ARBUTHNOT BANKING GROUP PLC

23 March 2017

For immediate release

ARBUTHNOT BANKING GROUP (“Arbuthnot”, “the Group” or “ABG”)
Audited Final Results for the year to 31 December, 2016

Group well capitalised for next phase of growth

Arbuthnot Banking Group today announces a profit for the year of £228m.

Arbuthnot Banking Group PLC is the holding company for Arbuthnot Latham & Co., Limited and has an 18.6% shareholding in Secure Trust Bank PLC.

FINANCIAL HIGHLIGHTS

- Profit for the year £228m (2015: £27m)
- Gain realised from sale of Everyday Loans and Secure Trust Bank shares of £228m
- Profit before tax on continuing operations £0.2m (2015: Loss of £2.6m)
- Underlying profit before tax £4m (2015: £3m)
- Special dividends paid in the year 325p per share
- Operating income increased by 20% to £41.5m (2015: £34.6m)
- Earnings per share 1127.2p (2015: 86.3p)
- Final dividend per share 18p (2015: 17p), an increase of 6%
- Total dividend per share 356p (2015: 29p)
- Underlying net assets increased by 90% to £234m (2015: £124m)
- Net assets per share 1534p (2015: 1253p), an increase of 23%
- Return on equity 88% (2015: 15%)
- Underlying return on deployed equity 9.6% (2015: 9.2%)

OPERATIONAL HIGHLIGHTS

Arbuthnot Latham

- Profit before tax £9.1m (2015: £6m) an increase of 51%
- Net client margin steady at between 4.2% and 4.5%
- Customer loans balances up 23% to £759m (2015: £619m)
- Written loan volume increased 39% to £227m (2015: £164m)
- Customer deposits approaching £1bn increasing 11% to £998m (2015: £897m)
- Assets under management increased to £920m (2015: £793m)
- Number of private bankers 36 (2015: 28)
- Number of commercial bankers 15 (2015: 2)
- Purchased Duncan Lawrie loan portfolio £45m
- Purchased 20 King Street office building £53m
- Agreed the acquisition of Renaissance Asset Finance approx. £55m customer loans (with completion expected in the next few weeks)

Secure Trust Bank – Associated Undertaking

- Shareholding reduced to 18.6%
- Treated as an associated undertaking due to significant influence via three board members
- Reported £2.1m of profit from associates from 15 June 2016
- Underlying share of full year profit of £3.6m

Commenting on the results, Sir Henry Angest, Chairman and Chief Executive of Arbuthnot, said: “This has been a momentous and highly profitable year for Arbuthnot Banking Group. We have completed a number of major corporate transactions which have transformed the Group and set it on a new path of development. The capital generated by these corporate transactions will allow Arbuthnot Latham to develop overtime into a more significant Private and Commercial Bank.”

ENQUIRIES:

Arbuthnot Banking Group
Sir Henry Angest, Chairman and Chief Executive 0207 012 2400
Andrew Salmon, Chief Operating Officer
James Cobb, Group Finance Director

Stifel Nicolaus Europe Ltd trading as KBW (Nomad and Joint Broker) 0207 710 7600
Robin Mann
Gareth Hunt
Stewart Wallace

Numis Securities Ltd (Joint Broker)
Chris Wilkinson 0207 260 1000
Andrew Holloway

Bell Pottinger (Financial PR)
Ben Woodford 0203 772 2588
Dan de Belder
Sam Cartwright

The 2016 Annual Report and Notice of Meeting will be posted and available on the Arbuthnot Banking Group website http://www.arbuthnotgroup.com on or before 7 April 2017. 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	2016 £000	*Re-presented 2015 £000
		Year ended 31 December	
Interest income	8	38,071	32,801
Interest expense		(7,626)	(7,990)
Net interest income		**30,445**	**24,811**
Fee and commission income	9	11,430	9,999
Fee and commission expense		(425)	(206)
Net fee and commission income		**11,005**	**9,793**
Operating income		**41,450**	**34,604**
Net impairment loss on financial assets	10	(474)	(1,284)
Profit from associates	26	2,145	-
Other income	11	3,169	-
Operating expenses	12	(46,111)	(35,926)
Profit / (loss) before tax from continuing operations		**179**	**(2,606)**
Income tax (expense) / credit	13	(720)	121
Loss after tax from continuing operations		(541)	(2,485)
Profit from discontinued operations after tax	14	228,110	29,009
Profit for the year		**227,569**	**26,524**
Other comprehensive income			
Items that are or may be reclassified to profit or loss			
Available-for-sale reserve		(2,377)	1,559
Available-for-sale reserve - Associate		(389)	-
Tax on other comprehensive income		456	(262)
Other comprehensive income for the period, net of tax		**(2,310)**	**1,297**
Total comprehensive income for the period		**225,259**	**27,821**
Profit attributable to:			
Equity holders of the Company		166,143	12,726
Non-controlling interests		61,426	13,798
Profit for the year		**227,569**	**26,524**
Total comprehensive income attributable to:			
Equity holders of the Company		164,320	14,023
Non-controlling interests		60,939	13,798
Total comprehensive income for the period		**225,259**	**27,821**
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	16	(3.7)	(16.9)
Basic earnings per share - Discontinued operations	16	1,130.9	103.2
Basic earnings per share	16	**1,127.2**	**86.3**
Diluted earnings per share - Continuing operations	16	(3.7)	(16.6)
Diluted earnings per share - Discontinued operations	16	1,130.4	99.9
Diluted earnings per share	16	**1,126.7**	**83.3**

* Prior year numbers have been re-presented for discontinuing operations (see note 14).

