



# ARBUTHNOT BANKING GROUP PLC

Interim Report 2016

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## Directors

Sir Henry Angest  
Chairman and Chief Executive

James Cobb FCA  
Group Finance Director

Ian Dewar FCA  
Independent non-executive director

Ian Henderson  
Director

Paul Lynam  
Director

Sir Christopher Meyer  
Independent non-executive director

Andrew Salmon ACA  
Chief Operating Officer

Sir Alan Yarrow  
Independent non-executive director

Secretary  
Jeremy Kaye FCIS

## The importance of history and Sun Tzu

The importance of previous experience cannot be overstated. “Those who are not willing to learn from history are doomed to repeat the mistakes of previous generations.” A good place to start, therefore, is with the famous Chinese General, Sun Tzu and his writings in “The Art of War” c. 2500 years ago. He established some basic truths such as:

“ He whose ranks are united in purpose will be victorious.”

“ The commander will surely choose those who are most fortunate.”

“ The traits of a true commander are: courage, wisdom, humanity and integrity.”



## Arbuthnot Banking Group PLC

### Arbuthnot has a 183 year history

...of serving its customers, as well as a long track record of progress against the background of a continually changing environment.

The ability of Arbuthnot to adapt and grow has come from managing the business through seven key principles developed over time. These principles, always applied with pragmatism and common sense, govern the activities of the Group, ranging from major strategic issues to smaller day-to-day operational matters.

#### Corporate philosophy

1. Arbuthnot serves its shareholders, its customers and its employees with integrity and high ethical standards. This is expressed in a progressive dividend policy, in fair pricing and pay for performance.
2. Arbuthnot attaches great importance to good relations with customers and business partners, and treating them fairly and promptly. Arbuthnot believes in reciprocity.
3. Arbuthnot is independent, and profit and growth oriented while maintaining a controlled risk profile.
4. Arbuthnot's approach is based on diversification, a long-term view, empowerment of management and a culture of rewards for achievements.
5. Arbuthnot's business is conducted in an innovative, flexible and entrepreneurial manner, with an opportunistic and counter-cyclical attitude.
6. Arbuthnot does not sacrifice long term prospects for short term gains – nor sacrifice stability for quick profits.
7. Ultimately, the success of Arbuthnot depends on the teamwork, commitment, and performance of its employees, combined with the determination to win.

The continued application of these principles will allow the business to pursue growth in a controlled manner, providing a high quality service to its customers whilst delivering good returns to shareholders and securing the well-being of its employees.

Sir Henry Angest  
Chairman & CEO

18 July 2016

# Chairman's Statement

I can report that Arbuthnot Banking Group has delivered a profit for the period of £225m (H1 2015: £12.7m). This performance is the result of the completion of two significant corporate transactions.

In April, following the agreement we reached with Non-Standard Finance in December 2015, the sale of Everyday Loans was completed. This generated a gain of £117m. In May we took the opportunity to reduce our holding in Secure Trust Bank from 51.9% to 18.9%. This transaction resulted in the sale of 6 million shares by way of an institutional placing at the price of £25.

The reduction in ownership means that STB is no longer a fully consolidated subsidiary of the Group and is now an associated company. As a result of this transaction the Group was able to recognise a gain of £100m. This marks a significant milestone in the history and development of the Group, as Arbuthnot Banking Group has now converted its investment in two subsidiaries into cash and most importantly regulatory capital. Currently, this makes it one of the most highly capitalised banking groups in the UK, with net assets of £282m, the equivalent of £18.52 per share. Since the end of 2011 the net assets of the Group have risen nearly six-fold from a little over £3 per share.

The Group will continue to invest in its remaining wholly owned subsidiary to accelerate the growth in the Private and also Commercial Banking business. Given the current market conditions, the Group will also explore other opportunities to enhance and diversify its income streams.

Meanwhile, given our reduced ownership, STB will now explore the opportunity of achieving a listing on the main market and will be able to expand its horizon for growth opportunities that enhanced access to capital markets will allow. We look forward to watching its continued success while maintaining a significant ownership investment.

Once again the quirks of IFRS accounting rules have done us no favours, and indeed do not make understanding these results easy for the readers. Both of the significant transactions and the earnings of the business in the first half are required to be presented as discontinued operations. This results in a loss before tax from continuing operations of £2.4m. However, going forward the Group will recognise 18.9% of the after tax profits of STB in its continuing profits, which are not included in these results. The Group also incurred certain

remuneration costs totalling £2.3m in its continuing business segments that were dependant on, and fully attributable to the successful completion of the Everyday Loans transaction. These will not be recurring. Therefore on a pro forma basis the underlying performance of the Group's continuing operations is £2.0m, which is 45% up on the prior year.

