



Press Release
For Immediate Release

17 March 2016

ARBUTHNOT BANKING GROUP ("Arbuthnot", "the Group" or "ABG")
Audited Final Results for the year to 31 December, 2015

Diversification of business streams underway

Arbuthnot Banking Group today announces a record profit before tax of £34.2m including the results of Everyday Loans, a 52% increase on the prior year.

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

The agreed disposal of Everyday Loans announced on 4 December 2015 is progressing as planned and ownership is expected to transfer before the end of April 2016. The Board is proposing a special dividend for 2016 of 25p, which is contingent on the completion of the transaction at which time further details will be announced.*

FINANCIAL HIGHLIGHTS

- Statutory Profit before tax on continuing operations of £22.6m (2014: £13.9m)
- Profit before tax of £34.2m (2014: £22.5m) including the results of Everyday Loans
- Special dividend of 25p is proposed dependent on the completion of Everyday Loans disposal*
- Operating income grew by 38% to £126.7m (2014: £92m)
- Customer lending exceeded £1.5bn for the first time; 2015: £1.6bn (2014: £1.2bn)
- Positive operating leverage of 8% (2014: 13%)* **
- Earnings per share of 86.3p (2014: 58.6p)
- Final dividend per share of 17p (2014: 16p), an increase of 6%
- Total dividend per share of 29p (2014: 27p), an increase of 7%
- Net assets per share of 1,253p (2014: 1136p), an increase of 10%

OPERATIONAL HIGHLIGHTS

Private Banking - Arbuthnot Latham

- Profit before tax of £6m (2014: £3.6m), an increase of 65%
- Customer loans up 15% to £619m (2014: £536m)
- Customer deposits grew 53% to £897m (2014: £586m)
- Assets under management increased 11% to £739m (2014: £666m)
- Purchased mortgage portfolio performing well and now eligible for use in the Funding for Lending Scheme

Retail Banking - Secure Trust Bank

- (a) Profit before tax of £36.8m (2014: £26.3m), which includes the results of Everyday Loans
- (b) Customer lending balances increased by 73% to £1.1bn including ELL (2014: £0.6bn)
- (c) Total customer numbers increased to 570,759 (2014: 429,507)
- (d) Good progress in the development of the SME lending businesses
- (e) Disposal of Everyday Loans agreed to Non Standard Finance for £127m, realising an expected gain of £115m

Commenting on the results, Sir Henry Angest, Chairman and Chief Executive of Arbuthnot, said: "This has been another good year for the Group with both Banks performing well. With the disposal of Everyday Loans we will have capitalised the future earnings of our highest risk lending and strengthened the Group's resources to support future growth."

*Completion includes 1) Regulatory approval of the change of control, 2) transfer of ownership and 3) recognition of the gain in the regulatory capital base of the Group.

**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

Sir Henry Angest, Chairman and Chief Executive
Andrew Salmon, Chief Operating Officer
James Cobb, Group Finance Director
David Marshall, Director of Communications

0207 012 2400

Canaccord Genuity Ltd (Nominated Advisor)

Sunil Duggal

0207 665 4500

Numis Securities Ltd (Broker)

Chris Wilkinson

0207 260 1000

Bell Pottinger (Financial PR)

Ben Woodford
Dan de Belder

0203 772 2566

The 2015 Annual Report and Notice of Meeting will be posted and available on the Arbuthnot Banking Group website <http://www.arbuthnotgroup.com> on or before 8 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 | Re-presented* | |
|--|------|------------------------|---------------|
| | | Year ended 31 December | |
| | | 2015 | 2014 |
| | | £000 | £000 |
| Interest income | 8 | 133,032 | 87,398 |
| Interest expense | | (29,339) | (19,371) |
| Net interest income | | 103,693 | 68,027 |
| Fee and commission income | 9 | 26,866 | 25,841 |
| Fee and commission expense | | (3,866) | (1,819) |
| Net fee and commission income | | 23,000 | 24,022 |
| Operating income | | 126,693 | 92,049 |
| Net impairment loss on financial assets | 10 | (18,066) | (11,953) |
| Operating expenses | 12 | (86,059) | (66,165) |
| Profit before tax from continuing operations | | 22,568 | 13,931 |
| Income tax expense | 14 | (5,436) | (3,444) |
| Profit after tax from continuing operations | | 17,132 | 10,487 |
| Profit from discontinued operations after tax | 11 | 9,392 | 6,529 |
| Profit for the year | | 26,524 | 17,016 |
| 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 | | | |
| - Net amount transferred to profit and loss | | - | 378 |
| Available-for-sale reserve | | 1,559 | (81) |
| Tax on other comprehensive income | | (262) | - |
| Other comprehensive income for the period, net of tax | | 1,297 | 295 |

| | | | |
|---|-----------|---------------|---------------|
| Total comprehensive income for the period | | 27,821 | 17,311 |
| Profit attributable to: | | | |
| Equity holders of the Company | | 12,726 | 8,634 |
| Non-controlling interests | | 13,798 | 8,382 |
| Profit for the year | | 26,524 | 17,016 |
| Total comprehensive income attributable to: | | | |
| Equity holders of the Company | | 14,023 | 8,677 |
| Non-controlling interests | | 13,798 | 8,634 |
| Total comprehensive income for the period | | 27,821 | 17,311 |
| Earnings per share for profit attributable to the equity holders of the Company during the year (expressed in pence per share): | | | |
| Basic earnings per share - Continuing operations | 15 | 53.3 | 32.4 |
| Basic earnings per share - Discontinuing operations | 15 | 33.1 | 26.1 |
| Basic earnings per share | 15 | 86.3 | 58.6 |
| Diluted earnings per share - Continuing operations | 15 | 51.3 | 28.3 |
| Diluted earnings per share - Discontinuing operations | 15 | 32.1 | 24.5 |
| Diluted earnings per share | 15 | 83.3 | 52.8 |

* Prior year numbers have been re-presented for discontinuing operations (see note 11).

Consolidated statement of financial position

| | | At 31 December | |
|--|------|------------------|------------------|
| | | 2015 | 2014 |
| | Note | £000 | £000 |
| ASSETS | | | |
| Cash and balances at central banks | 16 | 368,611 | 115,938 |
| Loans and advances to banks | 17 | 28,578 | 31,844 |
| Debt securities held-to-maturity | 18 | 87,728 | 91,683 |
| Assets classified as held for sale | 11 | 118,456 | - |
| Derivative financial instruments | 19 | 1,490 | 2,707 |
| Loans and advances to customers | 20 | 1,579,512 | 1,158,983 |
| Other assets | 22 | 16,894 | 16,866 |
| Financial investments | 23 | 2,685 | 1,277 |
| Deferred tax asset | 24 | 1,784 | 2,588 |
| Investment in associate | 25 | 943 | 943 |
| Intangible assets | 26 | 10,874 | 11,318 |
| Property, plant and equipment | 27 | 14,004 | 12,475 |
| Total assets | | 2,231,559 | 1,446,622 |
| EQUITY AND LIABILITIES | | | |
| Equity attributable to owners of the parent | | | |
| Share capital | 33 | 153 | 153 |
| Retained earnings | 34 | 123,330 | 114,641 |
| Other reserves | 34 | 34 | (1,263) |
| Non-controlling interests | | 67,887 | 60,038 |
| Total equity | | 191,404 | 173,569 |
| LIABILITIES | | | |
| Deposits from banks | 28 | 55,305 | 27,657 |
| Derivative financial instruments | 19 | 135 | 1,067 |
| Deposits from customers | 29 | 1,929,838 | 1,194,285 |
| Liabilities relating to assets classified as held for sale | 11 | 8,700 | - |
| Current tax liability | | 3,366 | 3,612 |
| Other liabilities | 30 | 31,977 | 34,984 |
| Debt securities in issue | 31 | 10,834 | 11,448 |
| Total liabilities | | 2,040,155 | 1,273,053 |
| Total equity and liabilities | | 2,231,559 | 1,446,622 |

Chairman's statement

I am pleased to report that Arbutnot Banking Group (“ABG” or “the Group”) has made a record profit before tax in 2015 of £34.2m (2014: £22.5m), which is an increase of 52%. Once again, I find myself bemused by the accounting rules. As a result of agreeing the sale of our consumer finance lending business, Everyday Loans (“ELL”), we are required to show its profits as discontinued in the 2015 report and as a result they are not included in the headline reported profit before tax of £22.6m. It is my belief that it understates the performance of the Group, as we have carefully managed this business throughout the year and this should be reflected in the headline profit measure.

The story of our ownership of ELL, I believe epitomises the essence of Arbutnot Banking Group. Our stable and supportive shareholder register has enabled us, over time, to take a long term view on our investment decisions and business strategies. This approach was best demonstrated by our cautious attitude to liquidity in the years leading up to the financial crisis, which meant we remained strong while others struggled to survive. At the height of the financial credit boom, we also recognised that the economic risk and reward had shifted in favour of brokers and introducers and away from lenders that had put their balance sheets at risk. Thus, contrary to the market, we ceased lending in the over competitive unsecured markets and instead referred our customers onto other lenders, including ELL. When the banking crisis occurred, the Group was well positioned not only to weather the storm, but more importantly, to prosper as the lending markets reopened at more appropriate levels of return.

We were able to complete two significant acquisitions of non-bank lenders that had suffered as a result of the withdrawal of liquidity from the market. In 2012 we were able to acquire ELL for £1, as we had the liquidity to refinance their book of approximately £64m. We returned it to a phase of growth. This involved not only increasing its balance sheet but also its geographical foot print, as it opened new branches. Now, at the end of 2015, we have agreed to sell the business to Non Standard Finance (“NSF”) for £127m, realising an expected profit of £115m, which will be recognised in 2016. This is on top of the earnings the business has contributed to the Group over the past three years.

We recognised that under our ownership ELL was not maximising its potential, as we were careful to restrict the interest rate levels charged to customers. The transaction made sense to both parties with NSF more experienced in this type of lending and better positioned to test other demographics of the market.

Once the transaction is completed, the gain will significantly increase the capital strength of the Group, which will allow our more mainstream banking activities to continue to grow at robust levels as our diversification strategy is maintained.

At the end of 2014, Arbutnot Latham purchased a portfolio of residential mortgages from the administrator of the Dunfermline Building Society. This portfolio has been successfully transferred to the ownership of the Bank and a new servicer has been appointed and is operating well. Recently, the portfolio was accepted into the Funding for Lending Scheme (“FLS”). We believe this to be the first acquired portfolio to be included in the scheme by the Bank of England. However, more importantly, the portfolio has performed according to our expectations.

Given the success of the transaction, we were keen to explore further opportunities that may exist in the market to acquire other portfolios. Accordingly, we had made good progress in negotiations to acquire a larger mortgage book. This process was brought to a sudden halt following the publication in December by the Basel Committee of its second proposal to revise the Standardised Capital Rules. Despite an extensive consultation of its first proposal and with many leading regulators stating that the intention of the revisions was not to increase overall capital levels in the system, these new proposals will not achieve this. In fact, the capital requirements of the transaction we were contemplating would nearly double under the new proposals.

I have always accepted that the Financial Services Industry has been highly regulated and we have managed our business accordingly. However, this example of how the regulatory environment can impact the business has led me to believe that, as new rules are developed, they should not be applied retrospectively to the back book. Rather, they should only be applicable to transactions or lending that takes place after they are implemented. This would allow the industry to take decisions with certainty on how rules will be applied without having to second guess regulatory developments that may take place in the future.

As a result of the decisive outcome of the General Election in May, we have detected an upsurge in customer sentiment across our businesses. However, this result also meant that a referendum will be held to determine the United Kingdom’s continued membership of the European Union. The City is a resilient and dynamic industry and I have no doubt that it will be able to flourish regardless of the final result of the ballot.

Private Banking – Arbutnot Latham & Co., Ltd

The Private Bank has reported a profit of £6m (2014: £3.6m), which represents an increase of 65%. However, importantly, the business has also taken several additional significant steps forward. The Bank originated £250m of new loans, an increase of 45% on the previous year and a new record. Meanwhile, it attracted on average 50 new clients per month, and our Dubai office not only broke even, it returned a small overall profit for the year, ahead of plan.

As part of the continued strengthening of the infrastructure of the Bank, new premises were occupied in London and in Exeter where we moved the business to larger and more modern offices. We have signed contracts with our preferred partner to implement our new banking system, which should be largely completed during 2016.

Retail Banking - Secure Trust Bank PLC

Our Retail Banking business has delivered a pre-tax profit including ELL of £36.8m (2014: £26.3m), which is an increase of 40%. However, excluding the profits from ELL, the Bank made £25.2m (2014: £ 17.8m), which is an increase of 42%. This higher growth rate reflects well on our strategy to diversify our business, in particular the investment we have made in SME lending. At the end of 2015 the combined lending balances of the SME divisions stood at £468m (2014: £143m), which is a robust growth rate in excess of 200%.

Our management philosophy of exercising prudence in respect of capital, funding and lending remains unchanged. The Bank continues to be well capitalised and liquid, with interest rate risk generally mitigated by matching the tenor of our lending assets and customer deposits.

Board Changes and Personnel

During the year the following changes to the ABG Board occurred. Ian Dewar joined on 1 August and Robert Wickham retired on 31 December after 22 years of loyal and distinguished service. I would like to thank my colleagues on the Board for their generous and continued support and for the dedication they have shown to the Group.

The results of the Group also reflect the hard work and commitment of the members of staff. On behalf of the Board I extend our thanks to all of them for their contribution in 2015.

Dividend

The Board is proposing a final dividend of 17p per share, an increase of 1p on last year. Along with the interim dividend of 12p, this combines to give a total dividend for the year of 29p (2014: 27p), an increase of 2p.

If approved, the dividend will be paid on 13 May 2016 to shareholders on the register at close of business on 15 April 2016.

The disposal of Everyday Loans is proceeding as expected. Once it has completed, the Board is also proposing a special dividend of 25p for 2016. This dividend is dependent on the completion of the transaction, which includes regulatory approval of changes of control, transfer of ownership and inclusion of the gain within the Group's capital resources. Details of the arrangements to pay this dividend will be announced once the transaction has been finalised.

Outlook

The global economic outlook has become increasingly uncertain. The collapse in the commodities market, in particular the oil price, has had a knock on impact in the equity markets.

The Federal Reserve Bank in the US has increased interest rates for the first time in ten years, but the other major economies do not look like following suit at present.

On top of this, the UK has the uncertainty of the outcome of the EU referendum. However, despite these headwinds, both our banks are well capitalised and highly liquid. They remain well positioned to continue their good progress and we are optimistic about their prospects.

Strategic Report

Business Review - Private Banking - Arbuthnot Latham

| | 2015 | 2014 |
|-------------------------|-----------|---------|
| Operating income | £35.1m | £28.9m |
| Other income | £1.9m | £2.1m |
| Operating expenses | £29.7m | £24.0m |
| Profit before tax | £6.0m | £3.6m |
| Customer loans | £618.9m | £536.5m |
| Customer deposits | £896.8m | £585.9m |
| Total assets | £1,004.4m | £699.5m |
| Assets under management | £738.8m | £665.9m |
| Customer net margin | 4.3% | 4.4% |
| Loan to deposit ratio | 69% | 92% |

Arbuthnot Latham & Co., Limited ("AL") has reported a profit before tax of £6m (2014: £3.6m), which is a robust rate of growth of 65%. Also, in line with the rapid expansion of the business, the Bank commenced its programme of enhancing its operational capabilities. The most significant is the replacement of its banking technology platform. As a result of this investment, the profits are stated after having incurred in excess of £1m of costs related to this project.

The business momentum within the Bank remained strong throughout the year, as it continued to take advantage of the opportunities that exist to grow its client base and volumes of business. The ability to offer a high quality relationship led service is attractive to clients and this resulted in a flow of, on average, over 50 new clients per month.

Customer loan balances closed the year at £619m (2014: £536m), an increase of 15%. The bespoke nature of many of the loan facilities reflects the objective of the Bank to support clients in the development and realisation of their entrepreneurial projects, where appropriate. The demand for such lending reached record levels for the Bank, with gross lending volumes reaching £250m (2014: £172m), which is an increase of 45% on the prior year.

The Bank continues to be funded by retail deposits with customer balances reaching £897m (2014: £586m), an increase of 53%. Investment assets under management grew by 11% to £739m (2014: £666m). The growth of each of these key metrics demonstrates the success of the strategy to develop the business against the background of a more stable economic environment.

In the latter part of the year, the Bank commenced an initiative to build a wider commercial banking business, initially driven by client demand to provide banking services for the corporate structures of entrepreneurial clients in the media sector. The Bank intends to broaden the initial focus and develop its services for clients in the commercial real estate and also the professional services sectors.

While the principal geographic focus of AL is towards London and the South East, an increasing proportion of the Bank's business is being generated across the UK and particularly through its offices in Exeter and Manchester. In Exeter, the Bank moved into new premises during the year, which has had a positive effect on the local profile. In Manchester, the office was further strengthened with additional recruitment and a healthy momentum is being created in the local market. Overseas, the Dubai office goes from strength to strength and the local Gulf market offers significant opportunities for further growth in the years ahead.

Business Review - Retail Banking - Secure Trust Bank

| | 2015 | 2014 |
|---------------------|-------------|-------------|
| Operating income | £92.1m | £63.7m |
| Operating expenses | £50.1m | £37.3m |
| Profit before tax | £25.2m | £17.8m |
| Customer loans | £960.6m | £622.5m |
| Customer deposits | £1,033.1m | £608.4m |
| Customer numbers | 570,759 | 429,507 |
| Net interest margin | 15.7% | 17.1% |
| Cost income ratio | 0.51 | 0.57 |

Secure Trust Bank ("STB") has made profits of £36.8m (2014: £26.3m), which includes £11.7m (2014: £8.6m) from Everyday Loans ("ELL"). On a statutory basis STB has made profits on its continuing operations of £25.2m (2014: £17.8m). We have agreed to sell ELL to Non Standard Finance for £127m and it is expected to be transferred by the end of April 2016, realising an anticipated gain of £115m.

Following the IPO of STB in 2011, the acquisition of ELL was the first significant transaction by the Group and set STB on its current trajectory of growth. However, we were always aware that despite its profitability, the ownership of ELL by STB would ultimately slow its potential growth. Our conservative approach to consumer lending was evident by the cap that we imposed on the interest rates that the business could offer to its borrowers. This resulted in a large demographic of potential customers being excluded from its markets. The sale of the business we believe will be beneficial to our shareholders, as the additional capital that it will generate can be deployed in our other businesses that have faster growth rates and larger potential markets from which to gain their share of business.

The continuing businesses in STB have been proactively managed to result in a good composition of portfolios, with a balance between consumer and SME lending assets, and this will be augmented in 2016 with a new mortgage offering that we believe will be well received in the market place and still deliver our required return on equity.

Once again, the growth in income for the Bank has been achieved by significant increases in the lending businesses. In total new business lending volumes grew by 65% to reach £903m (2014: £546m). This resulted in an overall increase in customer lending assets of 73%, with balances reaching £1.1bn (2014: £0.6bn). This is another milestone in the Bank's history as customer balances have exceeded £1bn for the first time.

Within the consumer finance division, the Retail Finance business led the way with balances increasing by 89% to £220m (2014: £117m). This business has a very strong position within the music and cycle sectors, but has been successfully broadening its reach into the leisure and home furnishing sectors. The business has also seen an increase in the volume of interest bearing lending. This has naturally resulted in higher levels of impairments, which were anticipated in the pricing of the products.

