



# ARBUTHNOT BANKING GROUP PLC

Interim Report 2017

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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  
Non-Executive Director

Sir Christopher Meyer  
Non-Executive Director

Andrew Salmon ACA  
Chief Operating Officer

Sir Alan Yarrow FCSI (Hons)  
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” ca. 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 184 year history

...of serving its customers, as well as a long track record of profitability 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 demonstrated in a progressive dividend policy, in fair pricing and in 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 business is conducted in an innovative, flexible and entrepreneurial manner, with an opportunistic and counter-cyclical attitude.
5. Arbuthnot's approach is based on diversification to spread the risk, a long-term view to further growth, empowerment of management and a culture of rewards for achievements to engender loyalty.
6. Arbuthnot does not sacrifice long term prospects for short term gains – nor sacrifice stability for quick profits, and it will never put the whole company at risk.
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

17 July 2017

# Chairman's Statement

I am pleased to report that Arbuthnot Banking Group ("ABG") has delivered a profit before tax of £2.5m for the first six months of 2017, which includes an estimated profit from our associate, Secure Trust Bank PLC ("STB"), who will publish its interim results on 22 August. This compares to a loss of £2.4m for the same period of 2016.

On 28 April, the Group successfully completed the acquisition of Renaissance Asset Finance, a lender of specialist assets including vintage and high value cars and business assets. The impact of its earnings has only been included in the last two months of the first half. This acquisition is a clear demonstration of the Group's long held strategy of diversification of income streams that should provide some protection from either an economic slow-down or short term turbulence, and also from increased competition. It has been clear from the number of new start-up banks and non bank lenders that the market place is becoming more competitive. However, we believe that the Group has two significant advantages that should ensure its long term prosperity. Firstly, it has a long standing heritage and market knowledge. This experience is required to run a bank properly and has to be earned over time, it cannot always simply be bought by hiring a few individuals, but it has to be embedded in the DNA of the organisation. Secondly, our ability to attract long term low cost deposits provides a competitive advantage.

Given this long term confident view, the Board has decided to increase the interim dividend by 1p to 14p, which will be paid on 29 September 2017 to shareholders on the register on 1 September.

## Arbuthnot Latham & Co., Limited

Arbuthnot Latham ("AL") has reported a profit before tax for the first half of the year of £4.9m (H1 2016: £4.5m). When the impact of the gain of £1.7m that was realised on the sale of Visa shares in 2016 is removed, it shows an increase of 75%.

The forward looking indicators of the bank suggest that AL is continuing to grow at a respectable rate. Customer deposits at £1.2bn (H1 2016: £0.94bn) and Assets under Management of £1bn (H1 2016: £0.8bn), have passed the significant milestones of one billion each during the first six months. With loans rapidly approaching £0.9bn at £0.88bn (H1 2016: £0.66bn), the business is growing at over 25% in all measures of these lead indicators. The business hopes to end the year with all three measures having grown through the billion mark.

The Private Bank has led the way mainly in attracting new customers to the deposit and investment products of the bank. It has also been able to write record volumes of new loans in the period, with new originations reaching £84m in the first half, an increase of 27% on the prior year. However, the Private Bank has experienced a significant level of loan repayments, which resulted in the Private Banking loan book remaining at the same level as the prior year.

The Commercial Bank has continued to invest in new staff and now has 44 employees. At a direct contribution level, the Commercial Bank has broken even during the first half of the year. Its customer balances have continued to grow at healthy rates and at the end of June its loan book was £147m (H1 2016: £16m) and deposit book was £160m (H1 2016: £23m). The business is now showing signs of good momentum and has a strong pipeline of business for the remaining months of the year.

Renaissance Asset Finance has shown that its distribution networks remain strong and more importantly loyal. Prior to AL acquiring the business its certainty of funding was not clear and as a consequence, its balance sheet reduced in size as it was not able to meet all broker enquiries. At the time of the completion of the acquisition, the loan book had fallen to £57m. During its first two months as part of the Group it has rebounded well and returned to growth and closed the period at £60m, an increase of 5% in its first two months.