Given the confidence in the future the Board has decided to increase the dividend by 1p to 13p, which will be paid on 30 September 2016 to shareholders on the register on 2 September.

The interim dividend comes on top of the special dividend of 25p that is due to be paid on 27 July 2016.

## Private Banking – Arbuthnot Latham & Co., Ltd

Arbuthnot Latham has reported a profit before tax for the half year of £4.5m (H1 2015: £3.7m) which includes the impact of the investment programme that commenced during 2015, with the building out of the commercial banking business and the banking infrastructure upgrade project. This has offset a 13% increase in revenues.

Customer assets have continued on a healthy growth trajectory, increasing by 14% to £657m (H1 2015: £584m), while deposits increased by 23% as the bank continued to attract new clients. Assets under management increased to £797m (H1 2015: £701m).

The investment in the commercial banking activities totalled £0.6m in the first half of the year. The proposition focuses on servicing SMEs and owner managed businesses providing its clients with excellent service. Three sector teams have already been established in London while further teams are due to establish a presence in Manchester and Exeter to cover the North and South West regions respectively. Staff numbers will reach thirty by the end of the third quarter and this will include seventeen relationship managers, all with twenty years or more commercial banking experience. We are confident that the proposition resonates well with both prospective clients and potential employees.

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The bank was also delighted to complete the purchase of the property at 20 King Street in the West End on 23 June 2016 for £50.2m plus associated purchase costs. This is expected initially to be held as an investment property receiving approximately £1.8m rental income per year. In due course the bank will explore plans to establish a West End client office within the building, using the entrance on St James's Street.

#### **Retail Banking – Secure Trust Bank PLC**

Following the reduction in our shareholding in Secure Trust Bank, the Group will report its ongoing investment in the bank as Income from Associated Undertakings. This will represent the after tax earnings, which for the period from 15 June to the end of the first half was £0.3m.

The earnings of the bank up until this date have been reported as discontinued operations as per the accounting requirements.

On a pro forma basis the continuing Income from Associated Undertakings for the first half of 2016 would have been £2.5m (H1 2015: £1.6m).

#### **Outlook**

Given the result of the EU Referendum on 23 June 2016 the UK economy faces short-term economic volatility. However, Arbuthnot Banking Group is well positioned to prosper. It has not only divested its high margin lending business, which is the more likely to experience an uptick in impairments in an economic downturn, but also realised for cash a significant proportion of its investment in Secure Trust Bank. It is therefore highly capitalised and well placed to take advantage of any opportunities that may arise while continuing to invest in the growth of Arbuthnot Latham.

**Sir Henry Angest**  
Chairman & CEO

18 July 2016

# Consolidated Statement of Comprehensive Income

	Note	Six months ended 30 June 2016 £000	*Re-presented Six months ended 30 June 2015 £000
Interest income		15,988	13,371
Interest expense		(4,105)	(3,315)
<b>Net interest income</b>		<b>11,883</b>	<b>10,056</b>
Fee and commission income		7,708	6,891
Fee and commission expense		(376)	(180)
<b>Net fee and commission income</b>		<b>7,332</b>	<b>6,711</b>
<b>Operating income</b>		<b>19,215</b>	<b>16,767</b>
Net impairment loss on financial assets		(388)	(708)
Other income	2	1,665	–
Profit from associates		265	–
Operating expenses	3	(23,121)	(16,472)
<b>Loss from continuing operations before income tax</b>		<b>(2,364)</b>	<b>(413)</b>
Income tax (expense)/credit		(539)	94
<b>Loss after income tax from continuing operations</b>		<b>(2,903)</b>	<b>(319)</b>
Profit from discontinued operations after tax	6	228,110	13,017
<b>Profit for the period</b>		<b>225,207</b>	<b>12,698</b>
<b>Other comprehensive income</b>			
Items that are or may be reclassified to profit or loss			
Available-for-sale reserve		(2,321)	–
Available-for-sale reserve – Associate		(209)	–
Tax on other comprehensive income		262	–
<b>Other comprehensive income for the period, net of tax</b>		<b>(2,268)</b>	<b>–</b>
<b>Total comprehensive income for the period</b>		<b>222,939</b>	<b>12,698</b>
<b>Profit attributable to:</b>			
Equity holders of the Company		163,781	6,507
Non-controlling interests		61,426	6,191
		<b>225,207</b>	<b>12,698</b>
<b>Total comprehensive income attributable to:</b>			
Equity holders of the Company		161,513	6,507
Non-controlling interests		61,426	6,191
		<b>222,939</b>	<b>12,698</b>
<b>Earnings per share for profit attributable to the equity holders of the Company during the period</b> (expressed in pence per share):			
– basic	5	1,111.2	44.1
– diluted	5	1,107.5	43.6