The Motor Finance balances increased by 20% to £166m (2014: £138m). This business, which focuses on the near prime market segment, continues to service the majority of the Top 100 UK car dealer groups and enjoys strong relationships with a number of specialist motor intermediaries. During the year the business tested the prime lending market, and the initial results were positive. It is therefore anticipated that activities in this area will increase during 2016.

The Group's Commercial lending operations have grown as planned. Real Estate Finance increased by 175% to £368m (2014: £134m). This lending is split roughly between residential development funding and residential investment finance. To date, our experience in the residential development lending has been that properties being developed are selling faster and for higher prices than anticipated when the loans were originated.

The residential investment lending is not a regulated mortgage business and is not designed for amateur landlords. As such, it is difficult to predict how the recent fiscal changes will affect the market in the future, but it is our initial belief that it will have a neutral impact.

In its first full year Secure Trust Commercial Services, the invoice finance division, funded in excess of £220m of customers' invoices. Customer lending balances grew £24m to £29m (2014: £5m). However, given the fact that the key customer proposition for this business is built on long term relationships, it will take a while longer before the business reaches critical mass.

The Asset Finance partnership with Haydock Finance has proved successful. Haydock is a long established and well regarded asset finance company. They provide STB with a full business process outsourcing service, while adhering to STB's credit policies and risk appetite. This business closed the year with balances at £71m (2014: £5m), an increase of 1,457%.

STB maintained its principle of funding its lending mainly from the retail deposit market, with balances increasing by 83% to close the year at £1.1bn (2014: £0.6bn). Again, the Bank attempted to minimise the interest rate risk by mainly offering fixed term deposits and bonds. This strategy would appear to be the most sensible, with current forecasts indicating that interest rates will remain low for some time to come.

Finally, STB has been able to maintain its reputation with its customers and staff. It was re-affirmed as the only bank to hold the Customer Service Excellence Award. For the fourth year running the Bank was awarded the four star mark by the Fair Banking Foundation.

Strategic Report - Financial Review

Arbuthnot Banking Group ("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

| | 2015 | 2014 |
|---|----------|----------|
| | £000 | £000 |
| Summarised Income Statement | | |
| Net interest income | 103,693 | 68,027 |
| Net fee and commission income | 23,000 | 24,022 |
| Operating income | 126,693 | 92,049 |
| Operating expenses | (86,059) | (66,165) |
| Impairment losses - financial investments | (34) | (347) |
| Impairment losses - loans and advances to customers | (18,032) | (11,606) |
| Profit before tax from continuing operations | 22,568 | 13,931 |
| Income tax expense | (5,436) | (3,444) |

| | | |
|---|---------------|---------------|
| Profit after tax from continuing operations | 17,132 | 10,487 |
| Profit from discontinued operations after tax | 9,392 | 6,529 |
| Profit for the year | 26,524 | 17,016 |
| Basic earnings per share (pence) - Continuing operations | 53.3 | 32.4 |
| Basic earnings per share (pence) - Discontinuing operations | 33.1 | 26.1 |
| Basic earnings per share (pence) | 86.3 | 58.6 |

| | Arbuthnot Latham & Co. | Secure Trust Bank | Arbuthnot Banking Group |
|---|---------------------------|----------------------|-------------------------------|
| 31 December 2015 | £000 | £000 | £000 |
| Profit before tax from continuing operations | 5,998 | 25,174 | 22,568 |
| Investment in operating systems | 1,123 | - | 1,123 |
| AL commercial banking investment | 333 | - | 333 |
| Acquisition costs | 418 | 4 | 422 |
| STB share options | - | 662 | 662 |
| V12 fair value amortisation | - | 893 | 893 |
| Underlying profit | 7,872 | 26,733 | 26,001 |
| Underlying basic earnings per share (pence) - Continuing operations | | | 65.5 |
| Underlying basic earnings per share (pence) | | | 101.2 |

| | Arbuthnot Latham & Co. | Secure Trust Bank | Arbuthnot Banking Group |
|---|---------------------------|----------------------|-------------------------------|
| 31 December 2014 | £000 | £000 | £000 |
| Profit before tax from continuing operations | 3,628 | 17,755 | 13,931 |
| Dubai office investment | 981 | - | 981 |
| Regional office investment | 217 | - | 217 |
| STB acquisition costs | - | 198 | 198 |
| STB share options | - | 1,542 | 1,542 |
| V12 fair value amortisation | - | 893 | 893 |
| Underlying profit | 4,826 | 20,388 | 17,762 |
| Underlying basic earnings per share (pence) - Continuing operations | | | 46.3 |
| Underlying basic earnings per share (pence) | | | 84.5 |

Once again the Group has traded well during 2015. The reported profit before tax is £22.6m (2014: £13.9m). However, this number does not include the results from Everyday Loans (“ELL”), which is reported as “discontinued” due to the fact we reached agreement to sell this business to Non Standard Finance on 4 December 2015. The business was fully under the managerial influence of the Group during the year, so if their results are included, the overall Group’s profit before tax would be £34.2m (2014: £22.5m), representing an increase of 52%. The overall result of £34.2m would be another record year of earnings for the Group.

The tables above also give an indication of the underlying momentum that exists in the Group’s earnings. The reported results are adjusted for a small number of items that are included but represent significant investments for the future enhancement of the business or are accounting adjustments required by IFRS rules.

In aggregate, the Group’s reported profit increases from £22.6m to an underlying result of £26m (2014: £17.8m), which shows an increase in profit of 46%. Arbuthnot Latham returned an increase in underlying profit of 63%.

The total Basic Earnings per share (“EPS”) of the Group have increased by 47% to 86.3p (2014: 58.6p), with the underlying EPS closing the year at 101.2p (2014: 84.5p).

The Group exceeded £100m in operating income in 2014 (when ELL was included in the results). The continued growth in the business, particularly driven by the performance of the lending business, has resulted in the operating income increasing by 38%. Net interest income is now 82% of the overall Group operating income, which is up from last year’s comparison of 74%.

The Group’s expense base increased to £86.1m (2014: £66.2m), an increase of 30% due to the full year impact of the SME lending divisions, which commenced trading in 2014 and also the investment spending by Arbuthnot Latham (“AL”), mainly on the transformation project which is upgrading operational processes and ultimately replacing its core banking system.

However, despite this increased investment spending, the overall Group's operating leverage still increased by a positive 8%.

Impairment losses rose to £18m (2014: £11.6m), an increase of £6.4m, which is largely explained by three factors. Firstly, the prior year results were artificially lowered by £1m due to the provision releases that arose from a review of the carrying value of written off loans. Secondly, the volume of the balance sheet was increased, which in turn naturally leads to higher levels of expected impairments, especially in the retail lending business. Finally, our motor finance and retail lending divisions have been exploring higher yielding opportunities in their markets. This in turn leads to higher anticipated impairments.

Overall the Return on Equity of the Group was 14.6% (2014: 13.2%), which is somewhat lower than the marginal returns that the Group is capable of generating. This lower amount is due to the fact that the Group has carried a significant surplus of capital set aside for future growth, in particular for the commercial lending businesses. If this surplus is excluded, the Return on Equity deployed is 18.4% (2014: 18.3%).

Balance Sheet Strength

| | 2015 | 2014 |
|-------------------------------------|------------------|------------------|
| Summarised Balance Sheet | £000 | £000 |
| Assets | | |
| Loans and advances to customers | 1,579,512 | 1,158,983 |
| Liquid assets | 484,917 | 239,465 |
| Other assets | 167,130 | 48,174 |
| Total assets | 2,231,559 | 1,446,622 |
| Liabilities | | |
| Customer deposits | 1,929,838 | 1,194,285 |
| Other liabilities | 110,317 | 78,768 |
| Total liabilities | 2,040,155 | 1,273,053 |
| Equity | 191,404 | 173,569 |
| Total equity and liabilities | 2,231,559 | 1,446,622 |

During 2015 the Group's total assets exceeded £2bn for the first time, closing the year at £2.2bn (2014: £1.4bn), an increase of 54%. At the same time the Group's lending to customers reached £1.6bn (2014: 1.2bn), which is a growth rate of 33%.

Once again the Group's lending remains almost entirely funded by customer deposits, which increased by 62% and are now approaching £2bn. The Group has also developed access to other sources of liquidity, most notably Funding for Lending ("FLS"). Following the recent notification from the Bank of England that the Dunfermline Building Society mortgage portfolio is considered eligible collateral, the Group has £198m of assets that may be used to generate further liquidity.

The net assets of the Group now stand at £192m. This does not include the impact of the gain that will be recognised following the completion of the disposal of Everyday Loans. This is anticipated to be £115m, so the Group's net assets will exceed £300m or the equivalent of approximately £20 per share.

Segmental Analysis

The segmental analysis in Note 40 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., Limited) and Retail Banking (Secure Trust Bank PLC). Group costs and intercompany elimination journals are shown separately to reconcile back to the Group consolidated results.

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

Private Banking - Arbuthnot Latham

| | 2015 | 2014 |
|---|--------------|--------------|
| Summarised Income Statement | £000 | £000 |
| Net interest income | 25,283 | 19,387 |
| Net fee and commission income | 9,793 | 9,508 |
| Operating income | 35,076 | 28,895 |
| Other income | 1,894 | 2,088 |
| Operating expenses | (29,722) | (23,977) |
| Impairment losses - financial investments | - | (334) |
| Impairment losses - loans and advances to customers | (1,250) | (3,044) |
| Profit before tax | 5,998 | 3,628 |

The profit before tax for the year was reported as £6m (2014: £3.6m). This is an increase of 65%. As already indicated publicly, the Bank has been carrying out an investment project to transform the operational process within the Bank. Accordingly, the results are after including not only £1.1m of costs for this project, but also £300k start-up costs for the commercial banking business and £400k of expenses for an aborted acquisition of a mortgage portfolio. If these items are added back, the Private Bank would have made £7.9m.

The proportion of the bank's income that is dependent on the balance sheet has increased during the year, with net interest income 72% of total operating income compared to 67% in the prior year.

At the same time net customer margin remained consistent with prior years at around 4.4% each month.

Operating expenses have increased by 24% to £29.7m as a result of the items noted above and also the full year impact of the hiring of new private bankers in the prior year. Also as a result of the rapid expansion of employees, the Bank moved into new premises in Exeter and agreed to occupy 9,839 square feet of new office space in the City, in addition to the headquarters in Wilson Street.

Impairment losses on loans declined from £3m to below £1.3m during the year, as the impact of the legacy credit portfolio began to decline. This portfolio has now largely been resolved.

It is worth noting that the Dubai office achieved break even in July 2015 and overall returned a small profit for the whole year.

| | 2015 | 2014 |
|--|------------------|----------------|
| | £000 | £000 |
| Summarised Balance Sheet | | |
| Assets | | |
| Loans and advances to customers | 618,902 | 536,488 |
| Liquid assets | 344,856 | 122,198 |
| Other assets (including Group balances) | 40,691 | 40,786 |
| Total assets | 1,004,449 | 699,472 |
| Liabilities | | |
| Customer deposits | 896,766 | 585,867 |
| Other liabilities (including Group balances) | 55,330 | 73,636 |
| Total liabilities | 952,096 | 659,503 |
| Equity | 52,353 | 39,969 |
| Total equity and liabilities | 1,004,449 | 699,472 |

Total customer assets increased by 15% to close the year at £619m (2014: £536m). However, the total volume of new loans originated in 2015 was £250m (2014: £172m), which is an increase of 45%. The actual balance sheet lagged behind this volume growth as we experienced an uptick in redemptions following the decisive result of the General Election in May 2015, which seemed to give confidence to the housing market during the summer months. After this, the balance sheet returned to good growth levels in the final quarter.

Overall the book remains well secured with an average LTV of 46% (2014: 43%).

Following the hiring of a number of high quality private bankers, the Bank is now able to gather robust levels of new deposits and therefore the customer deposit book grew to almost £900m (2014: £586m), an increase of 53%.

In total the Bank has surpassed £1bn in total assets for the first time in its history.

The net assets of the Bank now stand at £53m (2014: £40m), a 32% increase, as the Group made further capital contributions to facilitate additional growth, on top of the organically generated reserves that arise from net earnings. As a result, the Private Bank had a total capital ratio of 10.4% (2014: 10.8%) and a core tier 1 ratio of 10.4% (2014: 9.4%).

Retail Banking - Secure Trust Bank

| | 2015 | 2014 |
|---|---------------|---------------|
| | £000 | £000 |
| Summarised Income Statement | | |
| Net interest income | 78,882 | 49,146 |
| Net fee and commission income | 13,207 | 14,514 |
| Operating income | 92,089 | 63,660 |
| Operating expenses | (50,133) | (37,255) |
| Impairment losses - loans and advances | (16,782) | (8,650) |
| Profit before tax from continuing operations | 25,174 | 17,755 |
| Income tax expense | (5,557) | (3,618) |

| | | |
|---|---------------|---------------|
| Profit after tax from continuing operations | 19,617 | 14,137 |
| Profit from discontinued operations after tax | 9,392 | 6,529 |
| Profit for the year | 29,009 | 20,666 |

The reported profit before tax is £25.2m (2014: £17.8m), which is an increase of 42%. These figures are the continuing operations within Secure Trust Bank. If the results for Everyday Loans are included, the Retail Bank made a profit before tax of £36.8m (2014: £26.3m), an increase of 40%.

The largest increase in the components of revenue has been derived from the Net Interest Income line, which has grown by 60% to close the year at £78.9m (2014: £49.1m). Net Interest Income is now 86% of revenues compared to 77% in the prior year. Net interest margin was 15.7% (2014: 17.1%) as the impact of the SME lending starts to add a counter balance to the consumer finance lending from prior years.

Operating expenses increased 34% to £50.1m (2014: £37.3m), largely due to the investments made in growing the SME lending divisions. However, the overall cost income ratio stands at 51% (2014: 57%). The operating leverage grew by a positive 10%.

Impairment losses were £16.8m (2014: £8.7m), with the increase due to three items. Firstly, the prior year was artificially low due to the £1m provision release. Secondly, the increase in the overall lending balances led to higher impairment losses. Finally, the Retail and Motor Finance operations have been lending to higher margin sectors of the markets, which has in turn resulted in higher levels of expected impairments.

| | 2015 | 2014 |
|---|------------------|----------------|
| | £000 | £000 |
| Summarised Balance Sheet | | |
| Assets | | |
| Consumer Finance | | |
| Personal Lending | | |
| STB | 74,360 | 87,571 |
| ELL | - | 93,864 |
| Motor Finance | 165,697 | 137,853 |
| Retail Finance | 220,417 | 116,734 |
| Business Finance | | |
| Asset Finance | 70,685 | 4,541 |
| Commercial Finance | 29,295 | 5,024 |
| Real Estate Finance | 367,999 | 133,738 |
| Additional Services | | |
| Debt Collection | 4,479 | 3,058 |
| Acquired Portfolios | 26 | 28 |
| One Bill | 202 | 388 |
| RentSmart | 23,458 | 25,504 |
| Pay4Later | 3,823 | 14,013 |
| Other | 169 | 179 |
| Total loans and advances to customers | 960,610 | 622,495 |
| Liquid assets | 140,053 | 117,258 |
| Other assets (incl. Group balances & ELL) | 146,668 | 42,260 |
| Total assets | 1,247,331 | 782,013 |
| Liabilities | | |
| Customer deposits | 1,033,073 | 608,418 |
| Other liabilities (incl. Group balances) | 73,074 | 48,734 |
| Total liabilities | 1,106,147 | 657,152 |
| Equity | 141,184 | 124,861 |
| Total equity and liabilities | 1,247,331 | 782,013 |

Overall the customer lending balances closed the year at £961m (2014: £622m), an increase of 54%. Once again the Motor, Retail and Business Finance portfolios have all shown good levels of growth. Motor Finance increased by 20% as it started to widen its product offering across the risk spectrum and including prime lending for the first time. The Retail Finance business has grown by 59% due in some degree to the additional strength the STB funding profile brings to the proposition. This has enabled it to pitch and win new business relationships that previously were beyond the V12 business. Secondly, the business has developed momentum in interest bearing products as opposed to interest free. This has resulted in higher expected impairments, but still at levels lower than anticipated when the products were priced.

The Business Finance divisions have grown by more than 200% with good growth in all three segments.

Customer deposits grew by 70% to stand at £1bn (2014: £608m). The Bank remains almost entirely funded by retail deposits. These deposits have been sourced mainly via the best buy tables and are largely in the form of fixed term deposits and bonds. This has the additional benefit not only of certainty of funding terms but also in managing the interest rate basis risk that can arise with longer term fixed rate lending business.

The net assets of the company have increased to £141m (2014: £125m), which is before recognising the gain from ELL. After this it is anticipated that the net assets of the company will be in excess of £250m. The Bank is well capitalised with a total capital ratio of 11.9% (2014: 16.3%) and a core tier 1 ratio of 12.2% (2014: 16.6%).

Group & Other Costs

| | 2015 | 2014 |
|-------------------------------------|----------------|----------------|
| | £000 | £000 |
| Summarised Income Statement | | |
| Net interest income | (148) | (105) |
| Subordinated loan stock interest | (324) | (401) |
| Operating income | (472) | (506) |
| Operating expenses | (8,098) | (7,027) |
| Impairment on financial investments | (34) | 81 |
| Profit after tax | (8,604) | (7,452) |

Total Group costs increased from £7.5m to £8.6m as a result of an increase in staff costs due to higher salaries and additional employees in the Group centre, to oversee the growth within the wider Group and to manage the greater requirements arising from regulation, compliance and corporate governance.

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 Regulation 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 have been based on Basel III since 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 39.

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 trading entities have complied with all of the externally imposed capital requirements to which they are subject.

| | 2015 | 2014 |
|---------------------------------|----------|----------|
| | £000 | £000 |
| Capital ratios | | |
| Core Tier 1 capital | 191,404 | 173,569 |
| Deductions | (33,921) | (40,153) |
| Tier 1 capital after deductions | 157,483 | 133,416 |

| | | |
|---|----------------|----------------|
| Tier 2 capital | 12,865 | 13,479 |
| Total capital | 170,348 | 146,895 |
| Core Tier 1 capital ratio (Net Core Tier 1 capital/Basel III Total Risk Exposure) | 11.7% | 14.0% |
| Total Capital Ratio (Capital/Basel III Total Risk Exposure) | 12.6% | 15.4% |

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 strategic, credit, market, liquidity, operational, cyber, conduct and regulatory.

Strategic risk

Strategic risk is the risk that may affect the Group's ability to achieve its corporate and strategic objectives. This risk is important to the Group as it continues its growth strategy. However, the Group seeks to mitigate strategic risk by focusing on a sustainable business model which is aligned to the Group's business strategy. Also, the Board of Directors meets once a year to hold a two day board meeting to ensure that the Group's strategy is appropriate for the market and economy.

Credit risk

Credit risk is the risk that a counterparty will be unable to pay amounts in full when due. This risk exists in Arbuthnot Latham & Co., Limited and Secure Trust Bank PLC, which currently have loan books of £619m and £961m 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

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

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 almost 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 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

Operational risk is the risk that the Group may be exposed to financial losses from conducting its 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.

Cyber risk

An increasing risk that the Group is subject to within its operational processes is cyber risk. This is the risk that the businesses within the Group are subject to some form of disruption arising from an interruption to its IT and data infrastructure.