Consolidated statement of financial position

		At 31 December	
		2016	2015
	Note	£000	£000
ASSETS			
Cash and balances at central banks	17	195,752	368,611
Loans and advances to banks	18	36,951	28,578
Debt securities held-to-maturity	19	107,300	87,728
Assets classified as held for sale	14	-	118,456
Derivative financial instruments	20	1,516	1,490
Loans and advances to customers	21	758,799	1,579,512
Other assets	23	11,939	16,894
Financial investments	24	2,145	2,685
Deferred tax asset	25	1,665	1,784
Interests in associates	26	82,574	943
Intangible assets	27	8,522	10,874
Property, plant and equipment	28	4,782	14,004
Investment property	29	53,339	-
Total assets		**1,265,284**	**2,231,559**
EQUITY AND LIABILITIES			
Equity attributable to owners of the parent			
Share capital	35	153	153
Retained earnings	36	235,567	123,330
Other reserves	36	(1,362)	34
Non-controlling interests		-	**67,887**
Total equity		**234,358**	**191,404**
LIABILITIES			
Deposits from banks	30	3,200	55,305
Derivative financial instruments	20	227	135
Deposits from customers	31	997,649	1,929,838
Liabilities relating to assets classified as held for sale	14	-	8,700
Current tax liability		147	3,366
Other liabilities	32	17,082	31,977
Debt securities in issue	33	12,621	10,834
Total liabilities		**1,030,926**	**2,040,155**
Total equity and liabilities		**1,265,284**	**2,231,559**

Chairman’s statement

I am pleased to report that 2016 for Arbuthnot Banking Group (“ABG” or “the Group”) has been a momentous year. We have completed a number of major corporate transactions that have not only transformed the Group, but also set it on a new and exciting path of development that I expect to be as successful in the future as it has been in the past. I should remind the shareholders though that we take a long term view.

The Group has made a profit for the year of £228m when the impact of the sale of 30% of Secure Trust Bank (“STB”) is factored in, while the Group has reported a profit before tax of £0.2m on the continuing operations.

In the past I have commented on the complexities of the ever changing accounting conventions, so I will refrain from doing so again, but suffice to say £228m of profit for a Group that started the year with shareholder funds of £191m is a remarkable result and one that I expect in time will transform the Group. Six years ago the Group had net assets per share of £2.28 and this has risen nearly 7 fold to £15.34 per share and that is after paying special dividends of £3.25.

The sale of a substantial proportion of our stake in STB was a decision that we considered carefully and on balance it seemed this was the right time to allow both of the Group’s banks to develop along their own chosen paths.

STB, despite its significant history that dates back over 60 years, has been seen by the market and commentators to be in the new category of banks collectively known as “Challenger Banks”. They have come to prominence since the financial crisis and indeed several of them have only been created since that time. STB, along with the other Challengers has grown quickly, promoted competition in the market place and attracted customers with their new images and fresh approach to banking. However, to keep taking advantage of the opportunities that exist they need to have access to the financial markets to supply capital to maintain the organic growth rates and to allow corporate or inorganic deals to be done.

We had seen over time that STB had developed an exceptional list of shareholders on its register and many of them were supportive of Paul Lynam’s (the CEO) plans, so we decided it was appropriate for ABG to reduce its stake and for STB to seek admission to the Main London Stock Market, which it achieved in October last year. Needless to say, we wish them every success, not least because we remain an 18.6 % shareholder.

The sale of the shares has led to STB being deconsolidated from the Group and resulted in a significant increase in the capital resources of the remaining business. This capital we plan to deploy in diversifying Arbuthnot Latham (“AL) into the broader financial services markets, while at the same time remaining entrepreneurial and open to other opportunities. This development took several steps forward during the year. The Commercial Bank that we started to build in 2015 ended the year with 15 bankers and has now extended coverage into the South West and North West. The division has seen its lending balances grow to £76m by the year end and also has a healthy pipeline of approved lending which should see the business grow substantially in 2017.

In June we completed the purchase of 20 King Street, a well-known office site in the West End. While currently occupied by a tenant, it is our intention to create a small suite of offices from where the Private Bankers would be able to meet clients in the West End.

At the end of the year AL was able to announce that it had purchased the private banking loan book from Duncan Lawrie. The portfolio was purchased at a discount and should allow us to attract a number of new banking clients, following the decision by Duncan Lawrie to close its banking operations.

Finally, we reached an agreement with the shareholders of Renaissance Asset Finance to acquire their lending business. The business provides lending solutions mainly to high net worth individuals and businesses seeking to purchase assets and equipment with relatively short term financing arrangements. This will be very complementary to our existing lending business and will open up new distribution channels for the Group.

While these transactions should go some way to demonstrating our ambitions to grow, Arbuthnot Latham will remain a specialist bank for the time being, rather than a “challenger”, as I fear the only banks that they will be able to challenge will be themselves, until the regulatory and business landscape becomes more favourable and promotes competition among all of the banks, both big and small, on a level playing field.

I would like to mention that while we intend to reinvest the capital that we have created during 2016 and indeed feel confident that over the long term we can fully deploy this capital into businesses that can generate returns at or around 20%, we also remain cognisant that ultimately we conduct our business on behalf of our loyal shareholders. I am therefore pleased to report that over and

above our normal dividends we were able to pay two special dividends during the year. The first was for 25p and the second 300p, which has allowed the shareholders directly to benefit from the corporate transactions that we have completed in the year.
As I reflect on 2016 I cannot do so without commenting on the result of the referendum. Being Swiss born, I believe that true democracy can only lie in the hands of the people; their voice was heard loudly that day. As I commented last year, I believe the City to be a resilient and a dynamic place and both it and the rest of the UK economy will quickly respond to the new opportunities that will open up when Britain finally exits the European Union and becomes an independent and sovereign state again.