Overall impairments remain low and consistent with the prior year. This is in line with the expectations of the business, especially given the secured nature of the lending and the fact that the Bank refuses to chase volumes at the expense of relaxing loan to value lending covenants.

The business continues to work through its IFRS 9 work plan and is currently not expecting it to have a material impact on the capital resources of either the bank or ABG. The only real change will be the need to recognise the future twelve months' expected losses from the current performing loans.

## Secure Trust Bank PLC

We have recorded £2.1m of income related to STB. This represents an estimate of our 18.6% share of the after tax earnings of the investment in our associate undertaking. In calculating this estimate, the Company has used the full year market consensus of the equity research performed on STB with an assumed straight-line growth in profits over the first half, noting the trading statement made by STB on 3 May 2017 in relation to STB's first quarter trading being in-line with STB's management's expectations.

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## Outlook

The short term geopolitical and macro economic environment seems more uncertain than it has for a number of years. However, the Group remains focused on developing new areas of growth to diversify its income streams and thus deploying profitably its sizeable capital surplus. As a result of this, the Group remains confident that it is well placed to take advantage of any opportunities that may arise as a result of it being well capitalised and funded.

**Sir Henry Angest**

Chairman & CEO

17 July 2017

# Consolidated Statement of Comprehensive Income

	Note	Six months ended 30 June 2017 £000	Six months ended 30 June 2016 £000
Interest income		22,106	15,988
Interest expense		(2,839)	(4,105)
<b>Net interest income</b>		<b>19,267</b>	<b>11,883</b>
Fee and commission income		6,183	7,708
Fee and commission expense		(322)	(376)
<b>Net fee and commission income</b>		<b>5,861</b>	<b>7,332</b>
<b>Operating income</b>		<b>25,128</b>	<b>19,215</b>
Net impairment loss on financial assets		(343)	(388)
Other income	2	1,104	1,665
Profit from associates	1	2,145	265
Operating expenses	3	(25,499)	(23,121)
<b>Profit / (loss) before income tax</b>		<b>2,535</b>	<b>(2,364)</b>
Income tax expense		(90)	(539)
<b>Profit / (loss) after income tax from continuing operations</b>		<b>2,445</b>	<b>(2,903)</b>
Profit from discontinued operations after tax	6	–	228,110
<b>Profit for the period</b>		<b>2,445</b>	<b>225,207</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		389	(209)
Tax on other comprehensive income		(78)	262
<b>Other comprehensive income for the period, net of tax</b>		<b>311</b>	<b>(2,268)</b>
<b>Total comprehensive income for the period</b>		<b>2,756</b>	<b>222,939</b>
<b>Profit attributable to:</b>			
Equity holders of the Company		2,445	163,781
Non-controlling interests		–	61,426
		<b>2,445</b>	<b>225,207</b>
<b>Total comprehensive income attributable to:</b>			
Equity holders of the Company		2,756	161,513
Non-controlling interests		–	61,426
		<b>2,756</b>	<b>222,939</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	16.5	1,111.2
– diluted	5	16.5	1,107.5

The notes on pages 8 to 16 are an integral part of these consolidated financial statements

