and balances at central banks	1,026	733
Loans and advances to banks	52	70
Debt securities held-to-maturity	530	296
Loans and advances to customers	116,016	92,230
Interest income	**117,624**	**93,329**

9. Fee and commission income

	2014 £000	2013 £000
Banking commissions	5,014	4,714
Trust and other fiduciary fee income	5,210	4,320
Financial Planning fees and commissions	1,557	1,351
Structured product commissions	1,218	1,810
Other fee income *	16,964	19,621
	29,963	**31,816**

* This mainly includes fee and commission income received on OneBill, PPI insurance and commission earned on debt recovery activities at Secure Trust Bank.

10. Net impairment loss on financial assets

	2014 £000	2013 £000
Net Impairment losses on loans and advances to customers	18,244	17,734
Impairment losses on financial investments	347	1,073
	18,591	**18,807**

11. Gain from a bargain purchase

On 15 January 2013 Debt Managers (Services) Limited (DMS), a wholly owned subsidiary of Secure Trust Bank, acquired certain trade and assets from Debt Managers Holdings Ltd, Debt Managers (AB) Limited and Debt Managers Limited (together "Debt Managers"). Debt Managers collects debt on behalf of a range of clients including banks and utility companies.

Key benefits of this acquisition to Secure Trust Bank include:
- Broadening the income base of Secure Trust Bank without the requirement for large amounts of capital;
- The acquisition of a scalable collections platform through which Secure Trust Bank intends to channel its delinquent debt; and
- The acquisition of the latest call centre and collections technology, including market leading dialler capability, interactive voice response technology and payment websites.

DMS acquired the Debt Managers business for an initial cash payment of £0.4m paid on completion of the transaction. Deferred consideration of up to £0.3m was payable by DMS one year after completion subject to the business achieving certain performance criteria. Of this, £0.1m was paid by DMS in final settlement.

The acquired assets included a software platform jointly developed with a third party. Upon completion the rights to this software were sold to that third party for consideration of £2m. DMS then proceeded to lease back the internal rights to use this software. On completion Secure Trust Bank provided DMS with £2.2m of funding to clear an outstanding overdraft of £1.8m and to fund the working capital requirements of DMS.

The Consolidated Statement of Comprehensive Income includes revenue of £3.8m and a loss before tax of £0.9m attributable to DMS. Had the acquisition occurred at the start of the financial year, the Consolidated Statement of Comprehensive Income would have included revenue of £4.0m and a loss before tax of £0.9m attributable to DMS.

	Acquired assets / liabilities	Fair value adjustments	Recognised values on acquisition

	£000	£000	£000
Clients cash at bank	1,362	-	1,362
Other assets	1,117	263	1,380
Intangible assets	2,010	-	2,010
Property, plant and equipment	57	-	57
Total assets	**4,546**	**263**	**4,809**
Bank overdraft	1,846	-	1,846
Client account	1,301	-	1,301
Other liabilities	730	-	730
Total liabilities	**3,877**	**-**	**3,877**
Net identifiable (liabilities)/assets	**669**	**263**	**932**
Consideration			519
Goodwill			**(413)**

12. Gain on Sale of Building

On 17 October 2013 Arbuthnot Latham & Co., Limited completed the sale and leaseback of 7 Wilson Street. The net book value of the property at the date of sale was £16.5m. Under the terms of the sale and leaseback agreement, the cash consideration received by Arbuthnot Latham was £26.2m paid on completion. The Buyer also provided £5.4m to be drawn by Arbuthnot Latham to fund a renovation and fit out programme. After providing £3.0m for the rent payable during the period of refurbishment prior to occupation and £0.2m of transaction costs, the net gain was £6.5m.

13. Other income

Arbuthnot Latham received £1.2m of rental income in 2013 from the letting of the 7 Wilson Street property. The property was vacated by the tenants at the end of September 2013 and refurbishment works started soon afterwards in anticipation of the Group occupation which took place in November 2014.

14. Operating expenses

Operating expenses comprise:	2014 £000	2013 £000
Staff costs, including Directors:		
Wages and salaries	41,082	33,262
Social security costs	4,180	3,553
Pension costs	1,741	1,509
Share based payment transactions (note 37)	1,583	2,249
Amortisation of intangibles (note 28)	3,000	2,803
Depreciation (note 29)	808	1,015
Operating lease rentals	5,120	4,617
Costs arising from acquisitions	198	535
Other administrative expenses	27,468	24,088
Total operating expenses	**85,180**	**73,631**

Remuneration of the auditor and its associates, excluding VAT, was as follows:	2014 £000	2013 £000
Fees payable to the Company's auditor for the audit of the Company's annual accounts	95	82
Fees payable to the Company's auditor and its associates for other services:		
Audit of the accounts of subsidiaries	329	356
Audit related assurance services	65	104
Taxation compliance services	82	73
Taxation advisory services	61	62
Other assurance services	321	56

Corporate finance services	115	-
Other non-audit services	13	28
Total fees payable	**1,081**	**761**

Other assurance services include regulatory assessments. Corporate finance services include due diligence work on a potential corporate transaction.

15. Average number of employees

	2014	2013
Retail banking	608	530
Private banking	175	145
Group	17	16
	800	**691**

16. Income tax expense

	2014	2013
United Kingdom corporation tax at 21.5% (2013: 23.25%)	£000	£000
Current taxation		
Corporation tax charge - current year	5,349	3,146
Corporation tax charge - adjustments in respect of prior years	(18)	548
	5,331	**3,694**
Deferred taxation		
Origination and reversal of temporary differences	274	1,006
Adjustments in respect of prior years	(106)	(502)
	168	**504**
Income tax expense	**5,499**	**4,198**
Tax reconciliation		
Profit before tax	22,515	15,713
Tax at 21.5% (2013: 23.25%)	4,841	3,653
Permanent differences	657	208
Tax rate change	126	291
Prior period adjustments	(125)	46
Corporation tax charge for the year	**5,499**	**4,198**

The UK corporation tax rate reduced from 24% to 23% with effect from 1 April 2013 and to 21% from 1 April 2014. On 2 July 2013 the Government substantively enacted a further reduction to the UK corporation tax rate to 20% from 1 April 2015. This will reduce the Company’s future current tax charge accordingly.