Conduct risk

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 adopts a zero risk appetite for any unfair customer outcomes. It 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 risk

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.

Regulatory change also exists as a risk to the Group's business. Notwithstanding the assessments carried out by the Group to manage the regulatory risk, it is not possible to predict how regulatory and legislative changes may alter and impact the business. Significant and unforeseen regulatory changes may reduce the Group competitive situation and lower its profitability.

Macroeconomic and competitive environment

The Group is also exposed to indirect risks that may arise from the macroeconomic and competitive environment. The economic environment is relatively stable within the UK. However, the international landscape is increasingly uncertain. The declining performance of the economies in the EU, Russia and China may have an adverse affect on the UK. In particular this may cause a softening of central London property prices, which may spread out further to the South East.

Over the past year the reduction in oil prices has resulted in a lowering of the interest rate yield curve and has pushed out the time horizon for expectations of an increase in interest rates.

The Group monitors its exposure to future interest rate rises and currently has minimal lending to customers in products that would be directly sensitive to interest rate rises. However, at the current levels of interest rates, the affordability enjoyed by the Group's customers is beneficial.

EU Referendum

At the time of issuing this Annual Report, the date for the UK referendum on its membership of the European Union (EU) has been set for 23 June 2016. It is currently difficult to analyse the impacts that a vote to exit may have on the Arbuthnot Banking Group. However, our only overseas operation is in Dubai, so the vast majority of the Group's income and expenditure is based in the UK. It is therefore anticipated that the financial impact would be minimal assuming there were to be no significant macro economic shock on the UK.

Group Directors' Report

The Directors submit their annual report and the audited consolidated financial statements for the year ended 31 December 2015.

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 15.

Results and Dividends

The results for the year are shown on page 26. The profit after tax for the year of £26.5m (2014: £17.0m) is included in reserves.

The Directors recommend the payment of a final dividend of 17p on the ordinary shares which, together with the interim dividend of 12p paid on 2 October 2015, represents total dividends for the year of 29p (2014: 27p). The final dividend, if approved by members at the Annual General Meeting, will be paid on 13 May 2016 to shareholders on the register at close of business on 15 April 2016.

The Board is also proposing to pay a special dividend of 25p for 2016. This dividend is dependent on the completion of the sale of ELL, which includes regulatory approval of change of control, transferal of ownership and inclusion of the gain within the Group's capital resources. Following completion, the Board would also review the financial position and prospects of the Company before declaring the special dividend.

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 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.

Sale of subsidiary

It was announced on 4 December 2015 that the Company's subsidiary, Secure Trust Bank PLC, has agreed the conditional sale of its sub-prime consumer lending business, Everyday Loans Holdings Limited, to Non Standard Finance plc for £107m in cash and £20m in ordinary shares of the purchaser. This transaction is subject to approval by Regulators and is proceeding according to expectations and is anticipated that ownership will be transferred before 30 April 2016.

Financial Risk Management

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

Substantial Shareholders

The Company was aware at 15 March 2016 of the following substantial holdings in the ordinary shares of the Company, other than those held by one director shown below:

| Holder | Ordinary Shares | % |
|-------------------------------------|-----------------|-----|
| Liontrust UK Smaller Companies Fund | 944,055 | 6.2 |
| Prudential plc | 609,688 | 4.0 |
| Mr. R Paston | 529,130 | 3.5 |

Directors

| | |
|-----------------------|--------------------------------|
| Sir Henry Angest | <i>Chairman & CEO</i> |
| J R Cobb | <i>Finance Director</i> |
| I A Dewar | |
| J W Fleming | |
| Ms R J Lea | |
| P A Lynam | |
| Sir Christopher Meyer | |
| A A Salmon | <i>Chief Operating Officer</i> |

All are currently directors and served throughout the year except for Mr. I.A. Dewar who was appointed on 1 August 2015.

Mr. R.J.J. Wickham served as a director throughout 2015 and retired on 31 December 2015. Ms R.J. Lea will retire at the Annual General Meeting and does not seek re-election.

Mr. Dewar, who has wide ranging experience in finance and as a senior statutory auditor, has been appointed chairman of the Audit Committee in succession to Ms Lea and offers himself for election under Article 75 of the Articles of Association.

Sir Henry Angest and Sir Christopher Meyer retire under Article 78 of the Articles of Association and, being eligible, offer themselves for re-election. Sir Henry Angest has a service agreement terminable on twelve months' notice. Sir Christopher Meyer, a non-executive director who joined the Board in October 2007, does not have a service agreement.

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 2015 | 31 December 2015 | 15 March 2016 | % |
|----------------------|----------------|------------------|---------------|------|
| Sir Henry 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 |

At the year end Mr. Lynam held 9,110 and Mr. Salmon held 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 £125,000.

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 option at grant date was £53,000.

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 £1m.

Mr. Lynam was granted phantom options on 23 March 2015 to acquire 187,500 ordinary 40p shares in Secure Trust Bank PLC at £25 exercisable on or after 3 November 2018 when a cash payment would be made equal to any increase in value.

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 2015 two directors had loans from Arbuthnot Latham & Co., Limited amounting to £2,901,000 and one director had a loan from Secure Trust Bank amounting to £223,000, on normal commercial terms as disclosed in note 38 to the financial statements. At 31 December 2015 five directors

had deposits with Arbuthnot Latham & Co., Limited amounting to £2,321,000 and two directors had deposits with Secure Trust Bank PLC amounting to £371,000, all on normal commercial terms as disclosed in note 38 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 22 to 23 will be the subject of an Ordinary Resolution at the Annual General Meeting.

Information on the Audit, Nomination, Risk and Political Donations Committees is included in the Corporate Governance section of the Annual Report on pages 19 to 21.

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.

Political Donations

The Company made political donations of £68,000 to the Conservative Party during the year (2014: £48,000).

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

On 15 January 2016 Arbuthnot Latham & Co., Ltd signed a contract with Oracle to replace its current banking system. The committed cost is £2m.

Auditors

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.

Statement of Disclosure of Information to Auditors

The Directors confirm that:

- so far as each director is aware, there is no relevant audit information of which the Company's auditor is 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 is 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.

Corporate Governance

Arbuthnot Banking Group has a strong and effective Corporate Governance framework. The Board endorses the principles of openness, integrity and accountability, which underlie good corporate governance and take into account the provisions of the UK Corporate Governance Code in so far as they are considered 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, which are 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 by an effective Board which comprises five executive directors and three non-executive directors. During 2015, the senior independent non-executive director, and Deputy Chairman, was Robert Wickham. Mr. Wickham retired from the Board on 31 December 2015. Ian Dewar was appointed on 1 August 2015 as an independent non-executive director of the Company and assigned the role of chairman of the Audit Committee in succession to Ruth Lea, who will retire from the Board at the Annual General Meeting. The directors seeking re-election are Sir Henry Angest and Sir Christopher Meyer, who have served on the Board for 30 years and eight years respectively. The contribution of Sir Henry Angest, who beneficially owns more than 50% of the issued share capital, has been invaluable in the successful development of the Company. Sir Christopher Meyer's wide-ranging experience as a diplomat has provided an important independent measure of challenge to executive management. Accordingly, the Board fully supports the resolutions for their reappointment.

The Board

The Board held six formal meetings during the year as well as a two day strategy meeting. 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, monitoring overall regulatory requirements of its subsidiary companies, and their adherence

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

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

Audit Committee

Membership of the Audit Committee is restricted to non-executive directors and comprises Ian Dewar (as Chairman), Ruth Lea and Sir Christopher Meyer. The Committee met four times during the year.

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. These include 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, whistleblowing procedures 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.

The present auditors have held office since 2009, but the senior statutory auditor changed in 2013. The Board is very satisfied with the effectiveness of their audit. The Committee received a report showing the level of non-audit services provided by the external auditors during the year and members were satisfied that this did not infringe auditor independence.

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 Sir Henry Angest and its other members are Sir Christopher Meyer and Ruth Lea. The Committee met twice during the year. 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, with recruitment consultants appointed if appropriate. The Committee has under active consideration the appointment of an additional independent non-executive director to succeed Ruth Lea on her retirement from the Board.

Risk Committee

The Risk Committee is chaired by Sir Henry Angest and its other members are James Cobb, James Fleming, Paul Lynam and Andrew Salmon. The Committee met six times during the year. The principal role of the Risk Committee is to approve significant individual credits or other exposures.

Donations Committee

The Donations Committee is chaired by Sir Henry Angest and its other members are Sir Christopher Meyer and Ruth Lea. The Committee met three times during the year. 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 other General Meetings (when held) to communicate with investors. The Company aims to present a balanced and understandable assessment in all its reports to shareholders, its regulators, other stakeholders 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, 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 during 2015. 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 annual statutory Financial Statement audit. The ICAAP and ILAAP are considered key issues and are considered in detail by the subsidiary Boards and their Risk Committees. The Board receives reports on these by exception. 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.

Remuneration Report

Remuneration Committee

Membership of the Remuneration Committee is limited to non-executive directors together with Sir Henry Angest as Chairman. The present members of the Committee are Sir Henry Angest, Sir Christopher Meyer and Ruth Lea. The Committee met four times during the year.

The Committee has responsibility for producing recommendations on the overall remuneration policy for directors for review by the Board and for setting the remuneration of individual directors. 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, in particular the rising remuneration packages at other challenger banks; 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. For the purposes of the FCA Remuneration Code, all the provisions of which have been implemented. The Group and its subsidiaries are all considered to be Tier 3 institutions.

Directors' Service Contracts

Sir 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 six months' notice in writing by either party.

Share Option and Long Term Incentive Schemes

This part of the remuneration report is audited information.

At the Annual General Meeting in May 2015, shareholders voted by Ordinary Resolution to extend the Company's Unapproved Executive Share Option Scheme for a further period of 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 £125,000. 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 the grant date was £53,000.

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 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 the 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.

On 23 March 2015 Mr. Lynam was granted phantom options to acquire 187,500 ordinary 40p shares in Secure Trust Bank PLC at £25 exercisable on or after 3 November 2016 when a cash payment would be made equal to any increase in value.

Directors' Emoluments

This part of the remuneration report is audited information.

| | | | | | | 2015 | 2014 |
|--|---------------|--------------|-----------------|----------------|-------------|--------------|--------------|
| | | | | | | £000 | £000 |
| Fees (including benefits in kind) | | | | | | 70 | 98 |
| Salary payments (including benefits in kind) | | | | | | 5,165 | 3,938 |
| Pension contributions | | | | | | 140 | 140 |
| Long term incentive | | | | | | - | 5,030 |
| | | | | | | 5,375 | 9,206 |
| | | | | | | | |
| | | | | | | Total | Total |
| | | | | | | 2015 | 2014 |
| | | | | | | £000 | £000 |
| | Salary | Bonus | Benefits | Pension | Fees | | |
| | £000 | £000 | £000 | £000 | £000 | | |
| Sir Henry Angest | 900 | - | 87 | - | - | 987 | 632 |
| JR Cobb | 450 | 200 | 16 | 35 | - | 701 | 526 |
| IA Dewar | 29 | - | - | - | - | 29 | - |
| JW Fleming | 450 | 100 | 16 | 35 | - | 601 | 576 |
| Ms RJ Lea | 60 | - | - | - | 70 | 130 | 125 |
| PA Lynam | 900 | 500 | 21 | 35 | - | 1,456 | 3,671 |
| Sir Christopher Meyer | 55 | - | - | - | - | 55 | 50 |
| AA Salmon | 900 | 400 | 21 | 35 | - | 1,356 | 3,571 |
| RJJ Wickham | 60 | - | - | - | - | 60 | 55 |
| | 3,804 | 1,200 | 161 | 140 | 70 | 5,375 | 9,206 |

Details of any shares or options held by directors are presented on page 17.

The emoluments of the Chairman were £987,000 (2014: £632,000). The emoluments of the highest paid director were £1,456,000 (2014: £3,671,000) including pension contributions of £35,000 (2014: £35,000).

Mr. R J J Wickham was a director of Calando Finance Limited which received an annual fee of £nil (2014: £14,000) in respect of his services to the Group. This amount is included in the table above. Retirement benefits are accruing under money purchase schemes for five directors who served during 2015 (2014: five directors).

Independent Auditor's Report

We have audited the financial statements of Arbutnot Banking Group PLC for the year ended 31 December 2015 set out on pages 26 to 102. 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 2015 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

Company statement of financial position

| | Note | At 31 December | |
|--|------|----------------|---------------|
| | | 2015 £000 | 2014 £000 |
| ASSETS | | | |
| Due from subsidiary undertakings - bank balances | | 12,444 | 19,244 |
| Financial investments | 23 | 125 | 158 |
| Deferred tax asset | 24 | 418 | 406 |
| Intangible assets | 26 | - | 4 |
| Property, plant and equipment | 27 | 204 | 127 |
| Other assets | 22 | 991 | 5,472 |
| Investment in subsidiary undertakings | 39 | 46,466 | 39,966 |
| Total assets | | 60,648 | 65,377 |
| EQUITY AND LIABILITIES | | | |
| Equity | | | |
| Share capital | 33 | 153 | 153 |
| Other reserves | 34 | (1,111) | (1,111) |
| Retained earnings | 34 | 46,537 | 50,755 |
| Total equity | | 45,579 | 49,797 |
| LIABILITIES | | | |
| Other liabilities | 30 | 4,235 | 4,132 |
| Debt securities in issue | 31 | 10,834 | 11,448 |
| Total liabilities | | 15,069 | 15,580 |
| Total equity and liabilities | | 60,648 | 65,377 |

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 | 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 2015 | 153 | 98 | 20 | (250) | - | (1,131) | 114,641 | 60,038 | 173,569 |
| Total comprehensive income for the period | | | | | | | | | |
| Profit for 2015 | - | - | - | - | - | - | 12,726 | 13,798 | 26,524 |
| Other comprehensive income, net of tax | | | | | | | | | |
| Revaluation reserve | | | | | | | | | |
| Cash flow hedging reserve | | | | | | | | | |
| Available-for-sale reserve | - | - | - | 1,297 | - | - | - | - | 1,297 |
| Total other comprehensive income | - | - | - | 1,297 | - | - | - | - | 1,297 |
| Total comprehensive income for the period | - | - | - | 1,297 | - | - | 12,726 | 13,798 | 27,821 |
| Transactions with owners, recorded directly in equity | | | | | | | | | |
| Contributions by and distributions to owners | | | | | | | | | |
| Equity settled share based payment transactions | - | - | - | - | - | - | 132 | 87 | 219 |
| Final dividend relating to 2014 | - | - | - | - | - | - | (2,382) | (4,549) | (6,931) |
| Interim dividend relating to 2015 | - | - | - | - | - | - | (1,787) | (1,487) | (3,274) |
| Total contributions by and distributions to owners | - | - | - | - | - | - | (4,037) | (5,949) | (9,986) |
| Balance at 31 December 2015 | 153 | 98 | 20 | 1,047 | - | (1,131) | 123,330 | 67,887 | 191,404 |

| | Attributable to equity holders of the Group | | | | | | | | Total £000 |
|--|---|---------------------|----------------------------|----------------------------|---------------------------|-----------------|-------------------|---------------------------|----------------|
| | Share capital | Revaluation reserve | Capital redemption reserve | Available-for-sale reserve | Cash flow hedging reserve | Treasury shares | Retained earnings | Non-controlling interests | |
| | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £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 |

Company statement of changes in equity

| | Attributable to equity holders of the Company | | | | | | Total £000 |
|--|---|----------------------------|----------------------------|-----------------|-------------------|----------------|---------------|
| | Share capital | Capital redemption reserve | Available-for-sale reserve | Treasury shares | Retained earnings | | |
| | £000 | £000 | £000 | £000 | £000 | | |
| 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 1 January 2015 | 153 | 20 | - | (1,131) | 50,755 | 49,797 | |
| Total comprehensive income for the period | | | | | | | |
| Profit for 2015 | - | - | - | - | (87) | (87) | |

Other comprehensive income, net of income tax

| | | | | | | |
|--|------------|-----------|----------|----------------|----------------|----------------|
| Total comprehensive income for the period | - | - | - | - | (87) | (87) |
| Transactions with owners, recorded directly in equity | | | | | | |
| Contributions by and distributions to owners | | | | | | |
| Equity settled share based payment transactions | - | - | - | - | 38 | 38 |
| Final dividend relating to 2014 | - | - | - | - | (2,382) | (2,382) |
| Interim dividend relating to 2015 | - | - | - | - | (1,787) | (1,787) |
| Total contributions by and distributions to owners | - | - | - | - | (4,131) | (4,131) |
| Balance at 31 December 2015 | 153 | 20 | - | (1,131) | 46,537 | 45,579 |

Consolidated statement of cash flows

| | | Year ended 31 December 2015 | Year ended 31 December 2014 |
|--|------|-----------------------------------|-----------------------------------|
| | Note | £000 | £000 |
| Cash flows from operating activities | | | |
| Interest received | | 171,956 | 116,675 |
| Interest paid | | (35,040) | (18,260) |
| Fees and commissions received | | 15,615 | 27,692 |
| Cash payments to employees and suppliers | | (115,463) | (91,874) |
| Taxation paid | | (7,409) | (3,047) |
| Cash flows from operating profits before changes in operating assets and liabilities | | 29,659 | 31,186 |
| Changes in operating assets and liabilities: | | | |
| - net decrease/(increase) in derivative financial instruments | | 285 | (1,503) |
| - net increase in loans and advances to customers | | (417,814) | (434,352) |
| - net (increase)/decrease in other assets | | (118,484) | 401 |
| - net increase in amounts due to customers | | 735,553 | 236,494 |
| - net increase in other liabilities | | 5,693 | 3,967 |
| Net cash inflow/(outflow) from operating activities | | 234,892 | (163,807) |
| Cash flows from investing activities | | | |
| Disposal of financial investments | | 44 | 243 |
| Purchase of computer software | 26 | (3,532) | (1,214) |
| Purchase of property, plant and equipment | 27 | (3,395) | (7,803) |
| Proceeds from sale of property, plant and equipment | 27 | - | 42 |
| Proceeds from sale of Secure Trust Bank shares | | - | 24,327 |
| Purchases of debt securities | | (145,880) | (85,243) |
| Proceeds from redemption of debt securities | | 149,835 | 13,026 |
| Net cash from investing activities | | (2,928) | (56,622) |
| Cash flows from financing activities | | | |
| Increase in borrowings | | 27,648 | 25,654 |
| Dividends paid | | (10,205) | (7,623) |
| Proceeds from share placing by Secure Trust Bank | | - | 48,758 |
| Proceeds from exercise of Secure Trust Bank share options | | - | 3,315 |
| Net cash used in financing activities | | 17,443 | 70,104 |
| Net increase/(decrease) in cash and cash equivalents | | 249,407 | (150,325) |
| Cash and cash equivalents at 1 January | | 147,782 | 298,107 |
| Cash and cash equivalents at 31 December | 37 | 397,189 | 147,782 |

Company statement of cash flows

| | | Year ended 31 December 2015 | Year ended 31 December 2014 |
|---|------|-----------------------------------|-----------------------------------|
| | Note | £000 | £000 |
| Cash flows from operating activities | | | |
| Dividends received from subsidiaries | | 6,648 | 6,440 |
| Interest received | | 120 | 149 |
| Interest paid | | (599) | (661) |

| | | | |
|---|----|----------------|----------------|
| Net trading and other income | | 1,833 | 1,629 |
| Cash payments to employees and suppliers | | (8,718) | (7,866) |
| Cash flows from operating losses before changes in operating assets and liabilities | | (715) | (309) |
| Changes in operating assets and liabilities: | | | |
| - net increase in group company balances | | (66) | (4,950) |
| - net decrease/(increase) in other assets | | 7 | (3) |
| - net increase/(decrease) in other liabilities | | 143 | (1) |
| Net cash outflow from operating activities | | (631) | (5,263) |
| Cash flows from investing activities | | | |
| Repayment of loans to subsidiary companies | | 4,500 | - |
| Increase investment in subsidiary | 39 | (6,500) | (10,500) |
| Disposal of share in subsidiaries | 39 | - | 24,327 |
| Net cash from investing activities | | (2,000) | 13,827 |
| Cash flows from financing activities | | | |
| Dividends paid | | (4,169) | (3,871) |
| (Decrease)/Increase in borrowings | | - | (2,000) |
| Net cash used in financing activities | | (4,169) | (5,871) |
| Net (decrease)/increase in cash and cash equivalents | | (6,800) | 2,693 |
| Cash and cash equivalents at 1 January | | 19,244 | 16,551 |
| Cash and cash equivalents at 31 December | 37 | 12,444 | 19,244 |

Notes to the Consolidated Financial Statements

1. Reporting entity

Arbuthnot Banking Group PLC is a company domiciled in the 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 2015 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 16 March 2016.