Board Changes and Personnel

During the year the following changes to the ABG Board occurred. Sir Alan Yarrow joined the Board on 10 June as an Independent Non Executive, while on 5 May, Ruth Lea retired after 11 years of distinguished service. She will, however, still be connected with the Group, remaining as its Economic Advisor. On 6 May Ian Henderson joined the Board as an Executive Director in his capacity as the Chief Executive of Arbuthnot Latham. At the same time James Fleming stood down from the Board to take the role of Vice Chairman for Arbuthnot Latham. Finally, Paul Lynam became a Non-Executive Director of the Board following the reduction in ownership of Secure Trust Bank. I welcome the new directors and I thank the retiring directors for their contributions.

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 performance of the Group also reflects 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 dedicated efforts in 2016.

Dividend

The Board is proposing a final dividend of 18p, an increase of 1p on last year. Along with the normal interim dividend of 13p and the two special dividends of 25p and 300p respectively, this gives a total dividend for the year of 356p (2015: 29p). Excluding the special dividends the annual dividends would be 31p, which is an increase of 2p.

If approved, the dividend will be paid on 12 May 2017 to shareholders on the register at close of business on 18 April 2017.

Outlook

The short term global economic outlook remains uncertain. The US has a new President in the form of Donald Trump, who seems to be taking a significantly more protectionist stance on the US economy. On the other hand he has made encouraging noises about reduction in taxes and regulation. However, the jury remains out for the time being. Meanwhile, Britain will soon trigger Article 50 and begin the process of exiting the European Union. At the same time populist politics is beginning to spread across Europe, which leaves the European political project exposed to the risk of being forced into making some fundamental changes, while monetary union appears more and more untenable.

ABG however, though not entirely immune to the global-economic and geo political headwinds, remains well capitalised and more importantly has become a group that can attract high quality staff, thus we remain optimistic for our future prospects.

Strategic Report

Business Review - Private Banking - Arbuthnot Latham

	2016	2015
Operating income	£41.8m	£35.1m
Other income	£4.4m	£1.9m
Operating expenses	£36.6m	£29.7m
Profit before tax	£9.1m	£6.0m
Customer loans	£758.8m	£618.9m
Customer deposits	£997.6m	£896.8m
Total assets	£1,199.2m	£1,004.4m
Assets under management	£919.8m	£738.8m
Customer net margin	4.4%	4.3%
Loan to deposit ratio	76.0%	69.0%

Arbuthnot Latham and Co., Limited (“AL” or “the Bank”) has reported a profit before tax of £9.1m (2015: £6.0m), which is an increase of 51% on the previous year. This confirms that the continued investments being made in the Bank are showing returns. However, much of the cost of the investments this year, which totalled £1.4m, were covered by the gain that the Bank enjoyed following the acquisition of Visa Europe by Visa Inc. Our share of this transaction realised £1.6m. Thus, the underlying profit for the year was £8.8m compared to £7.8m in 2015.

More importantly, the balance sheet continued to demonstrate good growth. Customer loans increased by 23% to end the year at £759m (2015: £619m) and deposits are rapidly approaching the £1bn milestone, ending the year at £998m (2015: £897m). To facilitate this growth, the Bank has received further capital support totalling £22m from its parent Arbuthnot Banking Group PLC (“ABG”), which has continued to invest during the year, such that the net assets or capital of the Bank has increased by 54% to close the year at £81m (2015: £52m).

The Bank has continued its plan to diversify into other areas of financial services and has taken significant steps in developing its commercial banking proposition. From a standing start in September 2015 the Commercial Bank has now recruited 31 staff with plans to expand this to approximately 50 staff by the end of 2017. Initially, the coverage was aimed at London and the South East, but this has now extended to the South West, with five staff to operate from Exeter and Bristol and also the North West with a team of five in Manchester. The team in Manchester has recently moved into our new premises in the building previously occupied by the Bank of England at 82 King Street. The teams seek to provide a “high touch relationship service” to mainly owner managed commercial clients, with sector coverage in Media and Real Estate and a specialist team which looks after trading businesses in sectors such as Healthcare, Legal Services and Private Education.

The Commercial Banking division has seen its lending balances grow to £76m by the year end with corresponding deposits reaching £51m. In addition, the division also has a healthy pipeline of approved lending that should see the business grow substantially in 2017. It would appear that our new Commercial Banking proposition resonates well in the market, with many experienced bankers joining the team over the last 12 months, all of whom we have attracted from larger, more well-known commercial banks. With a strong new business pipeline, the proposition is also clearly working well with our target client market place.

In the meantime, the Private Bank has continued to develop as planned. The number of private bankers now stands at 36 and the business continues to attract clients interested in our three main product offerings. The Private Banking loan book grew to £683m (2015: £619m) during the year and deposits were £947m (2015:£897m), an increase of 6%. During 2016 the investment management industry saw much volatility in all the main investment markets, caused initially by the mining and natural resources sectors reaching their floors. This was then followed by the Brexit vote. Despite all of this market turmoil, the investment management business was able to grow its assets under management (“AUMs”) by 25% to close the year at £920m.

The office in Dubai has continued to perform well, despite the impact that the prolonged reduction in the value of oil has had on the region. It contributed £0.9m to the profits of the Bank and has introduced £64m of deposits, £74m of loans and £60m of AUMs to date.

As indicated several times in the past year and a half, the Bank has been pursuing a strategy of diversification and this was accelerated in 2016 by the finalisation of three transactions.

Firstly, the Bank bought the long leasehold of 20 King Street, a prominent office building in the heart of the West End at a cost of £53.3m including all associated transaction costs. This building is currently fully occupied but in time it is expected to be partly used as a West End office for the Bank. The remaining space will continue to be offered as a prime office location.

Secondly, the Bank was approached by Duncan Lawrie to help it in its plans to close its private banking business and return its banking licence. Duncan Lawrie had identified AL as a suitable home for its existing clients that offered a full private banking suite and high quality of service. As part of this process we were able to reach an agreement to purchase the existing loan portfolio for approximately £45m, with certain deferred items to be factored in. This represented a discount of 5% on the par value of the loans. The portfolio has now been fully transferred to AL and is expected to be a good source of new introductions to the clients of Duncan Lawrie as they wind down their deposit portfolio.