17. Earnings per ordinary share

Basic

Basic earnings per ordinary share are calculated by dividing the profit after tax attributable to equity holders of the Company of £8,634,000 (2013: £7,930,000) by the weighted average number of ordinary shares 15,279,322 (2013: 15,279,322) in issue during the year.

Diluted

Diluted earnings per ordinary share are calculated by dividing the profit after tax attributable to equity holders of the Company of £8,634,000 (2013: £7,930,000) by the weighted average number of ordinary shares in issue during the year, as noted above, as well as the number of dilutive share options in issue during the year. The number of dilutive share options in issue at the year end was 187,500 (2013: 106,250).

18. Cash and balances at central banks

	2014	2013
Group	£000	£000
Cash and balances at central banks	**115,938**	**193,046**

In 2010 a reserve account was opened at the Bank of England (BoE) to comply with the new liquidity regime that came into force on 1 October 2010. Surplus funds are now mainly held in the BoE reserve account, with the remainder held in certificates of deposit, fixed rate notes and money market deposits in highly rated banks (the majority held in UK clearing banks).

19. Loans and advances to banks

Group	2014 £000	2013 £000
Placements with banks included in cash and cash equivalents (note 39)	**31,844**	**105,061**

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:

Group	2014 £000	2013 £000
Aaa	-	57,101
A1	3,216	-
A2	26,242	44,327
A3	-	3,633
Baa1	2,386	-
	31,844	**105,061**

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

20. Debt securities held-to-maturity

Debt securities represent certificates of deposit. The Group's intention is to hold them to maturity and, therefore, they are stated in the Statement of Financial Position at amortised cost.

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

Group	2014 £000	2013 £000
At 1 January	19,466	13,526
Exchange difference on monetary assets	188	-
Additions	85,244	9,844
Redemptions	(13,215)	(3,904)
At 31 December	**91,683**	**19,466**

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

Group	2014 £000	2013 £000
Aaa	48,714	14,120
Aa1	22,284	3,044
Aa2	5,001	-
Aa3	3,747	2,302
A1	3,922	-
A3	3,507	-
Baa1	4,508	-
	91,683	**19,466**

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

21. Derivative financial instruments

	2014	2013

Group	Contract/ notional amount £000	Fair value assets £000	Fair value liabilities £000	Contract/ notional amount £000	Fair value assets £000	Fair value liabilities £000
Currency swaps	81,898	1,209	1,067	39,850	488	371
Interest rate caps	20,000	-	-	20,000	20	-
Structured notes	1,607	1,498	-	-	-	-
	103,505	**2,707**	**1,067**	**59,850**	**508**	**371**

The principal derivatives used by the Group are exchange rate contracts and interest rate caps (used for cash flow hedges). Exchange rate related contracts include currency swaps and cash flow hedges include interest rate caps.

A forward foreign exchange contract is an agreement to buy or sell a specified amount of foreign currency on a specified future date at an agreed rate. Currency swaps generally involve the exchange of interest payment obligations denominated in different currencies; exchange of principal can be notional or actual. The currency swaps are settled net and therefore the fair value is small in comparison to the contract/notional amount.

An interest rate cap is an option contract which puts an upper limit on a floating exchange rate. The writer of the cap has to pay the holder of the cap the difference between the floating rate and the reference rate when that reference rate is breached. The holder pays a premium for the cap.

Also included in derivative financial instruments are structured notes. These notes contain embedded derivatives (embedded options to buy and sell indicies) and non-derivative host contracts (discounted bonds). Both the host and embedded derivatives are presented net within derivative financial instruments.

The Group only uses investment graded banks as counterparties for derivative financial instruments. None of the contracts are collateralised.

The table below presents an analysis of derivative financial instruments contract/notional amounts by rating agency designation of counterparty bank at 31 December, based on Moody's long term ratings:

Group	2014 £000	2013 £000
Aa3	81,898	39,850
A2	20,000	20,000
Baa1	1,607	-
	103,505	**59,850**

22. Loans and advances to customers

Group	2014 £000	2013 £000
Gross loans and advances	1,197,394	763,042
Less: allowances for impairment on loans and advances (note 23)	(38,411)	(31,033)
	1,158,983	**732,009**

On the 18th December 2014 AL completed the purchase of a residential mortgage portfolio acquired from the administrators of the Dunfermline Building Society ("DBS") for a consideration of £106.3m. The portfolio is included in loans and advances to customers at fair value.