(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

The accounting policies adopted are consistent with those of the previous financial year. There were no new or amended standards or interpretations that resulted in a change in accounting policy.

(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 investor controls the investee. The investor would only control the investee if it had all of the following:

- power over the investee;
- exposure, or rights, to variable returns from its involvement with the investee; and
- the ability to use its power over the investee to affect the amount of the investor's returns.

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 spot 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. Foreign exchange differences arising from translation of available-for-sale equity instruments 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 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 impaired 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.

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 accruals 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. Discontinued operations

A discontinued operation is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which:

- represents a separate major line of business or geographical area of operations;
- is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or
- is a subsidiary acquired exclusively with a view to re-sale.

Classification as a discontinued operation occurs on disposal or when the operation meets the criteria to be classified as held for sale (see note 3.12), if earlier. When an operation is classified as a discontinued operation, the comparative Statement of Comprehensive Income is re-presented as if the operation had been discontinued from the start of the comparative year.

3.7. 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 measured 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.

For measuring derivatives that might change classification from being an asset to a liability or vice versa such as interest rate swaps, fair values take into account both credit valuation adjustment (CVA) and debit valuation adjustment (DVA) when market participants take this into consideration in pricing the derivatives.

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.

3.8. 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) 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.

(b) 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.

3.9. 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.

The Group considers evidence of impairment for loans and advances at both a specific asset and collective level. All individually significant loans and advances are assessed for specific impairment. Those found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. In assessing collective impairment the Group uses historical trends of the probability of default, emergence period, 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.

When a loan is uncollectible, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of the provision for loan impairment in the Statement of Comprehensive Income.

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. Loans that have renegotiated or deferred terms, resulting in a substantial modification to the cash flows, are no longer considered to be past due but are treated as new loans recognised at fair value, provided the customers comply with the renegotiated or deferred terms.

(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 profit or loss. Impairment losses recognised in the profit or loss on equity instruments are reversed through other comprehensive income.

(c) Renegotiated loans

Loans that are neither 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

Under certain circumstances, the Group may use forbearance measures to assist borrowers who are experiencing significant financial hardship. Any forbearance support is assessed on a case by case basis in line with best practice and subject to regular monitoring and review. The Group seeks to ensure that any forbearance results in a fair outcome for both the customer and the Group.

3.10. Impairment of non-financial assets

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Impairment for goodwill is discussed in more detail under note 3.14.

3.11. 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.

3.12. 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.

3.13. Assets classified as held for sale

Non-current assets, or disposal groups comprising assets and liabilities, that are expected to be recovered primarily through sale rather than through continuing use, are classified as held for sale. These assets and liabilities are subsequently measured at the lower of its carrying amount and fair value less costs to sell. Once classified as held for sale, intangible assets and property, plant and equipment are no longer amortised or depreciated.

3.14. 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 ten years).

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

Costs associated with developing computer software which are assets in the course of construction, which management has assessed to not be available for use, are not amortised.

(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).

3.15. 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 |

Leasehold improvements are depreciated over the term of the lease (until the first break clause). 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.

3.16. 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.

3.17. 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.

3.18. 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.

3.19. 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.

3.20. 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.

3.21. 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.

3.22. Financial guarantee and loan commitments

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.

3.23. 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.

3.24. 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 2016 or later periods, but the Group has not early adopted them:

- 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. Phase one of this standard deals with the classification and measurement of financial assets and represents a significant change from the existing requirements in IAS 39. The standard contains three primary measurement categories for financial assets: 'amortised cost', 'fair value through other comprehensive income' and 'fair value through profit or loss' and eliminates the existing categories of 'held to maturity', 'available for sale' and 'loans and receivables'. Phase two of the standard covers impairment, with a new expected loss impairment model that will require expected credit losses to be accounted for from when financial instruments are first recognised and lowers the threshold for the recognition of full lifetime expected losses. Phase three covers general hedge accounting and introduces a substantially reformed model for hedge accounting with enhanced disclosure about risk management activity. The new model aligns the accounting treatment with risk management activities.
- 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 16, 'Leases' (effective from 1 January 2019). The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract i.e. the customer ('lessee') and the supplier ('lessor'). IFRS 16 replaces the previous leases Standards, IAS 17 Leases, and related Interpretations. IFRS 16 eliminates the classification of leases as either operating leases or finance leases for a lessee. Instead all leases are treated in a similar way to finance leases applying IAS 17. Leases are 'capitalised' by recognising the present value of the lease payments and showing them either as lease assets (right-of-use assets) or together with property, plant and equipment. If lease payments are made over time, a company also recognises a financial liability representing its obligation to make future lease payments. The most significant effect of the new requirements in IFRS 16 will be an increase in lease assets and financial liabilities. Accordingly, for companies with material off balance sheet leases, there will be a change to key financial metrics derived from the company's assets and liabilities (for example, leverage ratios).

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 3.9. Where financial assets are individually evaluated for impairment, management uses their best estimates in calculating the net present value of future cash flows. Management has to make judgements on the financial position of the counterparty and the net realisable value of collateral (where held), in determining the expected future cash flows.

Any change in timing of estimated future cash flows (other than impairment) will adjust carrying value with gain or loss in profit or loss. The revised carrying amount will be recalculated by discounting the revised estimated future cash flows at the portfolios original effective interest rate.

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 £5.1m (2014: £3.2m).

4.2 Goodwill impairment

The accounting policy for goodwill is described in note 3.14 (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 (2014: three) with goodwill attached; the core Arbuthnot Latham CGU (£1.7m), the Music Finance CGU (£0.3m) and the V12 Group CGU (£0.7m; subsidiary of Secure Trust Bank).

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 (2014: 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 2018 as per the approved 3 year plan. A growth rate of 19% (2014: 10%) was used for income and 16% (2014: 10%) for expenditure from 2016 to 2018 (these rates were the best estimate of future forecasted performance), while a 3% (2014: 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 (2014: 5 years). Income and expenditure were kept flat (2014: 0%) over the 5 year period.

Cash flows were discounted at a pre-tax rate of 12% (2014: 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 Effective Interest Rate

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.

4.6 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.

Uncertainties in the regulatory environment continue. 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 100% 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.

The valuation of the cash settled Share Option Scheme was determined at 31 December 2015 using Black-Scholes valuation models. In the opinion of the directors the terms of the scheme are such that there remains a number of key uncertainties to be considered when calculating the probability of pay-out, which are considered to be similar to those set out above.

4.7 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".

4.8 PPI provisions

The Group provides for its best estimate of redress payable in respect of historical sales of PPI, by considering the likely future uphold rate for claims, in the context of confirmed issues and historical experience. The likelihood of potential new claims is projected forward to 2018, as management believe this to be an appropriate time horizon, recognising the significant decline in recent claims experience and the increasing subjectivity beyond that. The accuracy of these estimates would be affected, were there to be a significant change in either the number of future claims or, the incidence of claims upheld by the Financial Ombudsman. The amounts are included within accruals.

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).

Visa Europe Limited investment

Following the public announcement on 2 November 2015 of the proposed sale of Visa Europe Ltd ("Visa Europe") to Visa Inc., the fair value of the Company's equity interest in Visa Europe has been established by reference to the consideration being offered by Visa Inc. A gain has being recognised in other comprehensive income for the revised valuation.

The deal values Visa Europe at up to €1.2bn, payable as €1.5bn in cash and €bn in Visa Inc. preferred stock, plus a potential future earn-out of up to €4.7bn. The valuation of the Company's investment includes a haircut on the preference share element to take account of contingent legal liabilities of Visa Europe and uncertainty over the transferability of these shares. No value has been attributed to the contingent earn-out due to uncertainty as its nature, valuation, and the Company's share.

Other level 3 financial investments

For other financial investments measured at fair value, the Group uses proprietary valuation models which are developed from recognised valuation techniques. Management judgement is usually required for the selection of the appropriate valuation model to be used. Some or all of the significant inputs into these models may not be observable in the market. Valuation models that employ significant unobservable inputs require a higher degree of management judgement and estimation in the determination of fair value.

The Group has established a valuation methodology for measuring level 3 financial investments which are categorised as available for sale. Unobservable inputs used include: yield (5.75%), annual rental value (€265/m²) and occupancy rate (94.2%). Significant increases in the yield or decreases in annual rental value or occupancy rate would result in lower fair values. Management analyse and investigate any significant movements to the unobservable inputs which impact the valuation of level 3 instruments.

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

| | Level 1 | Level 2 | Level 3 | Total |
|----------------------------------|------------|--------------|--------------|--------------|
| | £000 | £000 | £000 | £000 |
| At 31 December 2015 | | | | |
| ASSETS | | | | |
| Derivative financial instruments | - | 1,490 | - | 1,490 |
| Financial investments | 137 | - | 2,548 | 2,685 |
| Asset | 137 | 1,490 | 2,548 | 4,175 |
| LIABILITIES | | | | |
| Derivative financial instruments | - | 135 | - | 135 |
| Liability | - | 135 | - | 135 |

| | Level 1 | Level 2 | Level 3 | Total |
|----------------------------------|------------|--------------|--------------|--------------|
| | £000 | £000 | £000 | £000 |
| At 31 December 2014 | | | | |
| ASSETS | | | | |
| Derivative financial instruments | - | 2,707 | - | 2,707 |
| Financial investments | 171 | - | 1,106 | 1,277 |
| Asset | 171 | 2,707 | 1,106 | 3,984 |
| LIABILITIES | | | | |
| Derivative financial instruments | - | 1,067 | - | 1,067 |
| Liability | - | 1,067 | - | 1,067 |

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

The following table reconciles the movement in level 3 financial instruments measured at fair value (financial investments) during the year:

| | 2015 | 2014 |
|----------------------------|-------|-------|
| | £000 | £000 |
| Movement in level 3 | | |
| At 1 January | 1,106 | 1,796 |

| | | |
|--|--------------|--------------|
| Disposals | (44) | (243) |
| Movements recognised in other comprehensive income | 1,559 | - |
| Movements recognised in the profit and loss | (73) | (447) |
| At 31 December | 2,548 | 1,106 |

The tables below analyses financial instruments not measured at fair value by the level in the fair value hierarchy into which the measurement is categorised:

| At 31 December 2015 | Level 1 | Level 2 | Level 3 | Total |
|------------------------------------|----------|----------------|------------------|------------------|
| | £000 | £000 | £000 | £000 |
| ASSETS | | | | |
| Cash and balances at central banks | - | 368,611 | - | 368,611 |
| Loans and advances to banks | - | 28,578 | - | 28,578 |
| Debt securities held-to-maturity | - | 87,728 | - | 87,728 |
| Assets classified as held for sale | - | - | 118,456 | 118,456 |
| Loans and advances to customers | - | - | 1,579,512 | 1,579,512 |
| Other assets | - | - | 2,625 | 2,625 |
| Asset | - | 484,917 | 1,700,593 | 2,185,510 |

| | | | | |
|--|----------|---------------|------------------|------------------|
| LIABILITIES | | | | |
| Deposits from banks | - | 55,305 | - | 55,305 |
| Deposits from customers | - | - | 1,929,838 | 1,929,838 |
| Liabilities relating to assets classified as held for sale | - | - | 8,700 | 8,700 |
| Other liabilities | - | - | 14,581 | 14,581 |
| Debt securities in issue | - | - | 10,834 | 10,834 |
| Liability | - | 55,305 | 1,963,953 | 2,019,258 |

| At 31 December 2014 | Level 1 | Level 2 | Level 3 | Total |
|------------------------------------|----------|----------------|------------------|------------------|
| | £000 | £000 | £000 | £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 |
| Loans and advances to customers | - | 106,285 | 1,052,698 | 1,158,983 |
| Other assets | - | - | 5,522 | 5,522 |
| Asset | - | 345,750 | 1,058,220 | 1,403,970 |

| | | | | |
|--------------------------|----------|---------------|------------------|------------------|
| LIABILITIES | | | | |
| Deposits from banks | - | 27,657 | - | 27,657 |
| Deposits from customers | - | - | 1,194,285 | 1,194,285 |
| Other liabilities | - | - | 12,024 | 12,024 |
| Debt securities in issue | - | - | 11,448 | 11,448 |
| Liability | - | 27,657 | 1,217,757 | 1,245,414 |

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 2015:

| At 31 December 2015 | Due within one year | Due after more than one year | Total |
|----------------------------------|------------------------|------------------------------------|---------|
| | £000 | £000 | £000 |
| ASSETS | | | |
| Cash | 368,611 | - | 368,611 |
| Loans and advances to banks | 28,578 | - | 28,578 |
| Debt securities held-to-maturity | 56,145 | 31,583 | 87,728 |

| | | | |
|------------------------------------|------------------|----------------|------------------|
| Assets classified as held for sale | 118,456 | - | 118,456 |
| Derivative financial instruments | 59 | 1,431 | 1,490 |
| Loans and advances to customers | 691,315 | 888,197 | 1,579,512 |
| Other assets | 16,544 | 350 | 16,894 |
| Financial investments | - | 2,685 | 2,685 |
| Deferred tax asset | - | 1,784 | 1,784 |
| Investment in associate | - | 943 | 943 |
| Intangible assets | - | 10,874 | 10,874 |
| Property, plant and equipment | - | 14,004 | 14,004 |
| Total assets | 1,279,708 | 951,851 | 2,231,559 |

LIABILITIES

| | | | |
|---|------------------|----------------|------------------|
| Deposits from banks | 55,305 | - | 55,305 |
| Derivative financial instruments | 135 | - | 135 |
| Deposits from customers | 1,373,297 | 556,541 | 1,929,838 |
| Liabilities classified as held for sale | 8,700 | - | 8,700 |
| Current tax liability | 3,366 | - | 3,366 |
| Other liabilities | 28,319 | 3,658 | 31,977 |
| Debt securities in issue | - | 10,834 | 10,834 |
| Total liabilities | 1,469,122 | 571,033 | 2,040,155 |

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

| | Due within one year | Due after more than one year | Total |
|----------------------------------|------------------------|------------------------------------|------------------|
| | £000 | £000 | £000 |
| At 31 December 2014 | | | |
| 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 Company as at 31 December 2015:

| | Due within one year | Due after more than one year | Total |
|--|------------------------|------------------------------------|---------------|
| | £000 | £000 | £000 |
| At 31 December 2015 | | | |
| ASSETS | | | |
| Due from subsidiary undertakings - bank balances | 12,444 | - | 12,444 |
| Financial investments | - | 125 | 125 |
| Deferred tax asset | - | 418 | 418 |
| Property, plant and equipment | - | 204 | 204 |
| Other assets | 641 | 350 | 991 |
| Shares in subsidiary undertakings | - | 46,466 | 46,466 |
| Total assets | 13,085 | 47,563 | 60,648 |

| LIABILITIES | | | |
|--------------------------|--------------|---------------|---------------|
| Other liabilities | 4,235 | - | 4,235 |
| Debt securities in issue | - | 10,834 | 10,834 |
| Total liabilities | 4,235 | 10,834 | 15,069 |

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

| | Due within | Due after | Total |
|--|---------------|---------------|---------------|
| | one year | more than | |
| At 31 December 2014 | £000 | £000 | £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 |

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:

| | 2015 | 2014 |
|--|------------------|------------------|
| | £000 | £000 |
| Credit risk exposures relating to on-balance sheet assets are as follows: | | |
| Cash and balances at central banks | 368,611 | 115,938 |
| Loans and advances to banks | 28,578 | 31,844 |
| Debt securities held-to-maturity | 87,728 | 91,683 |
| Assets classified as held for sale | 118,456 | - |
| Derivative financial instruments | 1,490 | 2,707 |
| Loans and advances to customers - Arbuthnot Latham | 618,902 | 536,488 |
| Loan and advances to customers - Secure Trust Bank | 960,610 | 622,495 |
| Other assets | 2,625 | 5,522 |
| Financial investments | 2,685 | 1,277 |
| Credit risk exposures relating to off-balance sheet assets are as follows: | | |
| Guarantees | 56 | 714 |
| Loan commitments and other credit related liabilities | 178,863 | 139,423 |
| At 31 December | 2,368,604 | 1,548,091 |

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

| | 2015 | 2014 |
|--|---------------|---------------|
| | £000 | £000 |
| Credit risk exposures relating to on-balance sheet assets are as follows: | | |
| Due from subsidiary undertakings - bank balances | 12,444 | 19,244 |
| Financial investments | 125 | 158 |
| Other assets | 891 | 5,365 |
| Credit risk exposures relating to off-balance sheet assets are as follows: | | |
| At 31 December | 13,460 | 24,767 |

The above tables represents the maximum credit risk exposure (net of impairment) to the Group and Company at 31 December 2015 and 2014 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 2015 | | 31 December 2014 | |
|-------------------|------------------|------------|------------------|------------|
| | Loan Balance | Collateral | Loan Balance | Collateral |
| | £000 | £000 | £000 | £000 |
| Loan to value | | | | |
| Less than 60% | 486,256 | 1,256,642 | 300,384 | 824,044 |
| 60% - 80% | 340,781 | 507,852 | 179,527 | 269,673 |
| 80% - 100% | 80,762 | 98,792 | 28,176 | 29,899 |
| Greater than 100% | 36,486 | 25,738 | 23,497 | 18,382 |

| | | | | |
|-------|---------|-----------|---------|-----------|
| Total | 944,285 | 1,889,024 | 531,584 | 1,141,998 |
|-------|---------|-----------|---------|-----------|

The table below represents an analysis of the loan commitments compared to the values of the properties for the Group:

| | 31 December 2015 | | 31 December 2014 | |
|---|------------------|----------------|------------------|----------------|
| | Committed | Collateral | Committed | Collateral |
| Loan commitments and other credit related liabilities | £000 | £000 | £000 | £000 |
| Less than 60% | 74,576 | 171,108 | 71,575 | 172,804 |
| 60% - 80% | 56,702 | 81,765 | 57,223 | 79,899 |
| 80% - 100% | 2,278 | 2,848 | - | - |
| Total | 133,556 | 255,721 | 128,798 | 252,703 |

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.