Finally, AL reached agreement with the shareholders of Renaissance Asset Finance (“RAF”) to acquire the whole of its lending business. RAF currently offers financing solutions mainly to high net worth individuals and businesses seeking to purchase high value cars and other equipment. The loan portfolio currently stands at £55m and is expected to be part of the Group’s balance sheet around the end of the first quarter of 2017. This transaction remains subject to certain completion conditions, principally the regulatory approvals required. This business will open up new distribution channels to the Bank and should form the base from which the Bank can develop further lending products for the asset backed financing markets.

The transformation of the Bank has not only been via the corporate transactions and developing the Commercial Bank. The operational transformation project will also reach a significant milestone during 2017, with the implementation of the Bank’s new operating system. The Oracle platform known as “Flexcube” is expected to go live in the second quarter of 2017 and will provide a robust and scalable platform to support the growth of the Bank for many years to come.

Strategic Report - Financial Review

Arbuthnot Banking Group 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 clients and customers in its chosen markets of Private and Commercial 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 and commission earned on the sale of financial instruments and products.

Highlights

Summarised Income Statement	2016 £000	2015 £000
Net interest income	30,445	24,811
Net fee and commission income	11,005	9,793
Operating income	41,450	34,604
Profit from associates	2,145	-
Other income	3,169	-
Operating expenses	(46,111)	(35,926)
Impairment losses - financial investments	(47)	(34)
Impairment losses - loans and advances to customers	(427)	(1,250)
Profit before tax from continuing operations	179	(2,606)
Income tax expense	(720)	121
Profit after tax from continuing operations	(541)	(2,485)
Profit from discontinued operations after tax	228,110	29,009
Profit for the year	**227,569**	**26,524**

Basic earnings per share (pence) - Continuing operations	(3.7)	(16.9)
Basic earnings per share (pence) - Discontinuing operations	1,130.9	103.2
Basic earnings per share (pence)	**1,127.2**	**86.3**

Underlying profit reconciliation 31 December 2016	Arbuthnot Latham & Co. £000	Retail Banking Associate £000	Group Centre	Arbuthnot Banking Group £000
Profit before tax from continuing operations	9,053	2,145	(11,019)	179
ABG Group bonuses relating to sale of ELL	-	-	2,304	2,304
STB full year equivalent associate income*	-	1,732	-	1,732
AL realised profit on AFS investment (Visa)	(1,624)	-	-	(1,624)
AL investment in operating systems	21	-	-	21
AL commercial banking investment	999	-	-	999
AL acquisition costs	398	-	-	398
Underlying profit	**8,847**	**3,877**	**(8,715)**	**4,009**

Underlying basic earnings per share (pence) - Continuing operations	17.1
Underlying basic earnings per share (pence)	**1,148.1**

** - STB associate income adjustment (excl. ELL & bonuses relating to ELL sale) as if received from 1 January 2016 and not as currently included from 16 June 2016 (pro forma basis).*

Underlying profit reconciliation 31 December 2015	Arbuthnot Latham & Co. £000	Retail Banking Associate £000	Group Centre £000	Arbuthnot Banking Group £000
Profit before tax from continuing operations	5,998	-	(8,604)	(2,606)
STB full year equivalent associate income*	-	3,714	-	3,714
AL investment in operating systems	1,123	-	-	1,123
AL commercial banking	333	-	-	333
Acquisition costs	418	-	-	418
Underlying profit	**7,872**	**3,714**	**(8,604)**	**2,982**
Underlying basic earnings per share (pence) - Continuing operations				13.5
Underlying basic earnings per share (pence)				**116.7**

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

Once again the results of the Group are not immediately easy to interpret from the face of the profit and loss. The profit before tax from continuing operations for 2016 is £0.2m, which compares to a loss of £2.6m in the prior year. However, these results have been adjusted to exclude the consolidated results for STB, which became an associated company on 15 June following the sale of 6m STB shares by the Group. The profit on the sale of these shares, the profit on the sale of Everyday Loans and the trading performance of ELL up to 13 April and STB up to 15 June have all been included in the discontinued operations after tax line.

Once these are included in the results, the Group has made a profit for the year of £227.6m (2015: £26.5m), which is almost an eight fold increase. It is also more than the net assets of the Group at the start of 2016.

Clearly these results are significantly influenced by the outcome of the corporate transactions, so perhaps a better indication of the financial performance of the Group is given by the underlying profit measure. Thus, the underlying profit of ABG for 2016 was £4m compared to £3m in 2015, which is a 33% increase during 2016.

The total Basic Earnings per share (“EPS”) of the Group have increased by 1206% to 1127.2p (2015: 86.3p), with an underlying total Basic EPS increasing by 884% to 1148.1p (2015: 116.7p). Underlying Basic EPS on continuing operations has increased by 27% to 17.1p (2015: 13.5p).

Operating income for the year reached £41.5m, an increase of 20% on the prior year (2015: £34.6). This increase was largely as a result of increased customer lending balances, which saw a corresponding level of growth in the balance sheet of Arbuthnot Latham. Net interest income now represents 73% of total operating income compared to the prior year level of 72%.

This year’s income statement includes £2.1m profit from Associate. This represents the Group’s share (18.6%) of the profit after tax of Secure Trust Bank, which is now classified as an associated undertaking. This method of accounting for the investment that ABG retains in Secure Trust is determined by the fact that ABG is deemed to have “significant influence” over Secure Trust by way of three directors of Secure Trust also being directors of Arbuthnot Banking Group. The profit from Associate is recorded from 15 June to 31 December 2016 and a full year effect is adjusted in the underlying profit reconciliation table, on a pro forma basis.