\* Prior year numbers have been re-presented for discontinuing operations (see note 6).

The notes on pages 9 to 16 are an integral part of these consolidated financial statements

# Consolidated Statement of Financial Position

	At 30 June 2016 £000	At 30 June 2015 £000
<b>ASSETS</b>		
Cash and balances at central banks	293,348	224,678
Loans and advances to banks	33,499	35,865
Debt securities held-to-maturity	103,131	98,143
Derivative financial instruments	1,228	1,634
Loans and advances to customers	657,122	1,436,381
Other assets	14,403	17,269
Financial investments	2,469	1,108
Deferred tax asset	1,714	1,770
Investment in associate	87,114	943
Intangible assets	7,004	11,100
Property, plant and equipment	5,216	13,475
Investment property	50,200	–
<b>Total assets</b>	<b>1,256,448</b>	<b>1,842,366</b>
<b>EQUITY AND LIABILITIES</b>		
Equity attributable to owners of the parent		
Share capital	153	153
Retained earnings	283,079	118,822
Other reserves	(1,320)	(1,263)
<b>Non-controlling interests</b>	<b>–</b>	<b>61,716</b>
<b>Total equity</b>	<b>281,912</b>	<b>179,428</b>
<b>LIABILITIES</b>		
Deposits from banks	1,986	10,871
Deposits from customers	939,539	1,604,929
Current tax liability	488	5,487
Other liabilities	20,335	31,256
Debt securities in issue	12,188	10,395
<b>Total liabilities</b>	<b>974,536</b>	<b>1,662,938</b>
<b>Total equity and liabilities</b>	<b>1,256,448</b>	<b>1,842,366</b>

# Consolidated Statement of Changes in Equity

	Attributable to equity holders of the Group							Non-controlling interests £000	Total £000
	Share capital £000	Revaluation reserve £000	Capital redemption reserve £000	Available-for-sale reserve £000	Treasury shares £000	Retained earnings £000			
Balance at 1 January 2016	153	98	20	1,047	(1,131)	123,330	67,887	191,404	
Total comprehensive income for the period									
Profit for the six months ended 30 June 2016	–	–	–	–	–	163,781	61,426	225,207	
Other comprehensive income, net of income tax									
Available-for-sale reserve	–	–	–	(1,572)	–	–	(487)	(2,059)	
Available-for-sale reserve – Associate	–	–	–	(209)	–	–	–	(209)	
Total other comprehensive income	–	–	–	(1,781)	–	–	(487)	(2,268)	
Total comprehensive income for the period	–	–	–	(1,781)	–	163,781	60,939	222,939	
Transactions with owners, recorded directly in equity									
Contributions by and distributions to owners									
STB loss of control	–	(98)	–	525	–	(427)	(124,046)	(124,046)	
Equity settled share based payment transactions	–	–	–	–	–	(1,074)	31	(1,043)	
Final dividend relating to 2015	–	–	–	–	–	(2,531)	(4,811)	(7,342)	
Total contributions by and distributions to owners	–	(98)	–	525	–	(4,032)	(128,826)	(132,431)	
Balance at 30 June 2016	153	–	20	(209)	(1,131)	283,079	–	281,912	

	Attributable to equity holders of the Group							Non-controlling interests £000	Total £000
	Share capital £000	Revaluation reserve £000	Capital redemption reserve £000	Available-for-sale reserve £000	Treasury shares £000	Retained earnings £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 the six months ended 30 June 2015	–	–	–	–	–	6,507	6,191	12,698	
Other comprehensive income, net of income tax	–	–	–	–	–	–	–	–	
Total comprehensive income for the period	–	–	–	–	–	6,507	6,191	12,698	
Transactions with owners, recorded directly in equity									
Contributions by and distributions to owners									
Equity settled share based payment transactions	–	–	–	–	–	56	36	92	
Final dividend relating to 2014	–	–	–	–	–	(2,382)	(4,549)	(6,931)	
Total contributions by and distributions to owners	–	–	–	–	–	(2,326)	(4,513)	(6,839)	
Balance at 30 June 2015	153	98	20	(250)	(1,131)	118,822	61,716	179,428	