No forbearance measures were undertaken for Arbutnot Latham & Co., Ltd in 2014. As at 31 December 2015, loans for which forbearance measures were undertaken totalled 0.14% of total loans to customers for the Bank. Six loans with a total balance of £764,000 were transferred to interest only, while historic arrears on one loan of £147,000, were moved to capital.

Secure Trust Bank (“STB”) does not reschedule contractual arrangements where customers default on their repayments. Under its Treating Customers Fairly (“TCF”) policies, however, STB 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.

The policy on forbearance for Everyday Loans 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 2015 the gross balance of rescheduled loans included in the Consolidated Statement of Financial Position was £14.9m, with an allowance for impairment on these loans of £1.0m. The gross balance of deferred loans was £3.4m with an allowance for impairment on these of £0.6m. (31 December 2014: the gross balance of rescheduled loans was £14.7m, with an allowance for impairment of £1.0m. The gross balance of deferred loans was £3.0m 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 | |
|---------------------------------|---------------------------------|---------|------------------|--------|
| | 2015 | 2014 | 2015 | 2014 |
| | £000 | £000 | £000 | £000 |
| Concentration by product | | | | |
| Cash collateralised | 15,987 | 19,934 | - | - |
| Commercial Lending | | | | |
| Real estate finance | 367,999 | 133,738 | 109,033 | 95,790 |
| Asset finance | 70,685 | 4,541 | 20,081 | - |
| Commercial finance | 52,222 | 25,875 | 9,277 | - |
| Residential mortgages | 521,256 | 451,645 | 40,230 | 43,428 |
| Non-Performing | 9,839 | 11,940 | - | - |
| Other Collateral | 55,211 | 32,587 | - | - |

| | | | | |
|-----------------------|------------------|------------------|----------------|----------------|
| Unsecured | | | | |
| Personal lending | 79,706 | 192,638 | - | - |
| Motor | 165,697 | 137,853 | 242 | 205 |
| Retail | 220,418 | 116,734 | - | - |
| Other | 20,492 | 31,498 | - | - |
| At 31 December | 1,579,512 | 1,158,983 | 178,863 | 139,423 |

Concentration by location

| | | | | |
|-----------------------|------------------|------------------|----------------|----------------|
| East Anglia | 99,340 | 44,359 | 28,091 | 7,195 |
| East Midlands | 49,222 | 44,869 | 1,088 | - |
| London | 600,254 | 463,333 | 79,523 | 64,329 |
| Midlands | 7,811 | 13,208 | - | - |
| North East | 29,239 | 39,292 | 564 | 17,638 |
| North West | 90,496 | 76,349 | 4,863 | - |
| Northern Ireland | 8,301 | 8,622 | - | - |
| Scotland | 74,635 | 53,177 | 2,000 | - |
| South East | 245,647 | 174,912 | 40,738 | 17,845 |
| South West | 87,429 | 58,627 | 6,204 | 10,825 |
| Wales | 42,436 | 32,799 | 1,427 | - |
| West Midlands | 69,162 | 44,146 | 4,787 | 1,262 |
| Yorkshire & Humber | 59,210 | 38,176 | 3,033 | - |
| Overseas | 74,627 | 28,849 | 5,667 | - |
| Other | 41,703 | 38,265 | 878 | 20,329 |
| At 31 December | 1,579,512 | 1,158,983 | 178,863 | 139,423 |

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 23, a stress test scenario of a 10% (2014: 10%) decline in market prices, with all other things being equal, would result in a £11,000 (2014: £127,000) decrease in the Group's income and a decrease of £215,000 (2014: £103,000) 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 23, a stress test scenario of a 10% (2014: 10%) decline in market prices, with all other things being equal, would result in a £11,000 (2014: £15,000) decrease in the Company's income and a decrease of £10,000 (2014: £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 2015. 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 2015

| | £000 | £000 | £000 | £000 | £000 |
|--|------------------|---------------|---------------|--------------|------------------|
| ASSETS | | | | | |
| Cash and balances at central banks | 365,165 | 3,405 | 35 | 6 | 368,611 |
| Loans and advances to banks | 10,045 | 14,527 | 1,925 | 2,081 | 28,578 |
| Debt securities held-to-maturity | 80,952 | 6,776 | - | - | 87,728 |
| Assets classified as held for sale | 118,456 | - | - | - | 118,456 |
| Derivative financial instruments | 1,490 | - | - | - | 1,490 |
| Loans and advances to customers | 1,522,893 | 17,231 | 39,344 | 44 | 1,579,512 |
| Other assets | 2,625 | - | - | - | 2,625 |
| Financial investments | 172 | - | 2,513 | - | 2,685 |
| | 2,101,798 | 41,939 | 43,817 | 2,131 | 2,189,685 |
| LIABILITIES | | | | | |
| Deposits from banks | 54,963 | - | 342 | - | 55,305 |
| Derivative financial instruments | 135 | - | - | - | 135 |
| Deposits from customers | 1,865,078 | 39,220 | 23,255 | 2,285 | 1,929,838 |
| Liabilities relating to assets classified as held for sale | 8,700 | - | - | - | 8,700 |
| Other liabilities | 14,581 | - | - | - | 14,581 |
| Debt securities in issue | - | - | 10,834 | - | 10,834 |
| | 1,943,457 | 39,220 | 34,431 | 2,285 | 2,019,393 |
| Net on-balance sheet position | 158,341 | 2,719 | 9,386 | (154) | 170,292 |
| Credit commitments | 178,919 | - | - | - | 178,919 |

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

| | GBP (£) | USD (\$) | Euro (€) | Other | Total |
|--------------------------------------|------------------|---------------|---------------|------------|------------------|
| | £000 | £000 | £000 | £000 | £000 |
| At 31 December 2014 | | | | | |
| 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 |

A 10% strengthening of the pound against the US dollar would lead to a £3,000 decrease (2014: £1,000 decrease) 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 £52,000 (2014: £6,000 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 19), 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 2015:

| | GBP (£) | Euro (€) | Total |
|--|---------|----------|--------|
| | £000 | £000 | £000 |
| At 31 December 2015 | | | |
| ASSETS | | | |
| Due from subsidiary undertakings - bank balances | 1,087 | 11,357 | 12,444 |
| Financial investments | 125 | - | 125 |

| | | | |
|--------------------------------------|----------------|---------------|---------------|
| Other assets | 789 | - | 789 |
| | 2,001 | 11,357 | 13,358 |
| LIABILITIES | | | |
| Other liabilities | 3,068 | - | 3,068 |
| Debt securities in issue | - | 10,834 | 10,834 |
| | 3,068 | 10,834 | 13,902 |
| Net on-balance sheet position | (1,067) | 523 | (544) |

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

| | GBP (£) | Euro (€) | Total |
|--|---------------|---------------|---------------|
| | £000 | £000 | £000 |
| At 31 December 2014 | | | |
| 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 |

A 10% strengthening of the pound against the Euro would lead to £52,000 (2014: £28,000) 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 £0.4m to £1.8m (2014: £0.3m to £1.1m) 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 £7,000 (2014: increase pre-tax profits and equity by £60,000).

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 | Within 3 months | More than 3 months but less than 6 months | More than 6 months but less than 1 year | More than 1 year but less than 5 years | More than 5 years | Non interest bearing | Total |
|------------------------------------|------------------|---|---|--|-------------------|----------------------|------------------|
| | £000 | £000 | £000 | £000 | £000 | £000 | £000 |
| As at 31 December 2015 | | | | | | | |
| ASSETS | | | | | | | |
| Cash and balances at central banks | 368,611 | - | - | - | - | - | 368,611 |
| Loans and advances to banks | 28,578 | - | - | - | - | - | 28,578 |
| Assets classified as held for sale | - | - | - | - | - | 118,456 | 118,456 |
| Debt securities held-to-maturity | 54,472 | 14,481 | 18,775 | - | - | - | 87,728 |
| Derivative financial instruments | - | - | - | - | 1,490 | - | 1,490 |
| Loans and advances to customers | 637,301 | 267,464 | 176,227 | 534,201 | 15 | (35,696) | 1,579,512 |
| Other assets | - | - | - | - | - | 44,499 | 44,499 |
| Financial investments | - | - | - | - | - | 2,685 | 2,685 |
| Total assets | 1,088,962 | 281,945 | 195,002 | 534,201 | 1,505 | 129,944 | 2,231,559 |

| LIABILITIES | | | | | | | |
|---|----------------|------------------|----------------|----------------|-----------------|------------------|------------------|
| Deposits from banks | 387 | 35,000 | 19,918 | - | - | - | 55,305 |
| Derivative financial instruments | 135 | - | - | - | - | - | 135 |
| Deposits from customers | 675,327 | 534,562 | 184,758 | 497,416 | 37,775 | - | 1,929,838 |
| Liabilities classified as held for sale | - | - | - | - | - | 8,700 | 8,700 |
| Other liabilities | - | - | - | - | - | 35,343 | 35,343 |
| Debt securities in issue | 10,834 | - | - | - | - | - | 10,834 |
| Equity | - | - | - | - | - | 191,404 | 191,404 |
| Total liabilities | 686,683 | 569,562 | 204,676 | 497,416 | 37,775 | 235,447 | 2,231,559 |
| Impact of derivative instruments | 3,800 | - | - | (3,800) | - | - | - |
| Interest rate sensitivity gap | 406,079 | (287,617) | (9,674) | 32,985 | (36,270) | (105,503) | |
| Cumulative gap | 406,079 | 118,462 | 108,788 | 141,773 | 105,503 | - | |

| Group | Within 3 months | More than 3 months but less than 6 months | More than 6 months but less than 1 year | More than 1 year but less than 5 years | More than 5 years | Non interest bearing | Total |
|-------------------------------|-----------------|---|---|--|-------------------|----------------------|-------|
| As at 31 December 2014 | £000 | £000 | £000 | £000 | £000 | £000 | £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 | - | |

| Company | Within 3 months | More than 3 months but less than 6 months | More than 6 months but less than 1 year | More than 1 year but less than 5 years | More than 5 years | Non interest bearing | Total |
|-------------------------------|-----------------|---|---|--|-------------------|----------------------|-------|
| As at 31 December 2015 | £000 | £000 | £000 | £000 | £000 | £000 | £000 |

| ASSETS | | | | | | | |
|--|---------------|--------------|--------------|--------------|--------------|----------------|---------------|
| Due from subsidiary undertakings - bank balances | 12,444 | - | - | - | - | 159 | 12,603 |
| Other assets | - | - | - | - | - | 47,920 | 47,920 |
| Financial investments | - | - | - | - | - | 125 | 125 |
| Total assets | 12,444 | - | - | - | - | 48,204 | 60,648 |
| LIABILITIES | | | | | | | |
| Other liabilities | - | - | - | - | - | 4,235 | 4,235 |
| Debt securities in issue | 10,834 | - | - | - | - | - | 10,834 |
| Equity | - | - | - | - | - | 45,579 | 45,579 |
| Total liabilities | 10,834 | - | - | - | - | 49,814 | 60,648 |
| Interest rate sensitivity gap | 1,610 | - | - | - | - | (1,610) | |
| Cumulative gap | 1,610 | 1,610 | 1,610 | 1,610 | 1,610 | - | |

| Company | Within 3 months | More than 3 months but less than 6 months | More than 6 months but less than 1 year | More than 1 year but less than 5 years | More than 5 years | Non interest bearing | Total |
|--|-----------------|---|---|--|-------------------|----------------------|---------------|
| As at 31 December 2014 | £000 | £000 | £000 | £000 | £000 | £000 | £000 |
| ASSETS | | | | | | | |
| Due from subsidiary undertakings - bank balances | 19,244 | - | - | - | - | - | 19,244 |
| Other assets | - | - | - | - | - | 45,975 | 45,975 |
| Financial investments | - | - | - | - | - | 158 | 158 |
| Total assets | 19,244 | - | - | - | - | 46,133 | 65,377 |
| LIABILITIES | | | | | | | |
| Other liabilities | - | - | - | - | - | 4,132 | 4,132 |
| Debt securities in issue | 11,448 | - | - | - | - | - | 11,448 |
| Equity | - | - | - | - | - | 49,797 | 49,797 |
| Total liabilities | 11,448 | - | - | - | - | 53,929 | 65,377 |
| Interest rate sensitivity gap | 7,796 | - | - | - | - | (7,796) | |
| Cumulative gap | 7,796 | 7,796 | 7,796 | 7,796 | 7,796 | - | |

(d) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. The liquidity requirements of the Group are met through withdrawing funds from its Bank of England Reserve Account to cover any short-term fluctuations and, longer term funding to address any structural liquidity requirements.

The Group has formal governance structures in place to manage and mitigate liquidity risk on a day to day basis. The Board of each bank sets and approves the liquidity risk management strategy for each subsidiary. The Assets and Liabilities Committees ("ALCO"), comprising senior executives of each Company, monitors liquidity risk. Key liquidity risk management information is reported by the finance teams and monitored by the Chief Executive Officer and Chief Financial Officer on a daily basis. The ALCO meets monthly to review liquidity risk against set thresholds and risk indicators including early warning indicators, liquidity risk tolerance levels and Individual Liquidity Adequacy Assessment Process ("ILAAP") metrics.

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 liquidity 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.

Arbuthnot Latham & Co., Limited ("AL") and Secure Trust Bank PLC ("STB") have Board approved ILAAPs. The liquidity buffer required by the ILAAP has been put in place and maintained since that time. Liquidity resources outside of the buffer are made up of deposits placed at the Bank of England. The ILAAP is updated annually.

The Liquidity Coverage Ratio ("LCR") regime has applied to the Group from 1 October 2015, requiring management of net 30 day cash outflows as a proportion of high quality liquid assets. The actual LCR has significantly exceeded the regulatory minimum throughout the year.

The Group is exposed to daily calls on its available cash resources from current accounts, maturing deposits and loan draw-downs. The Group maintains significant cash resources to meet all of these needs as they fall due. The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Group. It is unusual for banks to be completely matched, as transacted business is often of uncertain term and of different types.

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.

The tables below show the undiscounted contractual maturity analysis of the Group's financial liabilities and assets as at 31 December 2015:

| | Carrying amount | Gross nominal inflow/ (outflow) | Not more than 3 months | More than 3 months but less than 1 year | More than 1 year but less than 5 years | More than 5 years |
|--|------------------|---------------------------------|------------------------|---|--|-------------------|
| | £000 | £000 | £000 | £000 | £000 | £000 |
| At 31 December 2015 | | | | | | |
| Financial liability by type | | | | | | |
| Non-derivative liabilities | | | | | | |
| Deposits from banks | 55,305 | (55,305) | (35,387) | (19,918) | - | - |
| Deposits from customers | 1,929,838 | (2,059,721) | (1,099,222) | (376,705) | (540,890) | (42,904) |
| Other liabilities | 14,581 | (14,581) | (12,992) | (125) | - | (1,464) |
| Debt securities in issue | 10,834 | (12,442) | (80) | (241) | (1,287) | (10,834) |
| Liabilities relating to assets classified as held for sale | 8,700 | (8,700) | (8,700) | - | - | - |
| Issued financial guarantee contracts | - | (56) | (56) | - | - | - |
| Unrecognised loan commitments | - | (178,863) | (178,863) | - | - | - |
| | 2,019,258 | (2,329,668) | (1,335,300) | (396,989) | (542,177) | (55,202) |
| Derivative liabilities | | | | | | |
| Risk management: | 135 | - | - | - | - | - |
| - Outflows | - | (135) | (135) | - | - | - |
| | 135 | (135) | (135) | - | - | - |

| | Carrying amount | Gross nominal inflow/ (outflow) | Not more than 3 months | More than 3 months but less than 1 year | More than 1 year but less than 5 years | More than 5 years |
|------------------------------------|------------------|---------------------------------|------------------------|---|--|-------------------|
| | £000 | £000 | £000 | £000 | £000 | £000 |
| At 31 December 2015 | | | | | | |
| Financial asset by type | | | | | | |
| Non-derivative assets | | | | | | |
| Cash and balances at central banks | 368,611 | 368,611 | 368,611 | - | - | - |
| Loans and advances to banks | 28,578 | 28,578 | 28,578 | - | - | - |
| Debt securities held-to-maturity | 87,728 | 88,887 | 29,333 | 27,302 | 32,252 | - |
| Assets classified as held for sale | 118,456 | (118,456) | (118,456) | - | - | - |
| Loans and advances to customers | 1,579,512 | 1,913,124 | 245,450 | 506,808 | 1,093,755 | 67,111 |
| Other assets | 2,625 | 2,625 | 2,625 | - | - | - |
| Financial investments | 2,685 | 2,685 | 2,561 | - | 124 | - |
| | 2,188,195 | 2,286,054 | 558,702 | 534,110 | 1,126,131 | 67,111 |
| Derivative assets | | | | | | |
| - Inflows | 1,490 | 1,490 | 59 | - | - | 1,431 |
| | 1,490 | 1,490 | 59 | - | - | 1,431 |

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

| | Carrying amount | Gross nominal inflow/ (outflow) | Not more than 3 months | More than 3 months but less than 1 year | More than 1 year but less than 5 years | More than 5 years |
|--------------------------------------|------------------|---------------------------------|------------------------|---|--|-------------------|
| | £000 | £000 | £000 | £000 | £000 | £000 |
| At 31 December 2014 | | | | | | |
| 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) | - | - | - |
|------------------------------------|------------------|--------------------------------|------------------------|---|--|-------------------|
| | Carrying amount | Gross nominal inflow/(outflow) | Not more than 3 months | More than 3 months but less than 1 year | More than 1 year but less than 5 years | More than 5 years |
| | £000 | £000 | £000 | £000 | £000 | £000 |
| At 31 December 2014 | | | | | | |
| 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 table below sets out the components of the Group's liquidity reserves:

| | 31 December 2015 | | 31 December 2014 | |
|------------------------------------|------------------|----------------|------------------|----------------|
| | Amount | Fair value | Amount | Fair value |
| | £000 | £000 | £000 | £000 |
| Liquidity reserves | | | | |
| Cash and balances at central banks | 368,611 | 368,611 | 115,938 | 115,938 |
| Loans and advances to banks | 28,578 | 28,578 | 31,844 | 31,844 |
| Debt securities held-to-maturity | 87,728 | 87,594 | 91,683 | 91,683 |
| Undrawn credit lines | 38,500 | 38,500 | 38,500 | 38,500 |
| | 523,417 | 523,283 | 277,965 | 277,965 |

Assets pledged as collateral or encumbered

The total financial assets recognised in the statement of financial position that had been pledged as collateral for liabilities at 31 December 2015 was £226.2m (2014: £159.3m).

Financial assets are pledged as collateral as part of sales and repurchases, securities borrowing and securitisation transactions under terms that are usual and customary for such activities. In addition, as part of these transactions, the Group has received collateral that is permitted to sell or repledge in the absence of default.