The Group’s expense base increased to £46.1m (2015: £35.9m), an increase of 28%; however, this does include a number of exceptional bonus payments that were payable in relation to the profit generated on the sale of Everyday Loans, which was completed in April 2016. This payment totalled £2.3m and when the expense base is adjusted for these costs, the annual increase is 22%. The Group expense base includes a significant amount of expenditure, well in excess of £1m, that relates to investment in developing the Commercial Banking business, which is expected to generate profits in future years. Impairment losses on loans and advances to customers declined to £0.4m (2015: £1.3m) as the business continued to work its way out of a small number of remaining legacy cases. The loss rate has now fallen to 7bps on the total lending book.

Overall, the Return on Equity of the Group was 88.4% (2015: 14.6%). This result was somewhat distorted by the large transactions which leaves the Group now in a position with significant surplus capital, even after paying 356p per share of dividends. It is expected that the Group will over time deploy the surplus capital into new and existing businesses at returns greater than 20%.

Balance Sheet Strength

Summarised Balance Sheet	2016 £000	2015 £000
Assets		
Loans and advances to customers	758,799	1,579,512
Liquid assets	340,003	484,917
Other assets	166,482	167,130
Total assets	**1,265,284**	**2,231,559**
Liabilities		
Customer deposits	997,649	1,929,838
Other liabilities	33,277	110,317
Total liabilities	1,030,926	2,040,155
Equity	234,358	191,404
Total equity and liabilities	**1,265,284**	**2,231,559**

During the year total assets reduced to £1.3bn (2015: £2.2bn), largely as a result of the removal of Secure Trust Bank from the balance sheet, apart from the remaining value of the investment in associate. However, the underlying growth of the balance sheet was in excess of 20% by measuring the growth in customer balances in Arbuthnot Latham.

Throughout the year the balance sheet remained almost entirely funded by customer deposits. However, the Group has continued to access other sources of liquidity as they become available. The Group has £109m of assets available for use in the Funding for Lending Scheme (“FLS”) and the newly announced Term Funding Scheme (“TFS”).

The net assets of the Group closed the year at £234m (2015: £191m), which is an increase of 23%. However, this does not fully explain the movement. Included in the prior year net assets was £68m of Non-Controlling Interests, which related to the minority shareholders of Secure Trust. This element was removed when STB was deconsolidated. So, on an adjusted basis, the net assets related to the shareholders of ABG have increased by £111m, an increase of 90%. This is also after payments of £52m in dividends during the year.

The net assets now stand at approximately £15.34 per share.

Segmental Analysis

The segmental analysis is shown in more detail in Note 42. The operating segments are Arbuthnot Latham and Co., Limited and Retail Banking Associate (being the Group’s 18.6% investment in Secure Trust Bank). Group costs and intercompany elimination journals are shown separately to reconcile back to 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.

Arbuthnot Latham

Summarised Income Statement	2016 £000	2015 £000
Net interest income	30,771	25,283
Net fee and commission income	11,005	9,793
Operating income	41,776	35,076
Other income	4,353	1,894
Operating expenses	(36,602)	(29,722)
Impairment losses - financial investments	(47)	-
Impairment losses - loans and advances to customers	(427)	(1,250)
Profit before tax	**9,053**	**5,998**

The profit before tax for the year was reported as £9.1m (2015: £6.0m). This was an increase of 51%. The one off gain received from the sale of Visa shares of £1.6m was largely offset by continued investment in the development of the Commercial Bank.

The operating income of the Bank increased by 19% largely due to the increase in customer loan balances, as the Bank becomes more led by its lending proposition, rather than fee based revenue streams.

During the year the monthly net client margin ranged between 4.2% and 4.5%, which was in line with the prior year.

Operating expenses have increased during the year by 23% to reach £36.6m (2015: £29.7m). This was largely as a result of additional hiring, mainly within the Commercial Bank and also some additional private bankers.

Impairment losses on loans declined from £1.3m to £0.4m, as the legacy book continues to be resolved.

Summarised Balance Sheet	2016 £000	2015 £000
Assets		
Loans and advances to customers	758,799	618,902
Liquid assets	339,989	344,856
Other assets (including Group balances)	100,374	40,691
Total assets	**1,199,162**	**1,004,449**
Liabilities		
Customer deposits	997,649	896,766
Other liabilities (including Group balances)	120,815	55,330
Total liabilities	1,118,464	952,096
Equity	80,698	52,353
Total equity and liabilities	**1,199,162**	**1,004,449**

Total customer assets increased by 23% to close the year at £759m (2015: £619m). However, total volume of loans written in the year increased to £227m, which was an increase of 39% on the prior year (this excludes the purchase of the Duncan Lawrie loan portfolio of £43m). Despite this significant increase, the business did experience a lengthening of time between the approval of the loans in principle and the final drawdown of the loan. This may be due to a number of factors, but the most significant is the impact of the increase in stamp duty changes on expensive properties.

The business also has a healthy pipeline of approved lending which should see the business grow substantially in 2017.

Overall, the loan book remains well secured with an average LTV of 45% (2015: 46%). Other assets increased by approximately £60m due to the purchase of the property at 20 King Street in the West End. The deposits of the Bank almost reached £1bn for the first time in the Bank's history, closing the year at £998m (2015: £897m), an increase of 11%.

The net assets of the Bank now stand at £81m (2015: £52m), an increase of 54%, as the Parent made further capital contributions of £22m to facilitate additional growth. This was also supplemented by the organically generated retained reserves that arise from the net earnings in the year. As a result, Arbuthnot Latham had a total capital ratio of 12.3% (2015: 10.4%) and a core tier 1 ratio of 12.3% (2015: 10.4%).

The investment management business was able to grow its assets under management by 25% from £739m to close the year at £920m.