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

Loans and advances to customers include finance lease receivables as follows:

Group	2014 £000	2013 £000
Gross investment in finance lease receivables:		
- No later than 1 year	18,262	16,386
- Later than 1 year and no later than 5 years	13,047	16,053

	31,309	32,439
Unearned future finance income on finance leases	(5,799)	(6,885)
Net investment in finance leases	**25,510**	**25,554**
The net investment in finance leases may be analysed as follows:		
- No later than 1 year	13,729	12,905
- Later than 1 year and no later than 5 years	11,781	12,649
	25,510	**25,554**

Loans and advances to customers can be further summarised as follows:

Group	2014 £000	2013 £000
Neither past due nor impaired	1,082,580	684,783
Past due but not impaired	23,175	19,210
Impaired	91,639	59,049
Gross	1,197,394	763,042
Less: allowance for impairment	(38,411)	(31,033)
Net	**1,158,983**	**732,009**

(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:

Group	2014 £000	2013 £000
Past due up to 30 days	4,763	2,681
Past due 30 - 60 days	1,145	4,369
Past due 60 - 90 days	1,233	3,439
Over 90 days	16,034	8,721
Total	**23,175**	**19,210**

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

(b) Loans and advances renegotiated

Restructuring activities include external payment arrangements, modification and deferral of payments. Following restructuring, a previously overdue customer account is reset to a normal status and managed together with other similar accounts. Restructuring policies and practices are based on indicators or criteria which, in the judgement of management, indicate that payment will most likely continue. These policies are kept under continuous review. Renegotiated loans that would otherwise be past due or impaired totalled £nil (2013: £nil).

(c) Collateral held

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

Group	2014 £000	2013 £000
Past due but not impaired	73,047	62,168
Impaired	16,477	10,963
Fair value of collateral held	**89,524**	**73,131**

Collateral is shown at fair value less costs to sell. The fair value of the collateral held is £89,524,000 against £76,403,000 secured loans, giving an average loan-to-value of 85% (2013: 65%).

The gross amount of individually impaired loans and advances to customers before taking into account the cash flows from collateral held is £53,228,000 (2013: £28,016,000). Interest income on loans classified as impaired totalled £3,143,000 (2013: £2,574,000).

23. Allowances for impairment of loans and advances

Reconciliation of specific allowance for impairments:

Group	2014 £000	2013 £000
At 1 January	31,033	20,648
Impairment losses	18,669	18,798
Loans written off during the year as uncollectible	(11,003)	(8,413)
Amounts recovered during the year	(288)	-
At 31 December	**38,411**	**31,033**

Reconciliation of collective allowance for impairments:

Group	2014 £000	2013 £000
At 1 January	1,578	370
Impairment losses	453	1,208
At 31 December	**2,031**	**1,578**

A further analysis of allowances for impairment of loans and advances is as follows:

Group	2014 £000	2013 £000
Loans and advances to customers - UK Private Bank	4,355	3,973
Loan and advances to customers - Retail Bank - unsecured	34,056	27,060
At 31 December	**38,411**	**31,033**

24. Other assets

Group	2014 £000	2013 £000
Trade receivables	5,522	6,135
Repossessed collateral - held as inventory	3,742	3,543
Prepayments and accrued income	7,602	7,589
	16,866	**17,267**

Company	2014 £000	2013 £000
Trade receivables	732	731
Due from subsidiary undertakings	4,633	4,579
Prepayments and accrued income	107	105
	5,472	**5,415**

Land acquired through repossession of collateral which is subsequently held in the ordinary course of business with a view to develop and sell is accounted for as inventory.

25. Financial investments

Group	2014 £000	2013 £000
Financial investments comprise:		
- Securities (at fair value through profit and loss)	145	152
- Securities (available-for-sale)	1,132	1,823
Total financial investments	**1,277**	**1,975**

Unlisted securities

The Group has made equity investments in unlisted special purpose vehicles set up to acquire and enhance the value of commercial properties. These investments are of a medium term nature. There is no open market for these investments and therefore the Group has valued them using appropriate valuation methodologies, which include net asset valuations and discounted future cash flows.

The Directors intend to dispose of these assets when a suitable buyer has been identified and when the Directors believe that the underlying assets have reached their maximum value.

Company	2014 £000	2013 £000
Financial investments comprise:		
- Securities (at fair value through profit and loss)	145	152
- Securities (available-for-sale)	13	13
Total financial investments	158	165

26. Deferred taxation

The deferred tax asset comprises:

Group	2014 £000	2013 £000
Unrealised surplus on revaluation of freehold property	180	173
Accelerated capital allowances and other short-term timing differences	215	(160)
Fair value of derivatives	-	100
Tax losses	2,193	2,742
Deferred tax asset	**2,588**	**2,855**
At 1 January	2,855	4,423
On acquisition of V12/ELL	-	(960)
Revaluation reserve	-	242
Profit and loss account - accelerated capital allowances and other short-term timing differences	282	589
Profit and loss account - tax losses	(549)	(1,439)
Deferred tax asset at 31 December	**2,588**	**2,855**

The above balance is made up as follows:

Group	2014 £000	2013 £000
Deferred tax assets	2,588	3,954
Deferred tax liabilities	-	(1,099)
	2,588	**2,855**

Company	2014 £000	2013 £000
Accelerated capital allowances and other short-term timing differences	406	441
Deferred tax asset	**406**	**441**
At 1 January	441	447
Profit and loss account - accelerated capital allowances and other short-term timing differences	(35)	(6)
Deferred tax asset at 31 December	**406**	**441**

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.

The UK corporation tax rate reduced from 24% to 23% with effect from 1 April 2013 and to 21% with effect from 1 April 2014. On 2 July 2013 the Government substantively enacted a further reduction to the UK corporation tax rate to 20% from 1 April 2015. Deferred tax has been calculated based on a rate of 20% to the extent that the related temporary or timing differences are expected to reverse.

27. Investment in associate

	2014	2013

Group	£000	£000
Investment in associate	**943**	**943**

On 11 October 2013, Arbuthnot Latham & Co., Ltd together with Praxis (Holding) Limited, formed a special purpose vehicle in the form of a separate legal entity (Tarn Crag Limited). The purpose of this legal entity is to refurbish and re-let a property in Glasgow, with the intention to exit via a sale to an institutional investor in circa 5 years time. The investment is accounted for using the equity method.