The table below analyses the contractual maturity analysis of the Company's financial liabilities and assets as at 31 December 2015:

| | Carrying amount | Gross nominal inflow/(outflow) | Not more than 3 months | More than 3 months but less than 1 year | More than 1 year but less than 5 years | More than 5 years |
|------------------------------------|-----------------|--------------------------------|------------------------|---|--|-------------------|
| | £000 | £000 | £000 | £000 | £000 | £000 |
| At 31 December 2015 | | | | | | |
| Financial liability by type | | | | | | |
| Non-derivative liabilities | | | | | | |
| Other liabilities | 3,068 | (3,068) | (1,479) | (125) | - | (1,464) |
| Debt securities in issue | 10,834 | (12,442) | (80) | (241) | (1,287) | (10,834) |
| | 13,902 | (15,510) | (1,559) | (366) | (1,287) | (12,298) |

| | Carrying amount | Gross nominal inflow/(outflow) | Not more than 3 months | More than 3 months but less than 1 year | More than 1 year but less than 5 years | More than 5 years |
|--|-----------------|--------------------------------|------------------------|---|--|-------------------|
| | £000 | £000 | £000 | £000 | £000 | £000 |
| At 31 December 2015 | | | | | | |
| Financial asset by type | | | | | | |
| Non-derivative assets | | | | | | |
| Due from subsidiary undertakings - bank balances | 12,444 | 12,444 | 11,965 | - | - | 479 |
| Financial investments | 125 | 125 | - | - | 125 | - |

| | | | | | | |
|--------------|---------------|---------------|---------------|----------|------------|------------|
| Other assets | 891 | 891 | 891 | - | - | - |
| | 12,569 | 12,569 | 11,965 | - | 125 | 479 |

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

| | Carrying amount | Gross nominal inflow/ (outflow) | Not more than 3 months | More than 3 months but less than 1 year | More than 1 year but less than 5 years | More than 5 years |
|------------------------------------|-----------------|---------------------------------|------------------------|---|--|-------------------|
| | £000 | £000 | £000 | £000 | £000 | £000 |
| At 31 December 2014 | | | | | | |
| 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) |

| | Carrying amount | Gross nominal inflow/ (outflow) | Not more than 3 months | More than 3 months but less than 1 year | More than 1 year but less than 5 years | More than 5 years |
|--|-----------------|---------------------------------|------------------------|---|--|-------------------|
| | £000 | £000 | £000 | £000 | £000 | £000 |
| At 31 December 2014 | | | | | | |
| Financial asset by type | | | | | | |
| Non-derivative assets | | | | | | |
| Due from subsidiary undertakings - bank balances | 19,244 | 19,244 | 3,776 | 15,000 | - | 468 |
| Financial investments | 158 | 158 | - | - | 158 | - |
| Other assets | 5,365 | 5,365 | 5,365 | - | - | - |
| | 24,767 | 24,767 | 9,141 | 15,000 | 158 | 468 |

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 £739m (2014: £666m). 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:

| | Fair value through profit or loss | Held-to-maturity | Loans and receivables | Available-for-sale | Other amortised cost | Total carrying amount | Fair value |
|------------------------------------|-----------------------------------|------------------|-----------------------|--------------------|----------------------|-----------------------|------------------|
| | £000 | £000 | £000 | £000 | £000 | £000 | £000 |
| At 31 December 2015 | | | | | | | |
| ASSETS | | | | | | | |
| Cash and balances at central banks | - | - | 368,611 | - | - | 368,611 | 368,611 |
| Loans and advances to banks | - | - | 28,578 | - | - | 28,578 | 28,578 |
| Debt securities held-to-maturity | - | 87,728 | - | - | - | 87,728 | 87,594 |
| Assets classified as held for sale | - | - | - | 118,456 | - | 118,456 | 118,456 |
| Derivative financial instruments | 1,490 | - | - | - | - | 1,490 | 1,490 |
| Loans and advances to customers | - | - | 1,579,512 | - | - | 1,579,512 | 1,570,932 |
| Other assets | - | - | 2,625 | - | - | 2,625 | 2,625 |
| Financial investments | - | - | - | 2,685 | - | 2,685 | 2,685 |
| | 1,490 | 87,728 | 1,979,326 | 121,141 | - | 2,189,685 | 2,180,971 |

LIABILITIES

| | | | | | | | |
|----------------------------------|-----|---|---|---|-----------|-----------|-----------|
| Deposits from banks | - | - | - | - | 55,305 | 55,305 | 55,305 |
| Derivative financial instruments | 135 | - | - | - | - | 135 | 135 |
| Deposits from customers | - | - | - | - | 1,929,838 | 1,929,838 | 1,929,838 |

| | | | | | | | |
|--|------------|----------|---------------|--------------|------------------|------------------|------------------|
| Liabilities relating to assets classified as held for sale | - | - | - | 8,700 | - | 8,700 | 8,700 |
| Other liabilities | - | - | 14,581 | - | - | 14,581 | 14,581 |
| Debt securities in issue | - | - | - | - | 10,834 | 10,834 | 10,834 |
| | 135 | - | 14,581 | 8,700 | 1,995,977 | 2,019,393 | 2,019,393 |

| | Fair value through profit or loss | Held-to-maturity | Loans and receivables | Available-for-sale | Other amortised cost | Total carrying amount | Fair value |
|--|-----------------------------------|------------------|-----------------------|--------------------|----------------------|-----------------------|------------|
| | £000 | £000 | £000 | £000 | £000 | £000 | £000 |

At 31 December 2014

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 |

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 Regulation 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 39.

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:

| | 2015 | 2014 |
|--|------|------|
| | £000 | £000 |

Tier 1

| | | |
|--|----------------|----------------|
| Share capital | 153 | 153 |
| Retained earnings | 123,330 | 114,641 |
| Other reserves | (1,111) | (1,111) |
| Non-controlling interests | 67,887 | 60,038 |
| Deduction for non-controlling interests | (23,047) | (28,835) |
| Goodwill | (2,695) | (2,695) |
| Deductions for other intangibles | (8,179) | (8,623) |
| Revaluation reserve | 1,145 | (152) |
| Total tier 1 capital resources | 157,483 | 133,416 |
| Tier 2 | | |
| Collective provisions | 2,031 | 2,031 |
| Debt securities in issue | 10,834 | 11,448 |
| Total tier 2 capital resources | 12,865 | 13,479 |
| Total tier 1 & tier 2 capital resources | 170,348 | 146,895 |

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 2015 are published as a separate document on the Group website under Investor Relations (Announcements & Shareholder Info).

8. Interest income

| | Re-presented* | |
|------------------------------------|----------------|---------------|
| | 2015 | 2014 |
| | £000 | £000 |
| Cash and balances at central banks | 1,351 | 1,026 |
| Loans and advances to banks | 240 | 52 |
| Debt securities held-to-maturity | 567 | 530 |
| Loans and advances to customers | 130,874 | 85,790 |
| | 133,032 | 87,398 |

* Prior year numbers have been re-presented to exclude discontinuing operations (see note 11).

9. Fee and commission income

| | Re-presented* | |
|---|---------------|---------------|
| | 2015 | 2014 |
| | £000 | £000 |
| Banking commissions | 1,666 | 5,014 |
| Trust and other fiduciary fee income | 5,946 | 5,210 |
| Financial Planning fees and commissions | 1,969 | 1,557 |
| Structured product commissions | - | 1,218 |
| Other fee income** | 17,285 | 12,842 |
| | 26,866 | 25,841 |

* Prior year numbers have been re-presented to exclude discontinuing operations (see note 11).

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

10. Net impairment loss on financial assets

| | Re-presented* | |
|--|---------------|---------------|
| | 2015 | 2014 |
| | £000 | £000 |
| Net Impairment losses on loans and advances to customers | 18,032 | 11,606 |
| Impairment losses on financial investments | 34 | 347 |
| | 18,066 | 11,953 |

* Prior year numbers have been re-presented to exclude discontinuing operations (see note 11).

11. Discontinued operations

On 4 December 2015 Secure Trust Bank agreed to the conditional sale of its non-standard consumer lending business, Everyday Loans Group (ELG), which comprises Everyday Loans Holdings Limited and subsidiary companies Everyday Lending Limited and Everyday Loans Limited, to Non Standard Finance PLC (NSF) for £107 million in cash subject to a net asset adjustment and £20 million in NSF ordinary shares. The Disposal is conditional on NSF shareholder approval of its equity fundraising, admission of the new NSF shares to the main market of the London Stock Exchange, regulatory approval and satisfaction of the conditions to the NSF financing. Completion is expected by 30 April 2016. On completion, NSF will repay the current intercompany debt of £108 million to STB.

| | Year ended 31 December | Year ended 31 December |
|--|---------------------------|---------------------------|
| | 2015 | 2014 |
| | £000 | £000 |
| | Note | |
| Interest income | 39,230 | 30,226 |
| Net interest income | 39,230 | 30,226 |
| Fee and commission income | 1,523 | 4,122 |
| Fee and commission expense | (358) | (111) |
| Net fee and commission income | 1,165 | 4,011 |
| Operating income | 40,395 | 34,237 |
| Impairment of LTIP loans, illiquid stocks and outstanding receivable | (7,537) | (6,638) |
| Operating expenses | (21,195) | (19,016) |
| Profit before tax | 11,663 | 8,583 |
| Tax expense | (2,271) | (2,054) |
| Profit after tax | 9,392 | 6,529 |
| Profit attributable to: | | |
| Equity holders of the Company | 4,876 | 3,390 |
| Non-controlling interests | 4,516 | 3,139 |
| Profit after tax | 9,392 | 6,529 |

Earnings per share for profit attributable to the equity holders of the Company from discontinued operations during the year

(expressed in pence per share):

| | | | |
|-----------|----|------|------|
| - basic | 15 | 33.1 | 26.1 |
| - diluted | 15 | 32.1 | 24.5 |

Assets classified as held for sale

| | 2015 |
|---------------------------------|----------------|
| | £000 |
| Loans and advances to banks | 1,661 |
| Loans and advances to customers | 114,266 |
| Other assets | 509 |
| Intangible assets | 1,182 |
| Property, plant and equipment | 448 |
| Deferred tax asset | 390 |
| | 118,456 |

Liabilities relating to assets classified as held for sale

| | 2015 |
|-----------------------|-------|
| | £000 |
| Current tax liability | 3,383 |

| | | |
|-------------------|--|--------------|
| Other liabilities | | 5,317 |
| | | 8,700 |

| Cash flow from discontinued operations | Note | Year ended | Year ended |
|--|-----------|--------------|--------------|
| | | 31 December | 31 December |
| | | 2015 | 2014 |
| | | £000 | £000 |
| Cash flows from operating activities | | | |
| Interest received | | 40,595 | 33,727 |
| Fees and commissions received | | 1,165 | 4,511 |
| Cash payments to employees and suppliers | | (21,197) | (18,313) |
| Taxation (paid)/received | | (130) | - |
| Cash flows from operating profits before changes in operating assets and liabilities | | 20,433 | 19,925 |
| Changes in operating assets and liabilities: | | | |
| - net increase in loans and advances to customers | | (27,788) | (22,070) |
| - net decrease in other assets | | 654 | 60 |
| - net increase in other liabilities | | 7,027 | 3,010 |
| Net cash inflow from operating activities | | 326 | 925 |
| Cash flows from investing activities | | | |
| Purchase of computer software | 26 | (33) | (43) |
| Purchase of property, plant and equipment | 27 | (253) | (80) |
| Net cash from investing activities | | (286) | (123) |
| Cash flows from financing activities | | | |
| Increase in borrowings | | | |
| Dividends paid | | | |
| Net increase in cash and cash equivalents | | 40 | 802 |
| Cash and cash equivalents at 1 January | | 1,621 | 819 |
| Cash and cash equivalents at 31 December | 37 | 1,661 | 1,621 |

12. Operating expenses

| | Re-presented* | |
|--|---------------|---------------|
| | 2015 | 2014 |
| | £000 | £000 |
| Operating expenses comprise: | | |
| Staff costs, including Directors: | | |
| Wages and salaries | 43,094 | 31,748 |
| Social security costs | 4,195 | 3,120 |
| Pension costs | 1,663 | 1,269 |
| Share based payment transactions (note 35) | 1,889 | 1,583 |
| Amortisation of intangibles (note 26) | 1,824 | 1,688 |
| Depreciation (note 27) | 1,323 | 685 |
| Financial Services Compensation Scheme Levy | 160 | - |
| Operating lease rentals | 3,167 | 4,254 |
| Acquisitions costs | 422 | 198 |
| Other administrative expenses | 28,322 | 21,620 |
| Total operating expenses from continuing operations | 86,059 | 66,165 |

* Prior year numbers have been re-presented to exclude discontinuing operations (see note 11).

Details on Directors remuneration is disclosed in the Remuneration Report on page 23.

| | 2015 | 2014 |
|--|------|------|
| | £000 | £000 |
| Remuneration of the auditor and its associates, excluding VAT, was as follows: | | |
| Fees payable to the Company's auditor for the audit of the Company's annual accounts | 95 | 95 |
| Fees payable to the Company's auditor and its associates for other services: | | |
| Audit of the accounts of subsidiaries | 399 | 329 |
| Audit related assurance services | 82 | 65 |
| Taxation compliance services | 114 | 82 |
| Taxation advisory services | 48 | 61 |
| Other assurance services | 87 | 321 |

| | | |
|----------------------------|------------|--------------|
| Corporate finance services | - | 115 |
| Other non-audit services | 59 | 13 |
| Total fees payable | 884 | 1,081 |

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

13. Average number of employees

| | 2015 | 2014 |
|-----------------|------------|------------|
| Retail banking | 706 | 608 |
| Private banking | 210 | 175 |
| Group | 21 | 17 |
| | 937 | 800 |

14. Income tax expense

| | 2015 | 2014 |
|--|--------------|--------------|
| United Kingdom corporation tax at 20.25% (2014: 21.5%) | £000 | £000 |
| Current taxation | | |
| Corporation tax charge - current year | 5,492 | 3,318 |
| Corporation tax charge - adjustments in respect of prior years | 648 | 43 |
| | 6,140 | 3,361 |
| Deferred taxation | | |
| Origination and reversal of temporary differences | (627) | 366 |
| Adjustments in respect of prior years | (77) | (283) |
| | (704) | 83 |
| Income tax expense | 5,436 | 3,444 |
| Tax reconciliation | | |
| Profit before tax | 22,568 | 13,931 |
| Tax at 20.25% (2014: 21.5%) | 4,570 | 2,995 |
| Permanent differences | 288 | 630 |
| Tax rate change | 8 | 59 |
| Prior period adjustments | 570 | (240) |
| Corporation tax charge for the year | 5,436 | 3,444 |

A tax charge of £0.3m was recognised in other comprehensive income during the year (2014: £nil) in respect of available for sale financial investments.

Prior year adjustments mainly relate to the reallocation of costs between continuing and discontinuing operations.

The tax charge on discontinuing operations is disclosed in note 11.

The UK corporation tax rate reduced from 23% to 21% with effect from 1 April 2014 and to 20% with effect from 1 April 2015. On 26 October 2015 the Government substantively enacted a further reduction to the UK corporation tax rate to 19% from 1 April 2017 and to 18% from 1 April 2020. In addition, the Chancellor announced the introduction of a corporation tax surcharge applicable to banking companies with effect from 1 January 2016. The surcharge will be levied at a rate of 8% on the profits of banking companies, after taking into account an annual allowance of £25m. This will increase the Group's future current tax charge accordingly.

15. 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 by the weighted average number of ordinary shares 14,738,548 (2014: 14,738,548) in issue during the year. The weighted average number of ordinary shares has been restated for 2014 from 15,279,322, after taking into account treasury shares (390,274) and shares held in an ESOP trust (150,500).

Diluted

Diluted earnings per ordinary share are calculated by dividing the dilutive profit after tax attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year, 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 200,000 (2014: 187,500).

| | 2015 | 2014 |
|--|--------|-------|
| | £000 | £000 |
| Profit attributable | | |
| Total profit after tax attributable to equity holders of the Company | 12,726 | 8,634 |
| Profit after tax from continuing operations attributable to equity holders of the Company | 7,850 | 4,780 |
| Profit after tax from discontinuing operations attributable to equity holders of the Company | 4,876 | 3,854 |
| Dilutive profit attributable | | |
| Total profit after tax attributable to equity holders of the Company | 12,448 | 7,884 |
| Profit after tax from continuing operations attributable to equity holders of the Company | 7,663 | 4,269 |
| Profit after tax from discontinuing operations attributable to equity holders of the Company | 4,785 | 3,615 |
| Basic Earnings per share | | |
| | p | p |
| Total Basic Earnings per share | 86.3 | 58.6 |
| Basic Earnings per share from continuing operations | 53.3 | 32.4 |
| Basic Earnings per share from discontinuing operations | 33.1 | 26.1 |
| Diluted Earnings per share | | |
| | p | p |
| Total Diluted Earnings per share | 83.3 | 52.8 |
| Diluted Earnings per share from continuing operations | 51.3 | 28.6 |
| Diluted Earnings per share from discontinuing operations | 32.0 | 24.2 |

16. Cash and balances at central banks

| | 2015 | 2014 |
|------------------------------------|---------|---------|
| Group | £000 | £000 |
| Cash and balances at central banks | 368,611 | 115,938 |

Surplus funds are mainly held in the Bank of England 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).

17. Loans and advances to banks

| | 2015 | 2014 |
|---|--------|--------|
| Group | £000 | £000 |
| Placements with banks included in cash and cash equivalents (note 37) | 28,578 | 31,844 |

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:

| | 2015 | 2014 |
|-------|--------|--------|
| Group | £000 | £000 |
| Aa1 | 220 | - |
| A1 | 15,972 | 3,216 |
| A2 | 6,258 | 26,242 |
| A3 | 5,366 | - |
| Baa1 | 762 | 2,386 |
| | 28,578 | 31,844 |

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

18. 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:

| | 2015 | 2014 |
|--|---------------|---------------|
| Group | £000 | £000 |
| At 1 January | 91,683 | 19,466 |
| Exchange difference on monetary assets | 808 | 188 |
| Additions | 145,880 | 85,244 |
| Redemptions | (150,643) | (13,215) |
| At 31 December | 87,728 | 91,683 |

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

| | 2015 | 2014 |
|-------|---------------|---------------|
| Group | £000 | £000 |
| Aaa | 42,618 | 48,714 |
| Aa1 | 23,317 | 22,284 |
| Aa2 | 8,913 | 5,001 |
| Aa3 | 1 | 3,747 |
| A1 | 6,311 | 3,922 |
| A2 | 4,554 | 3,507 |
| A3 | 2,000 | - |
| Baa1 | 14 | 4,508 |
| | 87,728 | 91,683 |

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

19. Derivative financial instruments

| Group | 2015 | | | 2014 | | |
|--------------------|---|------------------------------|-----------------------------------|---|------------------------------|-----------------------------------|
| | 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 | 34,459 | 59 | 135 | 81,898 | 1,209 | 1,067 |
| Interest rate caps | - | - | - | 20,000 | - | - |
| Structured notes | 1,607 | 1,431 | - | 1,607 | 1,498 | - |
| | 36,066 | 1,490 | 135 | 103,505 | 2,707 | 1,067 |

The principal derivatives used by the Group are over the counter 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:

2015 2014

| Group | £000 | £000 |
|-------|---------------|----------------|
| Aa3 | 34,459 | 81,898 |
| A2 | - | 20,000 |
| Baa1 | 1,607 | 1,607 |
| | 36,066 | 103,505 |

20. Loans and advances to customers

| Group | 2015 £000 | 2014 £000 |
|---|------------------|------------------|
| Gross loans and advances | 1,615,208 | 1,197,394 |
| Less: allowances for impairment on loans and advances (note 21) | (35,696) | (38,411) |
| | 1,579,512 | 1,158,983 |

On 18 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. The portfolio has performed according to our expectations and at 31 December 2015 had a remaining balance of £95.1m.