Group & Other Costs

Summarised Income Statement	2016 £000	2015 £000
Net interest income	26	(148)
Subordinated loan stock interest	(352)	(324)
Operating income	(326)	(472)
Other income	120	-
Operating expenses	(10,813)	(8,098)
Impairment loss on financial investments	-	(34)
Profit after tax	**(11,019)**	**(8,604)**

Total Group costs increased from £8.6m to £11m as a result of the payment of exceptional bonuses related to the gain (£117m) generated by the successful completion of the disposal of Everyday Loans. The bonuses totalled £2.3m. The Group centre continues to oversee the Group operations, in particular the remaining investment in Secure Trust.

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 41.

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

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

- Tier 1 comprises mainly shareholders' funds and revaluation reserves, after deducting goodwill, other intangible assets and the deduction for a significant investment in a financial institution (STB). The portion of the investment up to 10% of ABG's Tier 1 is added back to capital resources and then risk weighted at 250%.
- 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.

Capital ratios	2016 £000	2015 £000
Core Tier 1 capital	234,087	191,404
Deductions	(67,639)	(33,921)
Tier 1 capital after deductions	166,448	157,483
Tier 2 capital	12,621	12,865
Total capital	**179,069**	**170,348**
Core Tier 1 capital ratio (Net Core Tier 1 capital/Basel III Total Risk Exposure)	**28.0%**	**11.7%**
Total Capital Ratio (Capital/Basel III Total Risk Exposure)	**30.1%**	**12.6%**

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 the 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, which currently has a loan book of £759m. The lending portfolio in Arbuthnot Latham is extended to private banking clients and the majority is secured against cash, property or other assets. Credit risk is managed through the Credit Committee of Arbuthnot Latham.

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. The Group also has an 18.6% interest in Secure Trust Bank PLC. There is currently the risk that a permanent or prolonged reduction in the share price could lead to an impairment of the interest in associate currently carried at £81.7m. Going forward if the Group was considered to no longer have significant influence it would lead to the investment being accounted for as an available-for-sale financial investment. The value would then be marked to market with changes in the share price giving rise to gains or losses being recorded in Other Comprehensive Income or Profit or Loss (see note 3.8 (d), note 3.10 (b) and note 4.1 (d)).

The Group is exposed to changes in the market value of commercial properties to the extent that the Group holds Investment Property carried at fair value. The current carrying value of Investment Property is £53.3m. Any changes in the market value of the commercial property will be accounted for in Profit or Loss and as such could have a material impact on the Profit or Loss of the Group.

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 (Liquidity Coverage Ratio), 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 entity maintains 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 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 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's 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 in the UK. However, the international landscape is increasingly uncertain. The declining performance of the economies in the EU and the increasingly protectionist stance being taken by other major economies 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.

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.

Brexit
It is currently difficult to analyse the impacts that Brexit may have on 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 2016.

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 12.

Results and Dividends

The results for the year are shown on page 1. The profit after tax for the year of £227.6m (2015: £26.5m) is included in reserves.

The Directors recommend the payment of a final dividend of 18p on the ordinary shares which, together with the interim dividend of 13p paid on 30 September 2016, special dividend of 25p paid on 27 July and special dividend of 300p paid on 18 November 2016, represents total dividends for the year of 356p (2015: 29p). The final dividend, if approved by members at the Annual General Meeting, will be paid on 12 May 2017 to shareholders on the register at close of business on 18 April 2017.

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 Ordinary and Special Resolutions regarding the creation of a number of new shares, which may be non-voting shares, not exceeding 5% of the existing issued share capital, with authority given to the directors to allot such shares. Directors would use the authority to generate additional capital from institutional shareholders.

Shareholders will also 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.

Secure Trust Bank PLC

Following approval given by shareholders on 14 June 2016, the Company completed the sale of 6,000,000 ordinary shares in Secure Trust Bank PLC at a price of £25 per share. This reduced the Company shareholding in Secure Trust Bank PLC from 51.9 per cent to 18.9 per cent. Subsequently the shareholding has reduced to 18.6 per cent following the issue of further shares by Secure Trust Bank PLC to participants in its share option scheme.

Financial Risk Management

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

Substantial Shareholders

The Company was aware at 21 March 2017 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	1,119,607	7.3
Prudential plc	608,890	4.0
Mr. R Paston	529,130	3.5

Directors

Sir Henry Angest	*Chairman & CEO*
J R Cobb	*Finance Director*
I A Dewar	
J W Fleming (to 14/04/2016)	
I A Henderson (from 06/05/2016)	
Ms R J Lea (to 05/05/2016)	
P A Lynam	

Sir Christopher Meyer
A A Salmon *Chief Operating Officer*
Sir Alan Yarrow (from 10/06/2016)

All those who are currently directors served throughout the year except for Mr. I.A. Henderson who was appointed on 6 May 2016 and Sir Alan Yarrow who was appointed on 10 June 2016. Mr. J.W. Fleming served as a director until 14 April 2016. Ms R.J Lea retired from the Board at the Annual General Meeting on 5 May 2016.

Mr. Henderson, who succeeded Mr Fleming as chief executive of Arbuthnot Latham & Co., Limited, and Sir Alan Yarrow offer themselves for election under Article 75 of the Articles of Association. Mr. Henderson has a service agreement terminable on twelve months' notice. Sir Alan Yarrow's letter of appointment is terminable on three months' notice.

Mr. Salmon and Mr. Lynam retire under Article 78 of the Articles of Association and, being eligible, offer themselves for re-election. Mr. Salmon has a service agreement terminable on twelve months' notice. Mr. Lynam, a non-executive director who remains chief executive of Secure Trust Bank PLC, has a letter of appointment terminable on three months' notice.

According to the information kept under Section 3 of the Disclosure and Transparency Rules 2006 and the Market Abuse Regulation 2016, 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 2016	31 December 2016	21 March 2017	%
Sir Henry Angest	8,200,901	8,200,901	8,200,901	53.7
J.R. Cobb	-	5,000	6,000	-
P.A. Lynam	10,000	10,000	10,000	0.1
A.A. Salmon	51,699	51,699	51,699	0.3

At the yearend, Mr. Lynam held 9,110 and Mr. Salmon held 7,500 ordinary 40p shares in Secure Trust Bank PLC, an associate company of the Group.