The notes on pages 9 to 16 are an integral part of these consolidated financial statements



# Consolidated Statement of Cash Flows

	Six months ended 30 June 2016 £000	Six months ended 30 June 2015 £000
<b>Cash flows from operating activities</b>		
Interest received	87,027	73,555
Interest paid	(16,490)	(12,512)
Fees and commissions received	12,987	11,482
Cash payments to employees and suppliers	(63,503)	(49,020)
Taxation paid	(6,053)	(1,163)
Cash flows from operating profits before changes in operating assets and liabilities	13,968	22,342
Changes in operating assets and liabilities:		
– net decrease in derivative financial instruments	127	6
– net decrease/(increase) in loans and advances to customers	956,385	(283,097)
– net decrease/(increase) in other assets	22,212	(403)
– net decrease in deposits from banks	(53,319)	(16,786)
– net (decrease)/increase in amounts due to customers	(990,299)	410,644
– net decrease in other liabilities	(20,342)	(3,728)
<b>Net cash (outflow)/inflow from operating activities</b>	<b>(71,268)</b>	<b>128,978</b>
<b>Cash flows from investing activities</b>		
Purchase of financial investments	(462)	(1,580)
Disposal of financial investments	837	1,602
Purchase of computer software	(5,071)	(1,200)
Proceeds from sale of software	8,062	–
Purchase of investment property	(50,200)	–
Purchase of property, plant and equipment	(939)	(1,648)
Proceeds from sale of property, plant and equipment	8,815	–
Disposal of subsidiaries, net of cash and cash equivalents disposed	65,695	–
Purchases of debt securities	(59,893)	(152,243)
Proceeds from redemption of debt securities	41,424	145,783
<b>Net cash inflow/(outflow) from investing activities</b>	<b>8,268</b>	<b>(9,286)</b>
<b>Cash flows from financing activities</b>		
Dividends paid	(7,342)	(6,931)
<b>Net cash used in financing activities</b>	<b>(7,342)</b>	<b>(6,931)</b>
Net (decrease)/increase in cash and cash equivalents	(70,342)	112,761
Cash and cash equivalents at 1 January	397,189	147,782
<b>Cash and cash equivalents at 30 June</b>	<b>326,847</b>	<b>260,543</b>

The notes on pages 9 to 16 are an integral part of these consolidated financial statements

# Notes to the Consolidated Financial Statements

## 1. Operating segments

The Group is organised into three main operating segments as disclosed below:

- 1) Retail banking – incorporating household cash management, personal lending and banking and insurance services.
- 2) UK Private banking – incorporating private banking, wealth management and commercial banking.
- 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 (Retail Banking)			Continuing operations				Group Total £000
	ELL £000	STB £000	Total £000	Retail Bank Associate Income £000	UK Private banking £000	Group Centre £000	Total £000	
Six months ended 30 June 2016								
Interest revenue	11,137	57,498	68,635	–	16,112	68	16,180	
Inter-segment revenue	–	–	–	–	(128)	(64)	(192)	
Interest revenue from external customers	11,137	57,498	68,635	–	15,984	4	15,988	
Fee and commission income	147	7,981	8,128	–	7,708	–	7,708	
Revenue from external customers	11,284	65,479	76,763	–	23,692	4	23,696	
Interest expense	–	(12,107)	(12,107)	–	(3,996)	64	(3,932)	
Add back inter-segment revenue	–	–	–	–	128	(128)	–	
Subordinated loan note interest	–	–	–	–	–	(173)	(173)	
Fee and commission expense	(124)	(779)	(903)	–	(376)	–	(376)	
Segment operating income	11,160	52,593	63,753	–	19,448	(233)	19,215	
Impairment losses	(2,610)	(12,172)	(14,782)	–	(388)	–	(388)	
Other income	–	–	–	–	1,665	–	1,665	
Income from associates	–	–	–	265	–	–	265	
Operating expenses	(6,016)	(29,073)	(35,089)	–	(16,218)	(6,903)	(23,121)	
Segment profit/(loss) before tax	2,534	11,348	13,882	265	4,507	(7,136)	(2,364)	11,518
Income tax (expense)/income	(507)	(2,199)	(2,706)	–	(48)	(491)	(539)	(3,245)
Segment profit/(loss) after tax	2,027	9,149	11,176	265	4,459	(7,627)	(2,903)	8,273
Profit on sale of discontinued operations	116,754	100,180	216,934					
Segment profit/(loss) after tax	118,781	109,329	228,110	265	4,459	(7,627)	(2,903)	225,207
Loans and advances to customers				–	657,122	–	657,122	657,122
Other assets				–	515,489	83,837	599,326	599,326
Segment total assets				–	1,172,611	83,837	1,256,448	1,256,448
Customer deposits				–	939,539	–	939,539	939,539
Other liabilities				–	179,577	(144,580)	34,997	34,997
Segment total liabilities				–	1,119,116	(144,580)	974,536	974,536
Other segment items:								
Capital expenditure				–	(53,721)	–	(53,721)	(53,721)
Depreciation and amortisation				–	(753)	(1)	(754)	(754)