During the year the associate recorded a loss of £87k. Due to the fact that the associate made a profit in the last quarter and the fact that the value of the outstanding loan notes (including accrued interest) exceeded the investment in associate, no loss has been recorded at Group level and the carrying value was left at cost. The summarised Statement of Financial Position of the associate is set out below:

At 31 December 2014	2014 £000	2013 £000
ASSETS		
Cash and balances at central banks	1,724	320
Other assets	8	-
Property, plant and equipment	10,416	10,580
	12,148	**10,900**
EQUITY AND LIABILITIES		
Deposits from banks	9,970	9,500
Other liabilities	865	-
Debt securities in issue	1,400	1,400
Retained Earnings	(87)	-
	12,148	**10,900**

(a) Significant restrictions

Praxis (Holding) Ltd receives £0.1m per annum in its capacity as property manager. Arbuthnot Latham & Co., Ltd subscribed to £0.9m of loan notes and Praxis (Holding) Ltd subscribed to £0.5m of loan notes, which carry interest at 15% and is rolled up and payable on redemption. The bank debt and interest and the loan notes and interest thereon as well as the property management fees need to be repaid, before further distributions to shareholders can take place.

(b) Risks associated with interests

Arbuthnot Latham & Co., Ltd agreed to subscribe to a further £0.2m of loan notes when required to fund working capital.

28. Intangible assets

Group	Goodwill £000	Computer software £000	Other intangibles £000	Total £000
Cost				
At 1 January 2013	1,991	5,632	5,115	12,738
Additions	-	948	214	1,162
On acquisition of V12 & DMS (note 12 and 43)	704	5,414	2,200	8,318
Disposals	-	(1,900)	-	(1,900)
At 31 December 2013	**2,695**	**10,094**	**7,529**	**20,318**
Additions	-	1,214	-	1,214
Disposals	-	(1,838)	-	(1,838)
At 31 December 2014	**2,695**	**9,470**	**7,529**	**19,694**
Accumulated amortisation				
At 1 January 2013	-	(3,717)	(695)	(4,412)
Amortisation charge	-	(1,307)	(1,496)	(2,803)
At 31 December 2013	-	**(5,024)**	**(2,191)**	**(7,215)**

Amortisation charge	-	(1,482)	(1,517)	(2,999)
Disposals	-	1,838	-	1,838
At 31 December 2014	-	**(4,668)**	**(3,708)**	**(8,376)**

Net book amount				
At 31 December 2013	2,695	5,070	5,338	13,103
At 31 December 2014	2,695	4,802	3,821	11,318

Company	Computer software £000
Cost	
At 1 January 2013	40
At 31 December 2013	**40**
At 31 December 2014	**40**
Accumulated amortisation	
At 1 January 2013	(20)
Amortisation charge	(8)
At 31 December 2013	**(28)**
Amortisation charge	(8)
At 31 December 2014	**(36)**
Net book amount	
At 31 December 2013	12
At 31 December 2014	4

Refer to note 4.2 for assumptions used in the impairment review of goodwill.

29. Property, plant and equipment

Group	Freehold land and buildings £000	Leasehold improvements £000	Computer and other equipment £000	Total £000
Cost or valuation				
At 1 January 2013	21,639	513	11,792	33,944
Additions	-	122	624	746
On acquisition of V12 & DMS (note 12 and 43)	-	9	78	87
Disposals	(16,789)	(16)	(461)	(17,266)
At 31 December 2013	**4,850**	**628**	**12,033**	**17,511**
Additions	2,638	2,926	2,239	7,803
Disposals	-	-	(541)	(541)
At 31 December 2014	**7,488**	**3,554**	**13,731**	**24,773**
Accumulated depreciation				
At 1 January 2013	(884)	(79)	(10,494)	(11,457)
Depreciation charge	(301)	(168)	(546)	(1,015)
Disposals	345	-	138	483
At 31 December 2013	**(840)**	**(247)**	**(10,902)**	**(11,989)**
Depreciation charge	(89)	(234)	(485)	(808)
Disposals	-	-	499	499
At 31 December 2014	**(929)**	**(481)**	**(10,888)**	**(12,298)**
Net book amount				

At 31 December 2013	**4,010**	**381**	**1,131**	**5,522**
At 31 December 2014	**6,559**	**3,073**	**2,843**	**12,475**

The Group's opening freehold property is the Registered Office of the Company and Secure Trust Bank and is fully utilised for the Group's own purposes. During the year, Secure Trust Bank acquired a further freehold property, Secure Trust House, Boston Drive, Bourne End SL8 5YS. The majority of this property will be used for the Group's own purposes. However, the legacy tenant of the property has remained in situ. The cost of the property was £2.7m.

The directors have assessed the value of the Group's freehold property at the year end through comparison to current rental yields on similar properties in the same area and do not believe that the fair value of freehold property is materially different from its carrying value.

The carrying value of freehold land not depreciated is £1.7m (2013: £0.5m). The historical cost of freehold property included at valuation is as follows:

Group	2014 £000	2013 £000
Cost	7,470	4,832
Accumulated depreciation	(1,153)	(1,063)
Net book amount	**6,317**	**3,769**

Company	Computer and other equipment £000
Cost or valuation	
At 1 January 2013	202
Additions	1
At 31 December 2013	**203**
Additions	1
At 31 December 2014	**204**
Accumulated depreciation	
At 1 January 2013	(68)
Depreciation charge	(5)
At 31 December 2013	**(73)**
Depreciation charge	(4)
At 31 December 2014	**(77)**
Net book amount	
At 31 December 2013	**130**
At 31 December 2014	**127**

30. Deposits from banks

Group	2014 £000	2013 £000
Deposits from other banks	**27,657**	**2,003**

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

31. Deposits from customers

Group	2014 £000	2013 £000

Current/demand accounts	354,097	306,955
Notice accounts	295,347	265,448
Term deposits	544,841	385,388
	1,194,285	**957,791**

Included in customer accounts are deposits of £4,195,000 (2013: £9,947,000) held as collateral for loans and advances. The fair value of these deposits approximates the carrying value.