# Consolidated Statement of Financial Position

	At 30 June 2017 £000	At 30 June 2016 £000
<b>ASSETS</b>		
Cash and balances at central banks	253,309	293,348
Loans and advances to banks	35,898	33,499
Debt securities held-to-maturity	158,515	103,131
Derivative financial instruments	1,816	1,228
Loans and advances to customers	879,348	657,122
Other assets	20,101	14,403
Financial investments	2,173	2,469
Deferred tax asset	1,689	1,714
Investment in associate	82,132	87,114
Intangible assets	16,954	7,004
Property, plant and equipment	4,490	5,216
Investment property	53,339	50,200
<b>Total assets</b>	<b>1,509,764</b>	<b>1,256,448</b>
<b>EQUITY AND LIABILITIES</b>		
Equity attributable to owners of the parent		
Share capital	153	153
Retained earnings	235,178	283,079
Other reserves	(1,051)	(1,320)
<b>Total equity</b>	<b>234,280</b>	<b>281,912</b>
<b>LIABILITIES</b>		
Deposits from banks	6,579	1,986
Deposits from customers	1,234,445	939,539
Current tax liability	450	488
Other liabilities	21,042	20,335
Debt securities in issue	12,968	12,188
<b>Total liabilities</b>	<b>1,275,484</b>	<b>974,536</b>
<b>Total equity and liabilities</b>	<b>1,509,764</b>	<b>1,256,448</b>

# Consolidated Statement of Changes in Equity

	Attributable to equity holders of the Group							Total £000
	Share capital £000	Revaluation reserve £000	Capital redemption reserve £000	Available- for-sale reserve £000	Treasury shares £000	Retained earnings £000	Non- controlling interests £000	
Balance at 1 January 2017	153	–	20	(251)	(1,131)	235,567	–	234,358
Total comprehensive income for the period								
Profit for the six months ended 30 June 2017	–	–	–	–	–	2,445	–	2,445
Other comprehensive income, net of income tax								
Available-for-sale reserve	–	–	–	389	–	–	–	389
Available-for-sale reserve – Associate	–	–	–	(78)	–	–	–	(78)
Total other comprehensive income	–	–	–	311	–	–	–	311
Total comprehensive income for the period	–	–	–	311	–	2,445	–	2,756
Transactions with owners, recorded directly in equity								
Contributions by and distributions to owners								
Equity settled share based payment transactions	–	–	–	–	–	(154)	–	(154)
Final dividend relating to 2016	–	–	–	–	–	(2,680)	–	(2,680)
Total contributions by and distributions to owners	–	–	–	–	–	(2,834)	–	(2,834)
Balance at 30 June 2017	153	–	20	60	(1,131)	235,178	–	234,280

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

The notes on pages 8 to 16 are an integral part of these consolidated financial statements



# Consolidated Statement of Cash Flows

	Six months ended 30 June 2017 £000	Six months ended 30 June 2016 £000
<b>Cash flows from operating activities</b>		
Interest received	20,004	87,027
Interest paid	(3,347)	(16,490)
Fees and commissions received	4,966	12,987
Net trading and other income	1,104	–
Cash payments to employees and suppliers	(16,392)	(63,503)
Taxation paid	–	(6,053)
Cash flows from operating profits before changes in operating assets and liabilities	6,335	13,968
Changes in operating assets and liabilities:		
- net (increase)/decrease in derivative financial instruments	(527)	127
- net (increase)/decrease in loans and advances to customers	(121,290)	956,385
- net (increase)/decrease in other assets	(7,720)	22,212
- net increase/(decrease) in deposits from banks	3,379	(53,319)
- net increase/(decrease) in amounts due to customers	236,796	(990,299)
- net increase/(decrease) in other liabilities	3,960	(20,342)
<b>Net cash inflow/(outflow) from operating activities</b>	<b>120,933</b>	<b>(71,268)</b>
<b>Cash flows from investing activities</b>		
Purchase of financial investments	–	(462)
Disposal of financial investments	–	837
Purchase of computer software	(8,797)	(5,071)
Proceeds from sale of software	–	8,062
Purchase of investment property	–	(50,200)
Purchase of property, plant and equipment	(361)	(939)
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	(108,363)	(59,893)
Proceeds from redemption of debt securities	55,772	41,424
<b>Net cash (outflow)/inflow from investing activities</b>	<b>(61,749)</b>	<b>8,268</b>
<b>Cash flows from financing activities</b>		
Dividends paid	(2,680)	(7,342)
<b>Net cash used in financing activities</b>	<b>(2,680)</b>	<b>(7,342)</b>
Net increase/(decrease) in cash and cash equivalents	56,504	(70,342)
Cash and cash equivalents at 1 January	232,703	397,189
<b>Cash and cash equivalents at 30 June</b>	<b>289,207</b>	<b>326,847</b>