The “Group Centre” segment above includes the parent entity and all intercompany eliminations. Segment profit is shown prior to any intra-group eliminations. The UK private bank opened a branch in Dubai in 2013. Other than the Dubai branch, all other operations of the Group are conducted wholly within the United Kingdom and therefore geographical information is not presented.

## Notes to the Consolidated Financial Statements *continued*

### 1. Operating segments *continued*

	Discontinued operations (Retail Banking)			Continuing operations			Total £000	Group Total £000
	ELL £000	STB £000	Total £000	Retail Bank Associate Income £000	UK Private banking £000	Group Centre £000		
Six months ended 30 June 2015								
Interest revenue	19,574	44,588	64,162	–	13,460	60	13,520	
Inter-segment revenue	–	(159)	(159)	–	(89)	(60)	(149)	
Interest revenue from external customers	19,574	44,429	64,003	–	13,371	–	13,371	
Fee and commission income	1,086	8,396	9,482	–	6,891	–	6,891	
Revenue from external customers	20,660	52,825	73,485	–	20,262	–	20,262	
Interest expense	–	(9,769)	(9,769)	–	(3,162)	172	(2,990)	
Add back inter-segment revenue	–	159	159	–	89	(248)	(159)	
Subordinated loan note interest	–	–	–	–	–	(166)	(166)	
Fee and commission expense	(1,249)	(386)	(1,635)	–	(180)	–	(180)	
Segment operating income	19,411	42,829	62,240	–	17,009	(242)	16,767	
Impairment losses	(3,223)	(7,995)	(11,218)	–	(708)	–	(708)	
Operating expenses	(10,608)	(24,265)	(34,873)	–	(12,640)	(3,832)	(16,472)	
Segment profit/(loss) before tax	5,580	10,569	16,149	–	3,661	(4,074)	(413)	15,736
Income tax (expense)/income	(1,131)	(2,001)	(3,132)	–	–	94	94	(3,038)
Segment profit/(loss) after tax	4,449	8,568	13,017	–	3,661	(3,980)	(319)	12,698
Loans and advances to customers			852,291	–	584,090	–	584,090	1,436,381
Other assets			149,701	–	281,135	(24,851)	256,284	405,985
Segment total assets			1,001,992	–	865,225	(24,851)	840,374	1,842,366
Customer deposits			835,083	–	769,846	–	769,846	1,604,929
Other liabilities			38,555	–	52,495	(33,041)	19,454	58,009
Segment total liabilities			873,638	–	822,341	(33,041)	789,300	1,662,938
Other segment items:								
Capital expenditure			(1,435)	–	(1,313)	–	(1,313)	(2,748)
Depreciation and amortisation			(799)	–	(587)	(5)	(592)	(1,391)

### 2. Other income

As a result of the completion of the Visa Europe transaction the Group realised a gain of £1.7m.

### 3. Operating expenses

Operating expenses include Group bonuses paid relating to the sale of the Everyday Loans Group amounting to £2.3m.

## Notes to the Consolidated Financial Statements *continued*

### 4. Underlying profit reconciliation

The profit before tax from continuing operations as reported in the operating segments can be reconciled to the underlying profit from continuing operations for the period as disclosed in the tables below.