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

32. Other liabilities

Group	2014 £000	2013 £000
Trade payables	12,024	10,152
Accruals and deferred income	22,960	20,865
	34,984	**31,017**

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

Within trade payables at 31 December 2014 there is £4.3m (2013: £4.3m) collateral held from RentSmart. STB buys assets which are then leased to customers of RentSmart and STB pays RentSmart a commission, which is recognised within operating income. In return, RentSmart continues to operate the agreement, retains the credit risk and provides STB with a collateral amount that is based upon the balance of customer receivables and expected new agreements during the following month.

Within accruals and deferred income there is £6.6m relating to accrued interest payable (2013: £5.1m).

Company	£000	£000
Due to subsidiary undertakings	3,028	7,768
Accruals and deferred income	1,104	1,261
	4,132	**9,029**

33. Debt securities in issue

Group and Company	2014 £000	2013 £000
Subordinated loan notes 2035	**11,448**	**12,232**

The subordinated loan notes 2035 were issued on 7 November 2005 and are denominated in Euros. The principal amount outstanding at 31 December 2014 was €15,000,000 (2013: €15,000,000). The notes carry interest at 3% over the interbank rate for three month deposits in euros and are repayable at par in August 2035 unless redeemed or repurchased earlier by the Company.

The contractual undiscounted amount that will be required to be paid at maturity of the above debt securities is €15,000,000.

Given the fact that the Group has never been subject to a published credit rating by any of the relevant agencies and the notes in issue are not quoted, it is not considered possible to approximate a fair value for these notes.

34. Contingent liabilities and commitments

Capital commitments

At 31 December 2014, the Group had capital commitments of £nil (2013: £nil) in respect of equipment purchases.

Credit commitments

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

	2014	2013

Group	£000	£000
Guarantees and other contingent liabilities	714	805
Commitments to extend credit:		
- Original term to maturity of one year or less	139,423	37,094
	140,137	**37,899**

Operating lease commitments

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

	2014	2013
Group	£000	£000
Expiring:		
Within 1 year	3,766	4,672
Later than 1 year and no later than 5 years	8,715	9,636
Later than 5 years	8,876	19,351
	21,357	**33,659**

In 2013, Arbuthnot Latham & Co., Ltd entered into a 16 year lease on 7 Wilson Street (the head office for Arbuthnot Banking Group PLC, the principal location for Arbuthnot Latham & Co., Ltd and London offices for Secure Trust Bank PLC), with a break at 11 years and rent reviews after 5, 10 and 15 years. The initial rent is £1.75 million per annum. This lease forms the most significant part of the operating leases disclosed in the table above.

35. Share capital

	Number of shares	Ordinary share capital	Share premium
Group and Company		£000	£000
At 1 January 2012	15,279,322	153	-
At 31 December 2013 & December 2014	**15,279,322**	**153**	-

The total authorised number of ordinary shares at 31 December 2014 and 31 December 2013 was 418,439,000 with a par value of 1 pence per share (2013: 1 pence per share). At 31 December 2014 the Company held 390,274 shares (2013: 390,274) in treasury.

36. Reserves and retained earnings

	2014	2013
Group	£000	£000
Revaluation reserve	98	191
Capital redemption reserve	20	20
Available-for-sale reserve	(250)	(169)
Cash flow hedging reserve	-	(378)
Treasury shares	(1,131)	(1,131)
Retained earnings	114,641	67,901
Total reserves at 31 December	**113,378**	**66,434**

The revaluation reserve represents the unrealised change in the fair value of properties.

The capital redemption reserve represents a reserve created after the Company purchased its own shares which resulted in a reduction of share capital.

	2014	2013
Company	£000	£000
Capital redemption reserve	20	20
Available-for-sale reserve	-	81
Treasury shares	(1,131)	(1,131)
Retained earnings	50,755	31,325
Total reserves as 31 December	**49,644**	**30,295**

37. Share-based payment options

Company
The Company had the following equity settled share-based payment awards outstanding at 31 December 2014:

• On 16 April 2013 Mr. Salmon was granted an option to subscribe for 100,000 ordinary 1p shares in the Company between April 2016 and April 2021 at 930p. The fair value of the option at grant date was £83k.

• On 16 April 2013 Mr. Cobb was granted an option to subscribe for 50,000 ordinary 1p shares in the Company between April 2016 and April 2021 at 930p. The fair value of the option at grant date was £41k.

• On 1 April 2014 Mr Fleming was granted an option to subscribe for 50,000 ordinary 1p shares in the Company between April 2017 and April 2022 at 1185p. The fair value of these shares at grant date was £53k.

There are no other vesting conditions for these awards.

Group
Apart from the share-based payment awards for the Company listed above, the Group also include awards allocated under the Secure Trust Bank Share Option Scheme, which was established on 17 October 2011 and entitles key management personnel and senior employees of Secure Trust Bank PLC to purchase shares in that company.

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

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

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

Options are forfeited if they remain unexercised after a period of more than 10 years from the date of grant. If the participant ceases to be employed by the Group by reason of injury, disability, ill-health or redundancy; or because his employing company ceases to be a shareholder of the Group; or because his employing business is being transferred out of the Group, his option may be exercised within 6 months after such cessation. In the event of the death of a participant, the personal representatives of a participant may exercise an option, to the extent exercisable at the date of death, within 6 months after the death of the participant.
On cessation of employment for any other reason (or when a participant serves, or has been served with, notice of termination of such employment), the option will lapse although the Remuneration Committee has discretion to allow the exercise of the option for a period not exceeding 6 months from the date of such cessation.