The notes on pages 8 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 (associate) – 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. In calculating the Income from associates, the Company has used an estimate based on the full year market consensus of the equity research performed on STB with an assumed straight-line growth in profits over the first half, noting the trading statement made by STB on 3 May 2017 in relation to STB's first quarter trading being in-line with STB's management's expectations. The Group's profit before tax, profit after tax and earnings per share therefore include this estimated income from STB.

	Continuing operations			
	Retail Bank Associate Income £000	UK Private banking £000	Group Centre £000	Total £000
<b>Six months ended 30 June 2017</b>				
Interest revenue	–	22,184	117	22,301
Inter-segment revenue	–	(78)	(117)	(195)
Interest revenue from external customers	–	22,106	–	22,106
Fee and commission income	–	6,183	–	6,183
<b>Revenue from external customers</b>	<b>–</b>	<b>28,289</b>	<b>–</b>	<b>28,289</b>
Interest expense	–	(2,782)	117	(2,665)
Add back inter-segment revenue	–	78	(78)	–
Subordinated loan note interest	–	–	(174)	(174)
Fee and commission expense	–	(322)	–	(322)
<b>Segment operating income</b>	<b>–</b>	<b>25,263</b>	<b>(135)</b>	<b>25,128</b>
Impairment losses	–	(343)	–	(343)
Other income	–	1,588	(484)	1,104
Income from associates	2,145	–	–	2,145
Operating expenses	–	(21,632)	(3,867)	(25,499)
<b>Segment profit / (loss) before tax</b>	<b>2,145</b>	<b>4,876</b>	<b>(4,486)</b>	<b>2,535</b>
Income tax (expense) / income	–	(90)	–	(90)
<b>Segment profit/(loss) after tax</b>	<b>2,145</b>	<b>4,786</b>	<b>(4,486)</b>	<b>2,445</b>
Loans and advances to customers	–	879,348	–	879,348
Other assets	–	551,239	79,177	630,416
<b>Segment total assets</b>	<b>–</b>	<b>1,430,587</b>	<b>79,177</b>	<b>1,509,764</b>
Customer deposits	–	1,234,445	–	1,234,445
Other liabilities	–	111,199	(70,160)	41,039
<b>Segment total liabilities</b>	<b>–</b>	<b>1,345,644</b>	<b>(70,160)</b>	<b>1,275,484</b>
Other segment items:				
Capital expenditure	–	(2,658)	–	(2,658)
Depreciation and amortisation	–	(1,046)	(1)	(1,047)

## Notes to the Consolidated Financial Statements *continued*

### 1. Operating segments *continued*

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.

Six months ended 30 June 2016	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	
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	–	–	–	–	2,209	(544)	1,665	
Income from associates	–	–	–	265	–	–	265	
Operating expenses	(6,016)	(29,073)	(35,089)	–	(16,762)	(6,359)	(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)

## Notes to the Consolidated Financial Statements *continued*

### 2. Other income

Other income of £1.1m in 2017 mainly consist out of rental income received from the investment property, while 2016 included a £1.6m gain realised as a result of the completion of the Visa Europe transaction.

### 3. Operating expenses

In 2016 operating expenses included Group bonuses paid relating to the sale of the Everyday Loans Group amounting to £2.3m.

### 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 year as disclosed in the tables below.

Underlying profit reconciliation Six months ended 30 June 2017	Arbuthnot Latham & Co. £000	Arbuthnot Banking Group £000
Profit before tax from continuing operations	4,876	2,535
Investment in operating systems	97	97
Acquisition costs	67	67
<b>Underlying profit</b>	<b>5,040</b>	<b>2,699</b>

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)
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.