Underlying profit reconciliation Six months ended 30 June 2016	Arbuthnot Latham & Co. £000	Arbuthnot Banking Group £000
Profit/(loss) before tax from continuing operations	4,507	(2,364)
ABG Group bonuses relating to sale of ELL	–	2,304
STB full year equivalent associate income*	–	2,261
AL realised profit on AFS investment (Visa)	(1,665)	(1,665)
AL investment in operating systems	260	260
AL commercial banking investment	567	567
AL incremental office space	650	650
<b>Underlying profit</b>	<b>4,319</b>	<b>2,013</b>

\* STB associate income adjustment (excl. ELL & bonuses relating to ELL sale) as if received from 1 January 2016.

Underlying profit reconciliation Six months ended 30 June 2015	Arbuthnot Latham & Co. £000	Arbuthnot Banking Group £000
Profit/(loss) before tax from continuing operations	3,661	(413)
STB full year equivalent associate income*	–	1,622
Investment in operating systems	170	170
AL commercial banking investment	13	13
<b>Underlying profit</b>	<b>3,844</b>	<b>1,392</b>

\* STB associate income adjustment (excl. ELL) as if received from 1 January 2015.

## Notes to the Consolidated Financial Statements *continued*

### 5. 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 (2015: 14,738,548) in issue during the period. The weighted average number of ordinary shares has been restated for 2015 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 period, as well as the number of dilutive share options in issue during the period. The number of dilutive share options in issue at the end of June was 50,000 (2015: 200,000).

Profit attributable	Six months ended 30 June 2016 £000	Six months ended 30 June 2015 £000
Total profit after tax attributable to equity holders of the Company	163,781	6,507
Loss after tax from continuing operations attributable to equity holders of the Company	(2,903)	(319)
Profit after tax from discontinuing operations (ELL) attributable to equity holders of the Company	61,667	2,310
Profit after tax from discontinuing operations (STB) attributable to equity holders of the Company	105,017	4,516

Dilutive profit attributable	Six months ended 30 June 2016 £000	Six months ended 30 June 2015 £000
Total profit after tax attributable to equity holders of the Company	163,781	6,507
Profit after tax from continuing operations attributable to equity holders of the Company	(2,903)	(319)
Profit after tax from discontinuing operations (ELL) attributable to equity holders of the Company	61,667	2,310
Profit after tax from discontinuing operations (STB) attributable to equity holders of the Company	105,017	4,516

Basic Earnings per share	Six months ended 30 June 2016 p	Six months ended 30 June 2015 p
Total Basic Earnings per share	1,111.2	44.1
Basic Earnings per share from continuing operations	(19.7)	(2.2)
Basic Earnings per share from discontinuing operations – ELL	418.4	15.7
Basic Earnings per share from discontinuing operations – STB	712.5	30.6

Diluted Earnings per share	Six months ended 30 June 2016 p	Six months ended 30 June 2015 p
Total Diluted Earnings per share	1,107.5	43.6
Diluted Earnings per share from continuing operations	(19.6)	(2.1)
Diluted Earnings per share from discontinuing operations – ELL	417.0	15.5
Diluted Earnings per share from discontinuing operations – STB	710.1	30.2

## Notes to the Consolidated Financial Statements *continued*

### 6. Discontinued operations

The profit after tax from discontinued operations is made up as follows:

Discontinued operations	Six months ended 30 June 2016 £000	Six months ended 30 June 2015 £000
Profit after tax from discontinued operations – ELL (up to 13 April 2016)	2,027	4,449
Profit after tax on sale of discontinued operations – ELL	116,754	–
Profit after tax from discontinued operations – STB (up to 15 June 2016)	9,149	8,568
Profit after tax on sale of discontinued operations – STB	100,180	–
<b>Profit after tax from discontinued operations</b>	<b>228,110</b>	<b>13,017</b>

On 4 December 2015, the Bank agreed to the conditional sale of its non-standard consumer lending business, ELL, which comprises Everyday Loans Holdings Limited and subsidiary companies Everyday Lending Limited and Everyday Loans Limited, to Non Standard Finance PLC (NSF) for £106.9 million in cash subject to a net asset adjustment and £16.3 million in NSF ordinary shares. The Disposal completed on 13 April 2016, and on completion, NSF repaid intercompany debt of £108.1 million to STB. After selling costs of £2.8m, this resulted in a gain recognised on disposal of £116.8m.

Details of the profits of discontinued operations, net assets disposed of and consequential gain recognised on disposal and cash flow from discontinued operations is set out below.