In such circumstances, the performance conditions may be modified or waived as the Remuneration Committee, acting fairly and reasonably and taking due consideration of the circumstances, thinks fit. The number of Ordinary Shares which can be acquired on exercise will be pro-rated on a time elapsed basis, unless the Remuneration Committee, acting fairly and reasonably and taking due consideration of the circumstances, decides otherwise. In determining whether to exercise its discretion in these respects, the Remuneration Committee must satisfy itself that the early exercise of an option does not constitute a reward for failure.

On 2 November 2011 934,998 share options were granted at an exercise price of 720p per share. Approximately half of the share options were exercisable on 2 November 2014 with the remainder being exercisable on 2 November 2016, being classed as share option tranches SOS1 and SOS2 respectively. A total of 14,167 share options have been forfeited since their grant date. At the grant date these share options had a fair value of £1.6m. Of the share options granted on 2 November 2011, the following remaining share options (SOS2) were to Group directors:

- Mr. Lynam was granted an option to subscribe for 141,667 shares at 720p between 2 November 2016 and 1 November 2021.

- Mr. Salmon was granted an option to subscribe for 141,667 shares at 720p between 2 November 2016 and 1 November 2021.

The Share Option Scheme is an equity settled scheme. The original grant date valuation was determined to be £1.69 per option and this valuation has been used in the calculation. An attrition rate of option holders has been assumed of nil for the second tranche of share options. Due to the options being fully conditional knockout options, a probability of pay-out has been assigned based on the likelihood of meeting the performance criteria, which is 95% for SOS2. The Company incurred an expense in relation to share based payments of £1.5m during 2014.

Summary details of the Secure Trust Bank Share Option Scheme are shown in the table below:

	31 December 2014	
	No.	SOS2
Key Management Personnel	3	318,751
Senior Management	5	141,668
Share Options in Issue	**8**	**460,419**
Exercise Price (£)		7.20
Value per option (£)		1.69
Total included in reserves (£000)		**778**
Probability of payout		95%
Assumed value of share options on exercise date (£000)		**739**
Value of share options at 31 December 2014 (£000)		**468**

38. Dividends per share

Final dividends are not accounted for until they have been approved at the Annual General Meeting. At the meeting on 14 May 2015, a dividend in respect of 2014 of 16 pence per share (2013: actual dividend 15 pence per share) amounting to a total of £2.38m (2013: actual £2.23m) is to be proposed. The financial statements for the year ended 31 December 2014 do not reflect the final dividend which will be accounted for in shareholders' equity as an appropriation of retained profits in the year ending 31 December 2015.

39. Cash and cash equivalents

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

Group	2014 £000	2013 £000
Cash and balances at central banks (Note 18)	115,938	193,046
Loans and advances to banks (Note 19)	31,844	105,061
	147,782	**298,107**

Company	2014 £000	2013 £000
Due from subsidiary undertakings - bank balances	**19,244**	**16,551**

40. Related party transactions

Related parties of the Company and Group include subsidiaries, Key Management Personnel, close family members of Key Management Personnel and entities which are controlled, jointly controlled or significantly influenced, or for which significant voting power is held, by Key Management Personnel or their close family members.

Other than the directors' remuneration, payment of dividends and transactions with subsidiaries, there were no related party transactions within the Parent Company. A number of banking transactions are entered into with related parties in the normal course of business on normal commercial terms. These include loans and deposits. Except for the directors' disclosures, there were no other Key Management Personnel disclosures; therefore the tables below relate to directors.

Group	2014 £000	2013 £000
Loans		

Loans outstanding at 1 January	5,188	2,648
Loans advanced during the year	1,083	3,160
Loan repayments during the year	(768)	(620)
Loans outstanding at 31 December	**5,503**	**5,188**
Interest income earned	**255**	**138**

The loans to directors are secured on property, shares or cash and bear interest at rates linked to base rate. No provisions have been recognised in respect of loans given to related parties (2013: £nil). Details of directors' remuneration are given in the Remuneration Report. The Directors do not believe that any other key management disclosures are required.

Group	2014 £000	2013 £000
Deposits		
Deposits at 1 January	2,522	1,767
Deposits placed during the year	3,531	3,237
Deposits repaid during the year	(3,388)	(2,482)
Deposits at 31 December	**2,665**	**2,522**
Interest expense on deposits	**15**	**20**

Details of principal subsidiaries are given in Note 41. Transactions and balances with subsidiaries are shown below:

	2014		2013	
	Highest balance during the year	Balance at 31 December	Highest balance during the year	Balance at 31 December
	£000	£000	£000	£000
ASSETS				
Due from subsidiary undertakings	34,808	23,877	21,130	21,130
Shares in subsidiary undertakings	39,966	39,966	31,847	30,995
Total assets	**74,774**	**63,843**	**52,977**	**52,125**
LIABILITIES				
Due to subsidiary undertakings	3,878	2,872	8,003	7,768
Total liabilities	**3,878**	**2,872**	**8,003**	**7,768**
Issued guarantee contracts	2,500	-	2,500	2,500

The disclosure of the year-end balance and the highest balance during the year is considered the most meaningful information to represent the transactions during the year. The above transactions arose during the normal course of business and are on substantially the same terms as for comparable transactions with third parties.