On 16 April 2013 Mr. Salmon and Mr. Cobb were granted options under the Company's Unapproved Executive Share Option Scheme 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 14 June 2016 Mr. Salmon and Mr. Cobb each exercised all their respective options granted on 16 April 2013. The exercise price was 1591p and the Board agreed to make a cash settlement rather than allot new shares.

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 50,000 shares for James Fleming.

On 14 June 2016 Mr. Salmon, Mr. Cobb and Mr. Henderson were granted phantom options to subscribe for 200,000, 100,000 and 100,000 ordinary 1p shares respectively in the Company at 1591p. 50% of each director's individual holding of phantom options is exercisable at any time after 15 June 2019 and the other 50% is exercisable at any time after 15 June 2021. These options replaced options for Mr. Salmon to subscribe for 100,000 ordinary 1p shares and Mr. Cobb to subscribe for 50,000 ordinary 1p shares granted on 16 April 2013 subject to a cash payment reflecting the difference between 930p and 1591p per share. The fair value of the option at the grant date was £1.3m.

Mr. Lynam continues to hold options granted to him on 2 November 2011 to subscribe for 141,667 ordinary 40p shares in Secure Trust Bank PLC (an associate company of the Group), under the Unapproved Executive Share Option Scheme established in November 2011, at 720p between 2 November 2016 and 2 November 2021. The fair value of the options at grant date was £0.3m. On 7 November 2016 Mr. Salmon exercised options granted to him on 2 November 2011 to subscribe for 141,667 ordinary 40p shares in Secure Trust Bank PLC at 720p and sold the shares at a price of 2200p.

On 23 March 2015 Mr. Lynam was granted phantom options to acquire 187,500 ordinary 40p shares in Secure Trust Bank PLC at 2500p 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 or associated companies, which was significant in relation to the Group's business. At 31 December 2016 two directors had loans from Arbuthnot Latham & Co., Limited amounting to £1,361,000 and one director had a loan from Secure Trust Bank PLC amounting to £404,000, on normal commercial terms as disclosed in note 40 to the financial statements. At 31 December 2016 five directors had deposits with Arbuthnot Latham & Co., Limited amounting to £3,398,000 and two directors had deposits with Secure Trust Bank PLC amounting to £318,000, all on normal commercial terms as disclosed in note 40 to the financial statements.

Shareholders will be asked to approve a Special Resolution removing the limit on the amount of fees payable to non-executive directors, currently £400,000. The corresponding Article regarding the remuneration of executive directors contains no such limit. Responsibilities of non-executive directors have increased significantly in recent years with further obligations falling on those who serve on board committees. Removal of the limit would increase the flexibility of the Board, not least if it is felt appropriate to make any additional appointment between Annual General Meetings.

Shareholders will also be asked to approve a Special Resolution amending the Articles relating to the function of the President, to widen the role, with the objective of safeguarding the long term prosperity and well being of the Company.

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 21 to 22 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 17 to 20.

As explained in the Corporate Governance section of the Annual Report, the Board now maintains direct responsibility for issues of risk, as responsibility for large lending proposals has become a direct responsibility of its subsidiary, Arbuthnot Latham & Co., Limited.

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 £67,000 to the Conservative Party during the year (2015: £68,000).

The Board proposes to update the authority granted by shareholders at the 2015 Annual General Meeting to make donations to political parties and organisations or incur political expenditure within the meaning of Sections 363 to 365 of the Companies Act 2006 for a further four years limited to £250,000 in aggregate.

Branches outside of the UK

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

Events after the balance sheet date

There were no material post balance sheet events to report.

Auditor

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

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

Introduction and Overview

Arbuthnot Banking Group has a strong and effective Corporate Governance framework. This section of the Report and Accounts summarises key elements of the governance arrangements applicable to the Company and the Company's compliance with the UK Corporate Governance Code.

As an AIM company, the Group is not bound by the UK Corporate Governance Code; however, the Board endorses the principles of openness, integrity and accountability, which underlie good corporate governance and takes 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, one of which is an authorised deposit-taking business. Accordingly, the Group operates to the high standards of corporate accountability and regulatory compliance appropriate for such businesses.

The Group is led by an effective Board which comprises four executive directors, three independent non-executive directors and one additional non-executive director.

Sir Henry Angest is the Chairman of the Group. The Chairman sets the culture of the Group and his role is to ensure good corporate governance. His responsibilities include leading the Board, ensuring the effectiveness of the Board in all aspects of its role, ensuring effective communication with shareholders, setting the Board's agenda and ensuring that all Directors are encouraged to participate fully in the activities and decision-making process of the Board.

Ruth Lea retired from the Board on 5 May 2016. Sir Alan Yarrow was appointed on 10 June 2016 as an independent non-executive director of the Company. Sir Alan has joined the Audit, Nomination and Remuneration Committees. Paul Lynam was appointed to the Board when Secure Trust Bank PLC ("STB") was a subsidiary of the Group, and remains a director of the Group, in a non-executive role, as well as Chief Executive of STB, following the reduction in the Group's holding in STB to 18.9%.

Ian Henderson succeeded James Fleming as Chief Executive of Arbuthnot Latham & Co., Limited and joined the Board on 6 May 2016. James Fleming retired from the Board on 14 April 2016.

The directors seeking re-election are Andrew Salmon and Paul Lynam, who have served on the Board for 13 years and 6 years respectively. The contribution of Andrew Salmon as Chief Operating Officer has been invaluable in the successful development of the Company. Paul Lynam provides an important independent measure of challenge to executive management. Accordingly, the Board fully supports the resolutions for their reappointment.