## 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 14,815,045 (2016: 14,738,548) in issue during the period. On 30 March 2017, Sir Henry Angest bought 150,500 shares previously held in an ESOP trust.

#### 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. There were no dilutive share options in issue at the end of June (2016: 50,000).

	Six months ended 30 June 2017 £000	Six months ended 30 June 2016 £000
<b>Profit attributable</b>		
Total profit after tax attributable to equity holders of the Company	2,445	163,781
Profit/(loss) after tax from continuing operations attributable to equity holders of the Company	2,445	(2,903)
Profit after tax from discontinuing operations (ELL) attributable to equity holders of the Company	–	61,667
Profit after tax from discontinuing operations (STB) attributable to equity holders of the Company	–	105,017

	Six months ended 30 June 2017 £000	Six months ended 30 June 2016 £000
<b>Dilutive profit attributable</b>		
Total profit after tax attributable to equity holders of the Company	2,445	163,781
Profit after tax from continuing operations attributable to equity holders of the Company	2,445	(2,903)
Profit after tax from discontinuing operations (ELL) attributable to equity holders of the Company	–	61,667
Profit after tax from discontinuing operations (STB) attributable to equity holders of the Company	–	105,017

	Six months ended 30 June 2017 p	Six months ended 30 June 2016 p
<b>Basic Earnings per share</b>		
Total Basic Earnings per share	16.5	1,111.2
Basic Earnings per share from continuing operations	16.5	(19.7)
Basic Earnings per share from discontinuing operations - ELL	–	418.4
Basic Earnings per share from discontinuing operations - STB	–	712.5

	Six months ended 30 June 2017 p	Six months ended 30 June 2016 p
<b>Diluted Earnings per share</b>		
Total Diluted Earnings per share	16.5	1,107.5
Diluted Earnings per share from continuing operations	16.5	(19.6)
Diluted Earnings per share from discontinuing operations - ELL	–	417.0
Diluted Earnings per share from discontinuing operations - STB	–	710.1

## 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 2017 £000	Six months ended 30 June 2016 £000
Profit after tax from discontinued operations – ELL (up to 13 April 2016)	–	2,027
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
Profit after tax on sale of discontinued operations – STB	–	100,180
<b>Profit after tax from discontinued operations</b>	<b>–</b>	<b>228,110</b>

On 4 December 2015, the Bank agreed to the conditional sale of its non-standard consumer lending business, ELL, which comprised 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 are set out below.

	Note	Six months ended 30 June 2017 £000	From 1 January to 13 April 2016 £000
Interest income		–	11,137
<b>Net interest income</b>		<b>–</b>	<b>11,137</b>
Fee and commission income		–	147
Fee and commission expense		–	(124)
<b>Net fee and commission income</b>		<b>–</b>	<b>23</b>
<b>Operating income</b>		<b>–</b>	<b>11,160</b>
Net impairment loss on financial assets		–	(2,610)
Operating expenses		–	(6,016)
<b>Profit before tax</b>		<b>–</b>	<b>2,534</b>
Tax expense		–	(507)
<b>Profit after tax</b>		<b>–</b>	<b>2,027</b>
Profit on sale of business		–	116,754
<b>Total profit from discontinued operation</b>		<b>–</b>	<b>118,781</b>
<b>Profit attributable to:</b>			
Equity holders of the Company		–	61,667
Non-controlling interests		–	57,114
<b>Profit after tax</b>		<b>–</b>	<b>118,781</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	–	418.4
– diluted	5	–	417.0