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 | 2015 £000 | 2014 £000 |
|--|---------------|---------------|
| Gross investment in finance lease receivables: | | |
| - No later than 1 year | 41,906 | 18,262 |
| - Later than 1 year and no later than 5 years | 67,789 | 13,047 |
| - Later than 5 years | 873 | - |
| | 110,568 | 31,309 |
| Unearned future finance income on finance leases | (18,996) | (5,799) |
| Net investment in finance leases | 91,572 | 25,510 |
| The net investment in finance leases may be analysed as follows: | | |
| - No later than 1 year | 31,684 | 13,729 |
| - Later than 1 year and no later than 5 years | 59,074 | 11,781 |
| - Later than 5 years | 814 | - |
| | 91,572 | 25,510 |

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

| Group | 2015 £000 | 2014 £000 |
|--------------------------------|------------------|------------------|
| Neither past due nor impaired | 1,516,236 | 1,082,580 |
| Past due but not impaired | 23,792 | 23,175 |
| Impaired | 75,180 | 91,639 |
| Gross | 1,615,208 | 1,197,394 |
| Less: allowance for impairment | (35,696) | (38,411) |
| Net | 1,579,512 | 1,158,983 |

(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 | 2015 £000 | 2014 £000 |
|------------------------|---------------|---------------|
| Past due up to 30 days | 643 | 4,763 |
| Past due 30 - 60 days | 1,714 | 1,145 |
| Past due 60 - 90 days | 1,706 | 1,233 |
| Over 90 days | 19,729 | 16,034 |
| Total | 23,792 | 23,175 |

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 (2014: £nil).

(c) Collateral held

Collateral is measured at fair value less costs to sell.

Arbuthnot Latham & Co., Ltd

Most of the loans are secured by property with an average LTV of 46% (2014: 43%). The fair value of the collateral held against past due but not impaired or impaired balances is £93.3m (2014: £89.5m) against loans of £43.2m (2014: £40.1m), giving an average loan-to-value of 46% (2014: 45%). The weighted average loan-to-value is 63% (2014: 57%). The net amount of individually impaired loans and advances to customers after impairment but before taking into account the cash flows from collateral held is £18.0m (2014: £12.8m).

Secure Trust Bank PLC

The majority of the loans are unsecured personal loans with an average size at inception of £5,000; therefore the portfolio does not have a significant concentration to any individuals, sectors or geographic locations. £0.2m (2014: £0.2m) relates to a standard mortgage loan secured upon residential property and this is neither past due nor impaired. The residential property over which the mortgage loan is secured has a fair value of £0.2m based on other recent property sales, and a loan to value ratio of 72% (2014: 76%).

£368.0m (2014: £133.7m) of the loans are secured upon residential or commercial property and these are neither past due nor impaired. All loans secured are at a loan to value ratio of less than 80%.

£165.7m (2014: £137.9m) of the loans are secured against motor vehicles where the security is discharged when the buyer exercises an option to buy the goods at a predetermined price at the end of the loan term. Management's estimate of the fair value of the motor vehicles was £127.1m (2014: £109.5m).

21. Allowances for impairment of loans and advances

Reconciliation of specific allowance for impairments:

| | 2015 | 2014 |
|--|---------------|---------------|
| Group | £000 | £000 |
| At 1 January | 38,411 | 31,033 |
| Adjustments for disposals | (5,812) | - |
| Impairment losses | 26,654 | 18,669 |
| Loans written off during the year as uncollectible | (23,590) | (11,003) |
| Amounts recovered during the year | 33 | (288) |
| At 31 December | 35,696 | 38,411 |

Reconciliation of collective allowance for impairments:

| | 2015 | 2014 |
|-----------------------|--------------|--------------|
| Group | £000 | £000 |
| At 1 January | 2,031 | 1,578 |
| Impairment losses | 1,110 | 453 |
| At 31 December | 3,141 | 2,031 |

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

| | 2015 | 2014 |
|---|-------------|-------------|
| Group | £000 | £000 |
| Loans and advances to customers - UK Private Bank | 1,411 | 4,355 |

| | | |
|--|---------------|---------------|
| Loan and advances to customers - Retail Bank | 34,285 | 34,056 |
| At 31 December | 35,696 | 38,411 |

22. Other assets

| | 2015 | 2014 |
|---|---------------|---------------|
| Group | £000 | £000 |
| Trade receivables | 2,625 | 5,522 |
| Reposessed collateral - held as inventory | 5,226 | 3,742 |
| Prepayments and accrued income | 9,043 | 7,602 |
| | 16,894 | 16,866 |

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.

| | 2015 | 2014 |
|----------------------------------|------------|--------------|
| Company | £000 | £000 |
| Trade receivables | 732 | 732 |
| Due from subsidiary undertakings | 159 | 4,633 |
| Prepayments and accrued income | 100 | 107 |
| | 991 | 5,472 |

23. Financial investments

| | 2015 | 2014 |
|--|--------------|--------------|
| Group | £000 | £000 |
| Financial investments comprise: | | |
| - Securities (at fair value through profit and loss) | 112 | 145 |
| - Securities (available-for-sale) | 2,573 | 1,132 |
| Total financial investments | 2,685 | 1,277 |

Debt 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.

Unlisted securities

Arbuthnot Latham & Co., Ltd holds an equity interest in Visa Europe. Following the public announcement on 2 November 2015 of the proposed sale of Visa Europe to Visa Inc., management has assessed the fair value of Group's investment as £1.3m. The valuation determined by management includes a haircut on the preference share element of the consideration, as referred to in Note 4.9.

| | 2015 | 2014 |
|--|------------|------------|
| Company | £000 | £000 |
| Financial investments comprise: | | |
| - Securities (at fair value through profit and loss) | 112 | 145 |
| - Securities (available-for-sale) | 13 | 13 |
| Total financial investments | 125 | 158 |

24. Deferred taxation

The deferred tax asset comprises:

| | 2015 | 2014 |
|--|--------------|--------------|
| Group | £000 | £000 |
| Unrealised surplus on revaluation of freehold property | 196 | 180 |
| Accelerated capital allowances and other short-term timing differences | 1,100 | 215 |
| Tax losses | 891 | 2,193 |
| Transfer to assets classified as held for sale | (403) | - |
| Deferred tax asset | 1,784 | 2,588 |

| | | |
|--|--------------|--------------|
| At 1 January | 2,588 | 2,855 |
| On acquisition of V12/ELL | - | 282 |
| Available-for-sale securities | (262) | - |
| Profit and loss account - accelerated capital allowances and other short-term timing differences | 673 | (549) |
| Profit and loss account - tax losses | (812) | - |
| Transfer to assets classified as held for sale | (403) | - |
| Deferred tax asset at 31 December | 1,784 | 2,588 |

| | 2015 | 2014 |
|--|------------|------------|
| Company | £000 | £000 |
| Accelerated capital allowances and other short-term timing differences | 418 | 406 |
| Deferred tax asset | 418 | 406 |

| | | |
|--|------------|------------|
| At 1 January | 406 | 441 |
| Profit and loss account - accelerated capital allowances and other short-term timing differences | 12 | (35) |
| Deferred tax asset at 31 December | 418 | 406 |

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 23% to 21% with effect from 1 April 2014 and to 20% with effect from 1 April 2015. On 26 October 2015 the Government substantively enacted a further reduction to the UK corporation tax rate to 19% from 1 April 2017 and to 18% from 1 April 2020. In addition, the Chancellor announced the introduction of a corporation tax surcharge applicable to banking companies with effect from 1 January 2016. The surcharge will be levied at a rate of 8% on the profits of banking companies, after taking into account an annual allowance of £25m. This will increase the Group's future current tax charge accordingly.

25. Investment in associate

| | 2015 | 2014 |
|-------------------------|------|------|
| 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 £331k. Due to 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:

| | 2015 | 2014 |
|------------------------------------|---------------|---------------|
| At 31 December | £000 | £000 |
| ASSETS | | |
| Cash and balances at central banks | 2,236 | 1,724 |
| Other assets | 1,010 | 8 |
| Property, plant and equipment | 15,412 | 10,416 |
| | 18,658 | 12,148 |
| EQUITY AND LIABILITIES | | |
| Deposits from banks | 12,014 | 9,970 |
| Other liabilities | 667 | 865 |
| Debt securities in issue | 1,400 | 1,400 |
| Revaluation reserve | 4,995 | - |
| Retained Earnings | (418) | (87) |
| | 18,658 | 12,148 |

(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.

26. Intangible assets

| Group | Goodwill £000 | Computer software £000 | Other intangibles £000 | Total £000 |
|--|------------------|------------------------------|------------------------------|----------------|
| Cost | | | | |
| At 1 January 2014 | 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 |
| Additions | - | 3,532 | - | 3,532 |
| Transfer to assets classified as held for sale | - | (349) | (5,115) | (5,464) |
| At 31 December 2015 | 2,695 | 12,653 | 2,414 | 17,762 |
| Accumulated amortisation | | | | |
| At 1 January 2014 | - | (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) |
| Amortisation charge | - | (1,627) | (1,167) | (2,794) |
| Transfer to assets classified as held for sale | - | 247 | 4,035 | 4,282 |
| At 31 December 2015 | - | (6,048) | (840) | (6,888) |
| Net book amount | | | | |
| At 31 December 2014 | 2,695 | 4,802 | 3,821 | 11,318 |
| At 31 December 2015 | 2,695 | 6,605 | 1,574 | 10,874 |

Included within 2015 Computer Software additions is an amount of £903,000 which relates to intangible assets in the course of construction which management has assessed to not be available for use as at 31 December 2015 and are therefore not being amortised.

| Company | Computer software £000 |
|---------------------------------|------------------------------|
| Cost | |
| Additions | 40 |
| At 31 December 2014 | 40 |
| At 31 December 2015 | 40 |
| Accumulated amortisation | |
| At 1 January 2014 | (28) |
| Amortisation charge | (8) |
| At 31 December 2014 | (36) |
| Amortisation charge | (4) |
| At 31 December 2015 | (40) |
| Net book amount | |
| At 31 December 2014 | 4 |
| At 31 December 2015 | - |

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

27. Property, plant and equipment

| Group | Freehold land and buildings £000 | Leasehold improvements £000 | Computer and other equipment £000 | Motor Vehicles | Total £000 |
|--|-------------------------------------|--------------------------------|--------------------------------------|----------------|-----------------|
| Cost or valuation | | | | | |
| At 1 January 2014 | 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 |
| Additions | - | 1,722 | 1,576 | 97 | 3,395 |
| Disposals | - | - | (2,417) | - | (2,417) |
| Transfer to assets classified as held for sale | - | (590) | (447) | - | (1,037) |
| At 31 December 2015 | 7,488 | 4,686 | 12,443 | 97 | 24,714 |
| Accumulated depreciation | | | | | |
| At 1 January 2014 | (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) |
| Depreciation charge | (108) | (399) | (891) | (22) | (1,420) |
| Disposals | - | - | 2,419 | - | 2,419 |
| Transfer to assets classified as held for sale | - | 350 | 239 | - | 589 |
| At 31 December 2015 | (1,037) | (530) | (9,121) | (22) | (10,710) |
| Net book amount | | | | | |
| At 31 December 2014 | 6,559 | 3,073 | 2,843 | - | 12,475 |
| At 31 December 2015 | 6,451 | 4,156 | 3,322 | 75 | 14,004 |

The Group's opening freehold property is the Registered Office of Secure Trust Bank and is fully utilised for the Group's own purposes. In 2014, Secure Trust Bank acquired a further freehold property, Secure Trust House, Boston Drive, Bourne End SL8 5YS. The majority of this property is 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 (2014: £1.7m). The historical cost of freehold property included at valuation is as follows:

| Group | 2015 £000 | 2014 £000 |
|--------------------------|--------------|--------------|
| Cost | 7,628 | 7,470 |
| Accumulated depreciation | (1,305) | (1,153) |
| Net book amount | 6,323 | 6,317 |

| Company | Computer and other equipment £000 | Motor Vehicles £000 | Total £000 |
|----------------------------|--------------------------------------|------------------------|---------------|
| Cost or valuation | | | |
| At 1 January 2014 | 203 | - | 203 |
| Additions | 1 | - | 1 |
| At 31 December 2014 | 204 | - | 204 |
| Additions | 5 | 97 | 102 |

| | | | |
|--------------------------|------|------|-------|
| At 31 December 2015 | 209 | 97 | 306 |
| Accumulated depreciation | | | |
| At 1 January 2014 | (73) | | (73) |
| Depreciation charge | (4) | | (4) |
| At 31 December 2014 | (77) | - | (77) |
| Depreciation charge | (3) | (22) | (25) |
| At 31 December 2015 | (80) | (22) | (102) |
| Net book amount | | | |
| At 31 December 2014 | 127 | - | 127 |
| At 31 December 2015 | 129 | 75 | 204 |

28. Deposits from banks

| Group | 2015 £000 | 2014 £000 |
|---------------------------|--------------|--------------|
| Deposits from other banks | 55,305 | 27,657 |

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

29. Deposits from customers

| Group | 2015 £000 | 2014 £000 |
|-------------------------|--------------|--------------|
| Current/demand accounts | 499,022 | 354,095 |
| Notice accounts | 579,877 | 295,347 |
| Term deposits | 850,939 | 544,843 |
| | 1,929,838 | 1,194,285 |

Included in customer accounts are deposits of £4,195,000 (2014: £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.

30. Other liabilities

| Group | 2015 £000 | 2014 £000 |
|------------------------------|--------------|--------------|
| Trade payables | 14,581 | 12,024 |
| Accruals and deferred income | 17,396 | 22,960 |
| | 31,977 | 34,984 |

Within trade payables at 31 December 2015 there is £3.7m (2014: £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 £nil relating to accrued interest payable (2014: £6.6m).

Financial Ombudsman Scheme accrual

Accruals include a provision for outstanding potential PPI claims of £2.6m as at 31 December 2015 (2014: £2.0m). The increase in provision is a result of new claims emerging following an extension of the deadline for making claims. During 2015 £1.5m of PPI provisions were utilised (2014: £0.3m).

The FCA is currently consulting on a proposed deadline for making PPI claims. The ruling is expected to come into force in Spring 2016 with a deadline of 2 years from the ruling, which would give consumers until Spring 2018 to make a claim.

Financial Services Compensation Scheme Levy

In common with all regulated UK deposit takers, AL and STB pay levies to the Financial Services Compensation Scheme ("FSCS") to enable the FSCS to meet claims against them. The FSCS levy consists of two parts: a management expenses levy and a more significant compensation levy. The management expenses levy covers the costs of running the scheme and the

compensation levy covers the amount of compensation and associated interest the scheme pays, net of any recoveries it makes using the rights that have been assigned to it.

The Group's FSCS provision reflects market participation up to the reporting date and the accrual of £0.3m (2014: £0.3m) relates to the interest levy for the scheme year 2015/16 which is payable in September 2016. This amount was calculated on the basis of the Group's share of protected deposits and the FSCS's estimate of total interest levies payable for each scheme year. The loan repayment relating to the scheme year 2015/16 was paid by the Group in September 2015.

| Company | £000 | £000 |
|--------------------------------|--------------|--------------|
| Due to subsidiary undertakings | 3,068 | 3,028 |
| Accruals and deferred income | 1,167 | 1,104 |
| | 4,235 | 4,132 |

31. Debt securities in issue

| Group and Company | 2015 £000 | 2014 £000 |
|-------------------------|---------------|---------------|
| Subordinated loan notes | 10,834 | 11,448 |

The subordinated loan notes were issued on 7 November 2005 and are denominated in Euros. The principal amount outstanding at 31 December 2015 was €15,000,000 (2014: €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.

32. Contingent liabilities and commitments

Contingent liabilities

The Group is subject to extensive regulation in the conduct of its business. A failure to comply with applicable regulations could result in regulatory investigations, fines and restrictions on some of the Group's business activities or other sanctions. The Group seeks to minimise this risk through the adoption of compliance and other policies and procedures, continuing to refine controls over business practices and behaviour, employee training, the use of appropriate documentation, and the involvement of outside legal counsel where appropriate.

Capital commitments

At 31 December 2015, the Group had capital commitments of £nil (2014: £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:

| Group | 2015 £000 | 2014 £000 |
|---|----------------|----------------|
| Guarantees and other contingent liabilities | 56 | 714 |
| Commitments to extend credit: | | |
| - Original term to maturity of one year or less | 178,863 | 139,423 |
| | 178,919 | 140,137 |

Operating lease commitments

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

| Group | 2015 £000 | 2014 £000 |
|---|---------------|---------------|
| Expiring: | | |
| Within 1 year | 3,710 | 3,766 |
| Later than 1 year and no later than 5 years | 9,974 | 8,715 |
| Later than 5 years | 7,790 | 8,876 |
| | 21,474 | 21,357 |

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.

33. Share capital

| Group and Company | Number of shares | Ordinary share capital £000 | Share premium £000 |
|-------------------------------------|------------------|--------------------------------|-----------------------|
| At 1 January 2014 | 15,279,322 | 153 | - |
| At 31 December 2014 & December 2015 | 15,279,322 | 153 | - |

The Ordinary shares have a par value of 1p per share (2014: 1p per share). At 31 December 2015 the Company held 390,274 shares (2014: 390,274) in treasury.

34. Reserves and retained earnings

| Group | 2015 £000 | 2014 £000 |
|--------------------------------------|----------------|----------------|
| Revaluation reserve | 98 | 98 |
| Capital redemption reserve | 20 | 20 |
| Available-for-sale reserve | 1,047 | (250) |
| Treasury shares | (1,131) | (1,131) |
| Retained earnings | 123,330 | 114,641 |
| Total reserves at 31 December | 123,364 | 113,378 |

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.

| Company | 2015 £000 | 2014 £000 |
|--------------------------------------|---------------|---------------|
| Capital redemption reserve | 20 | 20 |
| Treasury shares | (1,131) | (1,131) |
| Retained earnings | 46,537 | 50,755 |
| Total reserves as 31 December | 45,426 | 49,644 |

35. Share-based payment options

Company

The Company had the following equity settled share-based payment awards outstanding at 31 December 2015:

- 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 £83,000.
- 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 £41,000.
- 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 £53,000.

There are no other vesting conditions for these awards. No share options were granted, forfeited, exercised or expired during the year. ABG incurred an expense in relation to share based payments of £37,000 during 2015 (2014: £36,000), as disclosed in Note 12.

Measurement inputs and assumptions used in the Black-Scholes model are as follows:

| | 2015 | 2014 |
|---------------------------------|------|------|
| Expected Stock Price Volatility | 17% | 17% |
| Expected Dividend Yield | 2.7% | 2.7% |

| | | |
|----------------------------------|-------|-------|
| Risk Free Interest Rate | 1.20% | 1.20% |
| Average Expected Life (in years) | 0.53 | 1.53 |

Group – equity settled

Apart from the share-based payment awards for the Company listed above, the Group also include awards allocated under the Secure Trust Bank (“STB”) Share Option Scheme, which was established on 17 October 2011 and entitles key management personnel and senior employees of STB 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 STB 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 the increase in the Retail Prices Index during that period or 5% per annum.

All dividends paid by STB each year during the vesting period must be paid from STB’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 STB or any of its subsidiaries which has a material impact on the business of STB.

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. STB incurred an expense in relation to share based payments of £0.m during 2015 (2014: £1.5m), as disclosed in Note 12.