	From 1 January to 13 April 2016 £000	Six months ended 30 June 2015 £000
Interest income	11,137	19,574
Net interest income	11,137	19,574
Fee and commission income	147	1,086
Fee and commission expense	(124)	(1,249)
Net fee and commission income	23	(163)
Operating income	11,160	19,411
Net impairment loss on financial assets	(2,610)	(3,223)
Operating expenses	(6,016)	(10,608)
Profit before tax	2,534	5,580
Tax expense	(507)	(1,131)
Profit after tax	2,027	4,449
Profit on sale of business	116,754	–
<b>Total profit from discontinued operation</b>	<b>118,781</b>	<b>4,449</b>
Profit attributable to:		
Equity holders of the Company	61,667	2,310
Non-controlling interests	57,114	2,139
<b>Profit after tax</b>	<b>118,781</b>	<b>4,449</b>
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	5	15.7
– diluted	5	15.5

## Notes to the Consolidated Financial Statements *continued*

### 6. Discontinued operations *continued*

The following unaudited assets were sold as part of the sale of ELL:

	Recognised values on sale 2016 £000
Loans and advances to banks	457
Loans and advances to customers	116,744
Property, plant and equipment	452
Intangible assets	1,258
Deferred tax assets	371
Prepayments and accrued income	451
Other assets	11
<b>Total assets</b>	<b>119,744</b>
Intercompany funding	108,088
Current tax liability	3,212
Other liabilities	4,748
<b>Total liabilities</b>	<b>116,048</b>
<b>Net identifiable assets/(liabilities)</b>	<b>3,696</b>
Consideration	123,206
Costs	(2,756)
<b>Profit on sale of ELL</b>	<b>116,754</b>

The intercompany funding was repaid by NSF at the time of completion.

### Cash flow from discontinued operations – ELL

	From 1 January to 13 April 2016 £000	Six months ended 30 June 2015 £000
<b>Cash flows from operating activities</b>		
Interest received	11,137	19,574
Fees and commissions received	23	(163)
Cash payments to employees and suppliers	(8,626)	(13,831)
Taxation paid	(507)	(1,131)
Cash flows from operating profits before changes in operating assets and liabilities	2,027	4,449
Changes in operating assets and liabilities:		
– net increase in loans and advances to customers	(3,618)	(11,427)
– net (increase)/decrease in other assets	(249)	407
– net increase in other liabilities	2,621	5,146
<b>Net cash inflow/(outflow) from operating activities</b>	<b>781</b>	<b>(1,425)</b>
<b>Cash flows from investing activities</b>		
Purchase of property, plant and equipment	(9)	(179)
<b>Net cash from investing activities</b>	<b>(9)</b>	<b>(179)</b>
<b>Net cash from financing activities</b>	<b>–</b>	<b>–</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>772</b>	<b>(1,604)</b>
Cash and cash equivalents at 1 January	1,661	1,623
<b>Cash and cash equivalents at 13 April/30 June</b>	<b>2,433</b>	<b>19</b>

## Notes to the Consolidated Financial Statements *continued*

### 6. Discontinued operations *continued*

On 15 June 2016 Arbuthnot Banking Group ('ABG') sold 6 million shares in Secure Trust Bank PLC ('STB'), which reduced its shareholding in STB from 51.92% to 18.93%. From this date the Group accounted for its remaining shareholding in STB as an associate. After the sale of the 6 million shares, the Group retained Board representation and as such is seen to have significant influence over STB. The profit and cash flow from discontinued operations relating to ELL have been shown in the tables above. The ELL entities were subsidiaries of STB and therefore formed part of the STB number reported in the operating segments of ABG. The tables below therefore reflect the profit and cash flow from the STB group excluding ELL. The combined impact can be seen in the operating segments (see note 1 – Retail banking).