41. Investment in subsidiary undertakings

Company	Investment at cost £000	Impairment provisions £000	Net £000
At 1 January 2013	33,411	(2,564)	30,847
Capital contribution in Arbuthnot Latham & Co., Limited	1,000	-	1,000
Sale of shares in Secure Trust Bank PLC	(852)	-	(852)
At 31 December 2013	**33,559**	**(2,564)**	**30,995**
Capital contribution in Arbuthnot Latham & Co., Limited	10,500	-	10,500
Sale of shares in Secure Trust Bank PLC	(1,529)	-	(1,529)
At 31 December 2014	**42,530**	**(2,564)**	**39,966**

Company	2014 £000	2013 £000
Subsidiary undertakings:		

Banks	37,666	28,695
Other	2,300	2,300
Total	**39,966**	**30,995**

(a) List of significant subsidiaries

The table below provides details of the significant subsidiaries of Arbuthnot Banking Group PLC at 31 December:

	Country of incorporation	Ownership interest % 2014	2013	Principal activity
Secure Trust Bank PLC	UK	52	67	Retail banking
Arbuthnot Latham & Co., Limited	UK	100	100	Private banking

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

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

(b) Non-controlling interests in subsidiaries

The only subsidiary in the Group with non-controlling interests is Secure Trust Bank PLC, with external parties having 48.1% (2013: 33%) ownership interests in the bank. Summary financial information on the subsidiary is shown in the table below.

Summary of profit	Year ended 31 December 2014 £000	Year ended 31 December 2013 £000
Operating income	97,897	78,982
Profit after income tax	20,455	12,253
Total comprehensive income	**20,831**	**12,253**
Profit allocated to non-controlling interests	**8,450**	**3,569**

Summary of assets and liabilities	31 December 2014 £000	31 December 2013 £000
Loans and advances to customers	622,495	391,028
Other assets	159,769	131,647
Liabilities	(657,402)	(461,053)
Net assets	**124,862**	**61,622**
Carrying amount of non-controlling interests	**60,038**	**20,327**

Summary of cash flows	Year ended 31 December 2014 £000	Year ended 31 December 2013 £000
Cash flows from operating activities	(21,356)	43,449
Cash flows from investing activities	(4,533)	(38,255)
Cash flows from financing activities, before dividends to non-controlling interests	52,073	-
Cash flows from financing activities - cash dividends to non-controlling interests	(3,752)	(2,658)
Net increase in cash and cash equivalents	**22,432**	**2,536**

(c) Significant restrictions

The Group does not have significant restrictions on its ability to access or use its assets and settle its liabilities other than those resulting from the supervisory frameworks within which banking subsidiaries operate. The supervisory frameworks require banking subsidiaries to keep certain levels of regulatory capital and liquid assets, limit their exposure to other parts of the Group and comply with other ratios. The carrying amounts of banking subsidiaries' assets and liabilities are £1,452m and £1,268m respectively (2013: £1,096m and £994m respectively).

(d) Risks associated with interests
During the year Arbuthnot Banking Group PLC made a £10.5m capital contribution to Arbuthnot Latham & Co., Ltd. The contribution was made to assist the private bank during a period of growth (which included the acquisition of a loan book at fair value of £106m) to ensure that all regulatory capital requirements were met.

(e) Changes in ownership interest
On 9 July, Secure Trust Bank PLC issued 2,083,333 new shares to external shareholders and at the same time Arbuthnot Banking Group PLC sold 1,041,667 shares, thereby reducing its shareholding in Secure Trust Bank PLC from 67% to 53.3%. The effect of these transactions on the Group's reserves can be seen in the Consolidated Statement of Changes in Equity. As can been seen from the table under paragraph (b) above, the full year equivalent profit attributable to equity holders of the Group has therefore reduced from £13.7m to £10.9m due to these transactions.

On 4 November, 460,416 share options issued by Secure Trust Bank, under its equity settled share option scheme were exercised (see Note 37). This resulted in the shareholding in Secure Trust Bank PLC reducing from 53.3% to 51.9%. The effect of the exercise of the share options on the Group's reserves can be seen in the Consolidated Statement of Changes in Equity. As can been seen from the table under paragraph (b) above, the full year equivalent profit attributable to equity holders of the Group has therefore reduced from £10.9m to £10.6m due to these shares being issued.

42. Operating segments

The Group is organised into three main operating segments, arranged over two separate companies with each having its own specialised banking service, as disclosed below:

1) Retail banking — incorporating household cash management, personal lending and banking and insurance services.
2) UK Private banking — incorporating private banking and wealth management.
3) Group Centre – ABG Group Centre management

Transactions between the operating segments are on normal commercial terms. Centrally incurred expenses are charged to operating segments on an appropriate pro-rata basis. Segment assets and liabilities comprise operating assets and liabilities, being the majority of the balance sheet.

	Continuing operations			
Year ended 31 December 2014	Retail banking £000	UK Private banking £000	Group Centre £000	**Total £000**
Interest revenue	93,542	24,303	155	**118,000**
Inter-segment revenue	(51)	(177)	(148)	**(376)**
Interest revenue from external customers	93,491	24,126	7	**117,624**
Fee and commission income	20,204	9,759	-	**29,963**
Revenue from external customers	**113,695**	**33,885**	**7**	**147,587**
Interest expense	(14,170)	(4,916)	116	**(18,970)**
Subordinated loan note interest	-	-	(401)	**(401)**
Fee and commission expense	(1,679)	(251)	-	**(1,930)**
Segment operating income	97,897	28,895	(506)	**126,286**
Impairment losses	(15,288)	(3,378)	75	**(18,591)**
Other income	-	2,088	(2,088)	-
Operating expenses	(56,270)	(23,977)	(4,933)	**(85,180)**
Segment profit / (loss) before tax	26,339	3,628	(7,452)	**22,515**
Income tax (expense) / income	(5,672)	209	(36)	**(5,499)**
Segment profit / (loss) after tax	**20,667**	**3,837**	**(7,488)**	**17,016**
Loans and advances to customers	622,495	536,488	-	**1,158,983**
Other assets	159,504	162,984	(34,849)	**287,639**
Segment total assets	**781,999**	**699,472**	**(34,849)**	**1,446,622**
Customer deposits	(608,418)	(585,867)	-	**(1,194,285)**