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

| | 31 December 2015 | | 31 December 2014 | |
|--|------------------|----------------|------------------|----------------|
| | No. | SOS2 | No. | SOS2 |
| Key Management Personnel | 3 | 318,751 | 3 | 318,751 |
| Senior Management | 5 | 141,668 | 5 | 141,668 |
| Share Options in Issue | 8 | 460,419 | 8 | 460,419 |
| Exercise Price (£) | | 7.20 | | 7.20 |
| Value per option (£) | | 1.69 | | 1.69 |
| Total included in reserves (£000) | | 778 | | 778 |

| | | |
|--|------|-----|
| Probability of payout | 100% | 95% |
| Assumed value of share options on exercise date (£000) | 739 | 739 |
| Value of share options at 31 December (£000) | 468 | 468 |

Measurement inputs and assumptions used in the Black-Scholes model are as follows:

| | 2015 | 2014 |
|----------------------------------|-------|-------|
| Expected Stock Price Volatility | 30% | 30% |
| Expected Dividend Yield | 6% | 6% |
| Risk Free Interest Rate | 0.86% | 0.86% |
| Average Expected Life (in years) | 0.9 | 1.9 |

Group - cash settled

On 16 March 2015, a four year “phantom” share option scheme was established in order to provide effective long-term incentive to senior management of the Group. Under the scheme, no actual shares would be issued by STB, but those granted awards under the scheme would be entitled to a cash payment. The amount of the award is calculated by reference to the increase in the value of an ordinary share in STB over an initial value set at £25 per ordinary share, being the price at which the shares resulting from the exercise of the first tranche of share options under the Share Option Scheme were sold in November 2014.

As at 31 December 2015, 326,917 share options remained outstanding following the departure of one employee from the scheme. An additional 14,000 share options should lapse following the expected departure of a further three employees following the conditional sale of Everyday Loans Holdings Limited and its subsidiaries.

As at 31 December 2015, the estimated fair value has been prepared using the Black-Scholes model, which resulted in an expense being recognised in relation to the phantom option scheme of £1.2m (2014: £nil). This has been included within staff costs as disclosed in Note 12.

Measurement inputs and assumptions used in the Black-Scholes model are as follows:

| | 2015 |
|----------------------------------|-------|
| Expected Stock Price Volatility | 27% |
| Expected Dividend Yield | 2% |
| Risk Free Interest Rate | 0.72% |
| Average Expected Life (in years) | 2.85 |

36. Dividends per share

Final dividends are not accounted for until they have been approved at the Annual General Meeting. At the meeting on 5 May 2016, a dividend in respect of 2015 of 17p per share (2014: actual dividend 16p per share) amounting to a total of £2.53m (2014: actual £2.38m) is to be proposed. The financial statements for the year ended 31 December 2015 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 2016.

37. 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.

| | 2015 | 2014 |
|--|----------------|----------------|
| Group | £000 | £000 |
| Cash and balances at central banks (Note 16) | 368,611 | 115,938 |
| Loans and advances to banks (Note 17) | 28,578 | 31,844 |
| | 397,189 | 147,782 |
| | | |
| Company | 2015 | 2014 |
| | £000 | £000 |
| Due from subsidiary undertakings - bank balances | 12,444 | 19,244 |

38. 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 (see Remuneration Report pages 22 to 23), 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 | 2015 | 2014 |
|---|--------------|--------------|
| | £000 | £000 |
| Loans | | |
| Loans outstanding at 1 January | 5,503 | 5,188 |
| Loans advanced during the year | 726 | 1,083 |
| Loan repayments during the year | (3,106) | (768) |
| Loans outstanding at 31 December | 3,123 | 5,503 |
| Interest income earned | 143 | 255 |

The loans to directors are mainly 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 (2014: £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 | 2015 | 2014 |
|---------------------------------|--------------|--------------|
| | £000 | £000 |
| Deposits | | |
| Deposits at 1 January | 2,665 | 2,522 |
| Deposits placed during the year | 2,721 | 3,531 |
| Deposits repaid during the year | (2,694) | (3,388) |
| Deposits at 31 December | 2,692 | 2,665 |
| Interest expense on deposits | 13 | 15 |

Details of principal subsidiaries are given in Note 39. Transactions and balances with subsidiaries are shown below:

| | 2015 | | 2014 | |
|-----------------------------------|---------------------------------------|---------------------------|---------------------------------------|---------------------------|
| | 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 | 23,454 | 12,603 | 34,808 | 23,877 |
| Shares in subsidiary undertakings | 46,466 | 46,466 | 39,966 | 39,966 |
| Total assets | 69,920 | 59,069 | 74,774 | 63,843 |
| LIABILITIES | | | | |
| Due to subsidiary undertakings | 5,431 | 2,832 | 3,878 | 2,872 |
| Total liabilities | 5,431 | 2,832 | 3,878 | 2,872 |
| Issued guarantee contracts | - | - | 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.

The Company undertook the following transactions with other companies in the Group during the year:

| | 2015 | 2014 |
|---|---------|---------|
| | £000 | £000 |
| Arbuthnot Latham & Co., Ltd - Recharge of property and IT costs | 1,587 | 2,089 |
| Arbuthnot Latham & Co., Ltd - Recharge for costs paid on the Company's behalf | 3,288 | 3,218 |
| Arbuthnot Latham & Co., Ltd - Group recharges for shared services | (1,421) | (1,321) |
| OBC Insurance Consultants Ltd - Dividend received | (132) | - |

| | | |
|---|----------------|----------------|
| Secure Trust Bank PLC - Group recharges for shared services | (412) | (308) |
| Secure Trust Bank PLC - Dividends received | (6,517) | (6,440) |
| West Yorkshire Insurance Company Ltd - Legal fees settled | 25 | 55 |
| Total | (3,582) | (2,707) |

39. Investment in subsidiary undertakings

| Company | Investment at cost £000 | Impairment provisions £000 | Net £000 |
|---|----------------------------|-------------------------------|---------------|
| At 1 January 2014 | 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 |
| Capital contribution in Arbuthnot Latham & Co., Limited | 6,500 | - | 6,500 |
| At 31 December 2015 | 49,030 | (2,564) | 46,466 |

| Company | 2015 £000 | 2014 £000 |
|--------------------------|---------------|---------------|
| Subsidiary undertakings: | | |
| Banks | 44,166 | 37,666 |
| Other | 2,300 | 2,300 |
| Total | 46,466 | 39,966 |

(a) List of subsidiaries

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

| | Country of incorporation | Ownership interest % | | Principal activity |
|---------------------------------|--------------------------|----------------------|------|--------------------|
| | | 2015 | 2014 | |
| Arbuthnot Latham & Co., Limited | UK | 100 | 100 | Private banking |
| Secure Trust Bank PLC | UK | 52 | 52 | Retail banking |

The table below provides details of other subsidiaries and related undertakings of Arbuthnot Banking Group PLC at 31 December:

| | Country of incorporation | Principal activity |
|---|--------------------------|---|
| Owned directly | | |
| Arbuthnot Fund Managers Limited | UK | Dormant |
| Arbuthnot Investments Limited | UK | Dormant |
| Arbuthnot Limited | UK | Dormant |
| Arbuthnot Properties Limited | UK | Dormant |
| Arbuthnot Unit Trust Management Limited | UK | Dormant |
| Gilliat Financial Solutions Limited | UK | Dormant |
| Peoples Trust and Savings Plc | UK | Dormant |
| West Yorkshire Insurance Company Limited | UK | Dormant |
| Windward Insurance Company PCC Limited | Guernsey | Insurance |
| Owned indirectly via intermediate holding companies | | |
| Arbuthnot Latham (Nominees) Limited | UK | Dormant |
| Arbuthnot Securities Limited | UK | Dormant |
| Artillery Nominees Limited | UK | Dormant |
| Debt Managers (Services) Limited | UK | Debt collection company |
| Everyday Lending Limited * | UK | Provider of unsecured and secured loans |
| Everyday Loans Holdings Limited * | UK | Holding company |

| | | |
|-------------------------------|-------------|---|
| Everyday Loans Limited * | UK | Sourcing and servicing of secured and unsecured loans |
| John K Gilliat & Co., Limited | UK | Dormant |
| Secure Homes Services Limited | UK | Property rental |
| STB Leasing Limited | UK | Leasing |
| Tarn Crag Limited | Isle of Man | Property management |
| V12 Finance Group Limited | UK | Holding company |
| V12 Personal Finance Limited | UK | Dormant |
| V12 Retail Finance Limited | UK | Sourcing and servicing of unsecured loans |

* Included in assets classified as held for sale

All other subsidiary and related undertakings are unlisted and none banking institutions. The entities were all wholly owned via Ordinary shares, except for Tarn Crag in which the Company indirectly holds 50% of the Ordinary shares. All entities are included in the consolidated financial statements and have an accounting reference date of 31 December.

(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% (2014: 48.1%) ownership interests in the bank. Summary financial information on the subsidiary is shown in the table below.

| | Year ended 31 December 2015 £000 | Year ended 31 December 2014 £000 |
|--|---|---|
| Summary of profit | | |
| Operating income | 132,484 | 97,897 |
| Profit after income tax | 29,009 | 20,455 |
| Total comprehensive income | 29,009 | 20,831 |
| Profit allocated to non-controlling interests | 13,798 | 8,382 |

| | 31 December 2015 £000 | 31 December 2014 £000 |
|---|-----------------------------|-----------------------------|
| Summary of assets and liabilities | | |
| Loans and advances to customers | 960,610 | 622,495 |
| Other assets | 286,721 | 159,769 |
| Liabilities | (1,106,147) | (657,402) |
| Net assets | 141,184 | 124,862 |
| Carrying amount of non-controlling interests | 67,887 | 60,038 |

| | Year ended 31 December 2015 £000 | Year ended 31 December 2014 £000 |
|---|---|---|
| Summary of cash flows | | |
| Cash flows from operating activities | 53,188 | (21,356) |
| Cash flows from investing activities | (3,397) | (4,533) |
| Cash flows from financing activities, before dividends to non-controlling interests | (12,552) | 52,073 |
| Cash flows from financing activities - cash dividends to non-controlling interests | (6,036) | (3,752) |
| Net increase in cash and cash equivalents | 31,203 | 22,432 |

(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 £2,252m and £2,058m respectively (2014: £1,452m and £1,268m respectively).

(d) Risks associated with interests

During the year Arbuthnot Banking Group PLC made a £6.5m (2014: £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 in 2014 at fair value of £106m) to ensure that all regulatory capital requirements were met.

(e) Changes in ownership interest

On 9 July 2014, Secure Trust Bank PLC issued 2,083,333 new shares to external shareholders for £50m and at the same time Arbuthnot Banking Group PLC sold 1,041,667 shares for £25m, 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 be seen from the table under paragraph (b) above, the full year equivalent profit attributable to equity holders of the Group had therefore reduced from £13.7m to £10.9m in 2014 due to these transactions.

On 4 November 2014, 460,416 share options issued by Secure Trust Bank, under its equity settled share option scheme were exercised (see Note 35). 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 be seen from the table under paragraph (b) above, the full year equivalent profit attributable to equity holders of the Group had therefore reduced from £10.9m to £10.6m in 2014 due to these shares being issued.

40. 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.

| | Discontinued operations | Continuing operations | | | Group Total £000 | |
|--|-------------------------|------------------------|----------------------------|----------------------|---------------------|------------------|
| | ELL £000 | Retail banking £000 | UK Private banking £000 | Group Centre £000 | | Total £000 |
| Year ended 31 December 2015 | | | | | | |
| Interest revenue | 39,230 | 100,442 | 32,974 | 126 | 133,542 | |
| Inter-segment revenue | - | (211) | (181) | (118) | (510) | |
| Interest revenue from external customers | 39,230 | 100,231 | 32,793 | 8 | 133,032 | |
| Fee and commission income | 1,523 | 16,867 | 9,999 | - | 26,866 | |
| Revenue from external customers | 40,753 | 117,098 | 42,792 | 8 | 159,898 | |
| Interest expense | - | (21,560) | (7,691) | 236 | (29,015) | |
| Add back inter-segment revenue | - | 211 | 181 | (392) | - | |
| Subordinated loan note interest | - | - | - | (324) | (324) | |
| Fee and commission expense | (358) | (3,660) | (206) | - | (3,866) | |
| Segment operating income | 40,395 | 92,089 | 35,076 | (472) | 126,693 | |
| Impairment losses | (7,537) | (16,782) | (1,250) | (34) | (18,066) | |
| Other income | - | - | 1,894 | (1,894) | - | |
| Operating expenses | (21,195) | (50,133) | (29,722) | (6,204) | (86,059) | |
| Segment profit / (loss) before tax | 11,663 | 25,174 | 5,998 | (8,604) | 22,568 | 34,231 |
| Income tax (expense) / income | (2,271) | (5,557) | 109 | 12 | (5,436) | (7,707) |
| Segment profit / (loss) after tax | 9,392 | 19,617 | 6,107 | (8,592) | 17,132 | 26,524 |
| Loans and advances to customers | - | 960,610 | 618,902 | - | 1,579,512 | |
| Other assets | 118,066 | 168,655 | 385,547 | (20,221) | 533,981 | |
| Segment total assets | 118,066 | 1,129,265 | 1,004,449 | (20,221) | 2,113,493 | 2,231,559 |
| Customer deposits | | 1,033,073 | 896,766 | - | 1,929,839 | |
| Other liabilities | 8,247 | 64,827 | 55,330 | (18,088) | 102,069 | |
| Segment total liabilities | 8,247 | 1,097,900 | 952,096 | (18,088) | 2,031,908 | 2,040,155 |
| Other segment items: | | | | | | |
| Capital expenditure | | (3,639) | (3,186) | (102) | (6,927) | |
| Depreciation and amortisation | | (2,865) | (1,320) | (29) | (4,214) | |

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

| | Discontinued operations | Continuing operations | | | Group Total £000 | |
|--|-------------------------|------------------------|----------------------------|----------------------|---------------------|------------------|
| | ELL £000 | Retail banking £000 | UK Private banking £000 | Group Centre £000 | | Total £000 |
| Year ended 31 December 2014 | | | | | | |
| Interest revenue | 30,226 | 63,316 | 24,303 | 155 | 87,774 | |
| Inter-segment revenue | - | (51) | (177) | (148) | (376) | |
| Interest revenue from external customers | 30,226 | 63,265 | 24,126 | 7 | 87,398 | |
| Fee and commission income | 4,122 | 16,082 | 9,759 | - | 25,841 | |
| Revenue from external customers | 34,348 | 79,347 | 33,885 | 7 | 113,239 | |
| Interest expense | - | (14,170) | (4,916) | 116 | (18,970) | |
| Add back inter-segment revenue | - | 51 | 177 | (228) | - | |
| Subordinated loan note interest | - | - | - | (401) | (401) | |
| Fee and commission expense | (111) | (1,568) | (251) | - | (1,819) | |
| Segment operating income | 34,237 | 63,660 | 28,895 | (506) | 92,049 | |
| Impairment losses | (6,638) | (8,650) | (3,378) | 75 | (11,953) | |
| Other income | - | - | 2,088 | (2,088) | - | |
| Operating expenses | (19,016) | (37,255) | (23,977) | (4,933) | (66,165) | |
| Segment profit / (loss) before tax | 8,583 | 17,755 | 3,628 | (7,452) | 13,931 | 22,514 |
| Income tax (expense) / income | (2,054) | (3,618) | 209 | (35) | (3,444) | (5,498) |
| Segment profit / (loss) after tax | 6,529 | 14,137 | 3,837 | (7,487) | 10,487 | 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 | 1,446,622 |
| Customer deposits | | 608,418 | 585,867 | - | 1,194,285 | |
| Other liabilities | | 48,719 | 73,639 | (43,590) | 78,768 | |
| Segment total liabilities | | 657,137 | 659,506 | (43,590) | 1,273,053 | 1,273,053 |
| Other segment items: | | | | | | |
| Capital expenditure | | (4,533) | (4,482) | (2) | (9,017) | |
| Depreciation and amortisation | | (3,087) | (708) | (12) | (3,807) | |

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

The UK private bank opened a branch in Dubai in the year, which generated £1.85m (2014: £0.61m) fee income and had operating costs of £1.82m (2014: £1.59m). 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.

41. Country by Country Reporting

Article 89 of the EU Directive 2013/36/EU otherwise known as the Capital Requirements Directive IV ('CRD IV') was implemented into UK domestic legislation through statutory instrument 2013 No. 3118, the Capital Requirements (Country-by-Country Reporting) Regulations 2013 (the Regulations), which were laid before the UK Parliament on 10 December 2013 and which came into force on 1 January 2014.

Article 89 requires credit institutions and investment firms in the EU to disclose annually, specifying, by Member State and by third country in which it has an establishment, the following information on a consolidated basis for the financial year: name, nature of activities, geographical location, turnover, number of employees, profit or loss before tax, tax on profit or loss and public subsidies received.

31 December 2015

| Name | Nature of activity | Location | Turnover (£m) | Number FTE employees | Profit/(loss) before tax (£m) | Tax paid (£m) |
|-----------------------------|--------------------|----------|------------------|-------------------------|----------------------------------|------------------|
| Arbuthnot Banking Group PLC | Banking Services | UK | 167.1 | 924 | 36.0 | 7.4 |
| Arbuthnot Banking Group PLC | Banking Services | Dubai | - | 13 | (1.8) | - |

31 December 2014

| Name | Nature of activity | Location | Turnover (£m) | Number FTE employees | Profit/(loss) before tax (£m) | Tax paid (£m) |
|------|--------------------|----------|------------------|-------------------------|----------------------------------|------------------|
|------|--------------------|----------|------------------|-------------------------|----------------------------------|------------------|

| | | | | | | |
|-----------------------------|------------------|-------|-------|-----|-------|-----|
| Arbuthnot Banking Group PLC | Banking Services | UK | 126.3 | 791 | 23.9 | 3.0 |
| Arbuthnot Banking Group PLC | Banking Services | Dubai | - | 9 | (1.4) | - |

The Dubai branch income is booked through the UK branch, hence the turnover is nil in the above analysis. Reallocating this income to the Dubai branch would result in a £33k profit (2014: £1m loss). No public subsidies were received during 2015 or 2014.

42. Ultimate controlling party

The Company regards Sir 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 38 of the consolidated financial statements includes related party transactions with Sir Henry Angest.

43. Events after the balance sheet date

On 15 January 2016 Arbuthnot Latham & Co., Ltd signed a contract with Oracle to replace its current banking system. The committed cost is £2m.

Five Year Summary

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

| | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|--------|--------|--------|---------|---------|
| | £000 | £000 | £000 | £000 | £000 |
| Profit before tax from continuing operations | 5,116 | 11,146 | 11,780 | 13,931 | 22,568 |
| Total Earnings per share | | | | | |
| Basic (p) | (34.0) | 54.6 | 53.8 | 58.6 | 86.3 |
| Earnings per share from continuing operations | | | | | |
| Basic (p) | 37.1 | 47.0 | 44.1 | 32.4 | 53.3 |
| Dividends per share (p) - ordinary | 24.0 | 25.0 | 26.0 | 27.0 | 29.0 |
| - special | - | - | 18.0 | - | - |
| Other KPI: | | | | | |
| | 2011 | 2012 | 2013 | 2014 | 2015 |
| | £000 | £000 | £000 | £000 | £000 |
| Net asset value per share (p) | 312.2 | 449.3 | 570.5 | 1,136.0 | 1,252.7 |