	Note	From 1 January to 15 June 2016 £000	Six months ended 30 June 2015 £000
Interest income		57,498	44,588
Interest expense		(12,107)	(9,769)
<b>Net interest income</b>		<b>45,391</b>	<b>34,819</b>
Fee and commission income		7,981	8,396
Fee and commission expense		(779)	(386)
<b>Net fee and commission income</b>		<b>7,202</b>	<b>8,010</b>
<b>Operating income</b>		<b>52,593</b>	<b>42,829</b>
Net impairment loss on financial assets		(12,172)	(7,995)
Operating expenses		(29,074)	(24,265)
<b>Profit before tax</b>		<b>11,347</b>	<b>10,569</b>
Tax expense		(2,198)	(2,001)
<b>Profit after tax</b>		<b>9,149</b>	<b>8,568</b>
Profit on sale of shares		100,180	–
<b>Total profit from discontinued operation</b>		<b>109,329</b>	<b>8,568</b>
<b>Profit attributable to:</b>			
Equity holders of the Company		105,017	4,516
Non-controlling interests		4,312	4,052
<b>Profit after tax</b>		<b>109,329</b>	<b>8,568</b>
<b>Earnings per share for profit attributable to the equity holders of the Company from discontinued operations during the year (expressed in pence per share):</b>			
– basic	5	712.5	30.6
– diluted	5	710.1	30.2



## Notes to the Consolidated Financial Statements *continued*

### 6. Discontinued operations *continued*

The following unaudited assets were deconsolidated as part of the sale of 6 million shares in STB:

	Recognised values on sale 2016 £000
Cash and balances at central banks	176,647
Loans and advances to banks	27,618
Loans and advances to customers	1,117,700
Other assets	5,805
Financial investments	15,030
Deferred tax asset	606
Intangible assets	7,017
Property, plant and equipment	8,606
<b>Total assets</b>	<b>1,359,029</b>
Deposits from banks	25,000
Deposits from customers	1,046,009
Current tax liability	293
Other liabilities	29,748
<b>Total liabilities</b>	<b>1,101,050</b>
<b>Net identifiable assets</b>	<b>257,979</b>

Profit on sale of shares were calculated as follows:

	2016 £000
Consideration received	150,000
Less costs	(2,001)
Less net identifiable assets	(257,979)
Add back non-controlling interest	124,046
Add back fair value of remaining investment in STB	86,114
<b>Profit on sale of STB</b>	<b>100,180</b>

## Notes to the Consolidated Financial Statements *continued*

### 6. Discontinued operations *continued*

Cash flow from discontinued operations – STB excluding ELL

	From 1 January to 15 June 2016 £000	Six months ended 30 June 2015 £000
<b>Cash flows from operating activities</b>		
Interest received	68,635	44,667
Interest paid	(12,107)	(9,841)
Fees and commissions received	7,226	7,995
Cash payments to employees and suppliers	(51,552)	(32,413)
Taxation paid	(6,034)	(1,977)
Cash flows from operating profits before changes in operating assets and liabilities	6,168	8,431
Changes in operating assets and liabilities:		
– net increase in loans and advances to customers	(165,976)	(229,688)
– net decrease/(increase) in other assets	117,395	(661)
– net (decrease)/increase in deposits from banks	(10,000)	24,285
– net increase in amounts due to customers	12,936	226,690
– net increase in other liabilities	(5,031)	(1,164)
<b>Net cash (outflow)/inflow from operating activities</b>	<b>(44,508)</b>	<b>27,893</b>
<b>Cash flows from investing activities</b>		
Purchase of computer software	(1,754)	(433)
Purchase of property, plant and equipment	(531)	(884)
Disposal of property, plant and equipment	2,179	–
Proceeds from disposal of businesses	106,912	–
Proceeds from sale of property, plant and equipment	456	–
<b>Net cash inflow/(outflow) from investing activities</b>	<b>107,262</b>	<b>(1,317)</b>
<b>Cash flows from financing activities</b>		
Dividends paid	(10,005)	(9,500)
<b>Net cash used in financing activities</b>	<b>(10,005)</b>	<b>(9,500)</b>
<b>Net increase in cash and cash equivalents</b>	<b>52,749</b>	<b>17,076</b>
Cash and cash equivalents at 1 January	141,595	104,530
<b>Cash and cash equivalents at 15 June/30 June</b>	<b>194,344</b>	<b>121,606</b>

### 7. Basis of reporting

The interim financial statements have been prepared on the basis of accounting policies set out in the Group's 2015 statutory accounts as amended by standards and interpretations effective during 2016 and in accordance with IAS 34 "Interim Financial Reporting" (except for comparatives in the statement of financial position). The directors do not consider the fair value of the assets and liabilities presented in these financial statements to be materially different from their carrying value.

The statements were approved by the Board of Directors on 18 July 2016 and are unaudited. The interim financial statements will be posted to shareholders and copies may be obtained from The Company Secretary, Arbuthnot Banking Group PLC, Arbuthnot House, 7 Wilson Street, London EC2M 2SN.

# Corporate contacts & advisers

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