Other liabilities	(48,719)	(73,636)	43,587	**(78,768)**
Segment total liabilities	**(657,137)**	**(659,503)**	**43,587**	**(1,273,053)**
Other segment items:				
Capital expenditure	(4,533)	(4,482)	(2)	**(9,017)**
Depreciation and amortisation	(3,087)	(708)	(12)	**(3,807)**

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

	Continuing operations			
Year ended 31 December 2013	Retail banking £000	UK Private banking £000	Group Centre £000	**Total £000**
Interest revenue	73,790	19,712	101	**93,603**
Inter-segment revenue	(62)	(209)	(3)	**(274)**
Interest revenue from external customers	73,728	19,503	98	**93,329**
Fee and commission income	22,745	9,071	-	**31,816**
Revenue from external customers	**96,473**	**28,574**	**98**	**125,145**
Interest expense	(12,905)	(6,934)	(22)	**(19,861)**
Subordinated loan note interest	-	-	(418)	**(418)**
Fee and commission expense	(4,648)	(198)	-	**(4,846)**
Segment operating income	78,982	21,651	(613)	**100,020**
Impairment losses	(15,644)	(2,914)	(249)	**(18,807)**
Gain from a bargain purchase	413	-	-	**413**
Gain on sale of building	-	6,535	-	**6,535**
Other income	-	3,765	(2,582)	**1,183**
Operating expenses	(46,558)	(21,309)	(5,764)	**(73,631)**
Segment profit / (loss) before tax	17,193	7,728	(9,208)	**15,713**
Income tax (expense) / income	(4,832)	794	(160)	**(4,198)**
Segment profit / (loss) after tax	**12,361**	**8,522**	**(9,368)**	**11,515**
Loans and advances to customers	391,028	340,981	-	**732,009**
Other assets	134,865	278,692	(52,712)	**360,845**
Segment total assets	**525,893**	**619,673**	**(52,712)**	**1,092,854**
Customer deposits	(436,608)	(521,183)	-	**(957,791)**
Other liabilities	(26,915)	(71,437)	50,203	**(48,149)**
Segment total liabilities	**(463,523)**	**(592,620)**	**50,203**	**(1,005,940)**
Other segment items:				
Capital expenditure	(1,159)	(747)	(2)	**(1,908)**
Depreciation and amortisation	(3,103)	(702)	(13)	**(3,818)**

Segment profit is shown prior to any intra-group eliminations.

The UK private bank opened a branch in Dubai in the year, which generated £613k (2013: £11k) fee income and had operating costs of £1,593k (2013: £890k). Other than the Dubai branch opened in 2013, all operations of the Group are conducted wholly within the United Kingdom and geographical information is therefore not presented.

43. Acquisition of V12 Finance Group Limited

On 2 January 2013 Secure Trust Bank acquired 100% of the ordinary share capital of V12 Finance Group Limited, which along with its wholly owned subsidiaries V12 Retail Finance Limited and V12 Personal Finance Limited provide retail loans, typically for 12 months on an unsecured basis to consumers who are predominantly classified as prime borrowers. The cash consideration for the companies of £3.5 million was paid on completion. The acquisition is complementary to the Group's existing retail finance proposition and the V12 management team will continue in the business.

As part of the acquisition Secure Trust Bank provided funding such that the V12 Finance Group could redeem £7.0 million of subordinated debt and repay existing bank finance amounting to £28.1 million.

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

The Consolidated Statement of Comprehensive Income includes revenue of £5.1 million and a profit before tax of £0.5 million attributable to V12.

The following assets were acquired as part of the acquisition of the V12 Finance Group Limited and its wholly owned subsidiary entities:

	Acquired assets / liabilities £000	Fair value adjustments £000	Recognised values on acquisition £000
Cash	150	-	150
Loans and advances to customers	32,744	-	32,744
Other assets	619	-	619
Deferred tax assets	292	-	292
Intangible assets	17	5,443	5,460
Property, plant and equipment	176	-	176
Total assets	**33,998**	**5,443**	**39,441**
Loans and debt securities	35,076	-	35,076
Other liabilities	276	-	276
Deferred tax liability	34	1,252	1,286
Total liabilities	**35,386**	**1,252**	**36,638**
Net identifiable (liabilities)/assets	**(1,388)**	**4,191**	**2,803**
Consideration			3,507
Goodwill arising on acquisition			**704**

44. Ultimate controlling party

The Company regards Henry Angest, the Group Chairman and Chief Executive Officer, who has a beneficial interest in 53.7% of the issued share capital of the Company, as the ultimate controlling party. Details of his remuneration are given in the Remuneration Report and Note 40 of the consolidated financial statements includes related party transactions with Mr Angest.

45. Events after the balance sheet date

There were no material post balance sheet events.

Five Year Summary

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

	2010	2011	2012	2013	2014
	£000	£000	£000	£000	£000
Profit / (Loss) before tax *	5,104	5,116	12,593	15,713	22,515
Earnings per share					
Basic (p) **	25.0	(33.3)	52.6	51.9	56.5
Dividends per share (p) - ordinary	23.0	24.0	25.0	26.0	27.0
- special	-	-	-	18.0	-

Other KPI:

	2010	2011	2012	2013	2014
	£000	£000	£000	£000	£000
Net asset value per share (p)	227.7	312.2	449.3	570.5	1,136.0

* The profit before tax for 2011 is shown as the results of continuing operations. The previous years have not been restated but the contribution of the discontinued operation can be seen in the segmental analysis for those historical years.

** The earnings per share includes the effect of discontinued operations in 2011.