## 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</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.

	Six months ended 30 June 2017 £000	From 1 January to 13 April 2016 £000
<b>Cash flow from discontinued operations – ELL</b>		
<b>Cash flows from operating activities</b>		
Interest received	–	11,137
Fees and commissions received	–	23
Cash payments to employees and suppliers	–	(8,626)
Taxation paid	–	(507)
Cash flows from operating profits before changes in operating assets and liabilities	–	2,027
Changes in operating assets and liabilities:		
– net increase in loans and advances to customers	–	(3,618)
– net increase in other assets	–	(249)
– net increase in other liabilities	–	2,621
<b>Net cash inflow from operating activities</b>	<b>–</b>	<b>781</b>
<b>Cash flows from investing activities</b>		
Purchase of property, plant and equipment	–	(9)
<b>Net cash outflow from investing activities</b>	<b>–</b>	<b>(9)</b>
<b>Cash flows from financing activities</b>	<b>–</b>	<b>–</b>
Net increase in cash and cash equivalents	–	772
Cash and cash equivalents at 1 January	–	1,661
<b>Cash and cash equivalents at 13 April</b>	<b>–</b>	<b>2,433</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	Six months ended 30 June 2017 £000	From 1 January to 15 June 2016 £000
Interest income		–	57,498
Interest expense		–	(12,107)
<b>Net interest income</b>		<b>–</b>	<b>45,391</b>
Fee and commission income		–	7,981
Fee and commission expense		–	(779)
<b>Net fee and commission income</b>		<b>–</b>	<b>7,202</b>
<b>Operating income</b>		<b>–</b>	<b>52,593</b>
Net impairment loss on financial assets		–	(12,172)
Operating expenses		–	(29,074)
<b>Profit before tax</b>		<b>–</b>	<b>11,347</b>
Tax expense		–	(2,198)
<b>Profit after tax</b>		<b>–</b>	<b>9,149</b>
Profit on sale of shares		–	100,180
<b>Total profit from discontinued operation</b>		<b>–</b>	<b>109,329</b>
<b>Profit attributable to:</b>			
Equity holders of the Company		–	105,017
Non-controlling interests		–	4,312
<b>Profit after tax</b>		<b>–</b>	<b>109,329</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
– diluted	5	–	710.1



## 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*

	Six months ended 30 June 2017 £000	From 1 January to 15 June 2016 £000
<b>Cash flow from discontinued operations – STB excluding ELL</b>		
Cash flows from operating activities		
Interest received	–	68,635
Interest paid	–	(12,107)
Fees and commissions received	–	7,226
Cash payments to employees and suppliers	–	(51,552)
Taxation paid	–	(6,034)
Cash flows from operating profits before changes in operating assets and liabilities	–	6,168
Changes in operating assets and liabilities:		
– net increase in loans and advances to customers	–	(165,976)
– net decrease in other assets	–	117,395
– net decrease in deposits from banks	–	(10,000)
– net increase in amounts due to customers	–	12,936
– net increase in other liabilities	–	(5,031)
<b>Net cash outflow from operating activities</b>	<b>–</b>	<b>(44,508)</b>
Cash flows from investing activities		
Purchase of computer software	–	(1,754)
Purchase of property, plant and equipment	–	(531)
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 from investing activities</b>	<b>–</b>	<b>107,262</b>
Cash flows from financing activities		
Increase in borrowings		
Dividends paid	–	(10,005)
<b>Net cash used in financing activities</b>	<b>–</b>	<b>(10,005)</b>
Net increase in cash and cash equivalents	–	52,749
Cash and cash equivalents at 1 January	–	141,595
<b>Cash and cash equivalents at 15 June</b>	<b>–</b>	<b>194,344</b>

### 7. Basis of reporting

The interim financial statements have been prepared on the basis of accounting policies set out in the Group's 2016 statutory accounts as amended by standards and interpretations effective during 2017 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 17 July 2017 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.

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Lloyds Bank plc

### Joint Stockbroker

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### Joint Stockbroker

### and Nominated Adviser

Stifel Nicolaus Europe Limited,  
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