In 2016, the Board commissioned KPMG to carry out an independent Board Effectiveness Review. The Directors were satisfied with the conduct and outcome of the review, which was completed at the end of April and have taken steps to implement its recommendations.

The Board

At the year end the Board comprised Sir Henry Angest, Andrew Salmon, James Cobb, Ian Henderson and four non-executive directors.

The Board meets regularly throughout the year, holding 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 ensures that it is supplied with all the information that it requires and requests, in a form and of a quality to fulfil its duties.

In addition to determining and overseeing the implementation of 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, at the Company's expense.
All directors receive induction training upon joining the Board, with individual AIM training provided by the Company's Nominated Adviser and regulatory and compliance training provided by the Group Head of Compliance.

Board Committees

The Board has established Audit, Nomination and Remuneration Committees, each with formally delegated duties and responsibilities and with written terms of reference, which require consideration of the committee's effectiveness. The Board keeps the governance arrangements under review. Further information in relation to these committees is set out below. The Board now maintains direct responsibility for issues of Risk without the need for its own Risk Committee, since responsibility for large lending proposals became a direct responsibility of its subsidiary, Arbuthnot Latham & Co., Limited.

Audit Committee

Membership and meetings

The Audit Committee assists the Board in, inter alia, discharging its responsibilities with regard to financial reporting, external and internal audits and controls, including reviewing the Company's annual financial statements, reviewing and monitoring the extent of the non-audit work undertaken by external auditors, advising on the appointment, reappointment, removal and independence of external auditors and reviewing the effectiveness of the Company's internal audit activities, internal controls, whistleblowing procedures and the process for evaluating and monitoring risk. The ultimate responsibility for reviewing and approving the annual report and accounts and the half-yearly reports remains with the Board.

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

The present auditors have held office since 2009, but the senior statutory auditor changed in 2013. The Board is 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.

Activity in 2016

Further information in relation to this is set out in the Internal Control and Financial Reporting section at page 19.

Nomination Committee

Membership and meetings

The Nomination Committee assists the Board in discharging its responsibilities relating to the composition of the Board. The Nomination Committee is responsible for, inter alia, evaluating the balance of skills, experience, independence and knowledge on the Board, the size, structure and composition of the Board, retirements and appointments of additional and replacement directors and will make appropriate recommendations to the Board on such matters. The Nomination Committee also considers succession planning, taking into account the skills and expertise that will be needed on and beneficial to the Board in the future.

The Nomination Committee is chaired by Sir Henry Angest and its other members are Sir Christopher Meyer and Sir Alan Yarrow. The Committee met twice during the year. It is required to meet formally at least once per year and otherwise as required.

Activity in 2016

During the year, the Nomination Committee was involved in the identification, assessment and appointment of an additional independent Non-Executive Director. This culminated in the recommendation of the Nomination Committee that Sir Alan Yarrow be appointed as a director of the Company. It also reviewed the terms of service of the Group Finance Director. It has recently reviewed and reconfirmed Sir Christopher Meyer's independence.

Remuneration Committee

Membership and meetings

The Remuneration Committee assists the Board in determining its responsibilities in relation to remuneration including, inter alia, in relation to the Company's policy on executive remuneration determining the individual remuneration and benefits package of each of the Executive Directors, and the fees for Non-Executive Directors.

The Committee also deals with remuneration-related issues under the Prudential Regulation Authority's Remuneration Code applicable to the Company.

The Remuneration Committee meets formally at least once per year and otherwise as required.

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

Donations Committee

Membership and meetings

The Donations Committee is chaired by Sir Henry Angest and its other members are Sir Christopher Meyer and Sir Alan Yarrow. The Committee met once during the year. The Committee considers any political donation or expenditure as defined within sections 366 and 367 of the Companies Act 2006.

Shareholder Communications

The Company maintains ongoing communications with its major 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, in relation to Arbuthnot Latham & Co., Limited, 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 carried out internally during 2016. Internal Audit provides the Audit Committee and the Board with detailed independent and objective assurance on the effectiveness of governance, operational risk management and internal controls. Since Arbuthnot Latham & Co., Limited established its own Audit Committee, the role of the Group Audit Committee has been mainly supervisory in relation to internal audit matters.

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 reviewed in detail by the Arbuthnot Latham & Co., Limited Board and its Risk Committee. 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, 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 the 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 Sir Alan Yarrow. The Committee met twice 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 the 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 and phantom 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 applicable provisions of which have been implemented, the Group and its subsidiary are considered to be Tier 3 institutions.

Directors' Service Contracts

Sir Henry Angest, Andrew Salmon, James Cobb and Ian Henderson each have service contracts terminable at any time on 12 months' notice in writing by either party.

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.

On 14 June 2016, the Company announced a phantom share option scheme, intended to replace the Unapproved Executive Share Option Scheme. The value of each phantom option is related to the market price of an ordinary share of 1p in the Company. An increase in the market value of an ordinary share of 1p in the Company over the market value per share at the date of grant of the phantom option will give rise to an entitlement to a cash payment by the Company on the exercise of a phantom option ('Phantom Option Scheme').

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. 150,500 shares are held in the Arbuthnot ESOP Trust.

On 16 April 2013 Mr. Salmon and Mr. Cobb were granted options under the Company's Unapproved Executive Share Option Scheme 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 14 June 2016 Mr. Salmon and Mr. Cobb each exercised all their respective options granted on 16 April 2013. The exercise price was 1591p and the Board agreed to make a cash settlement rather than allot new shares.

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 50,000 shares for James Fleming.

On 14 June 2016 Mr. Salmon was granted phantom options pursuant to the Phantom Option Scheme to acquire 200,000 ordinary 1p shares in the Company at 1591p exercisable in respect of 50% on or after 15 June 2019 and in respect of the remaining 50% on or after 15 June 2021 when a cash payment would be made equal to any increase in market value. On 14 June 2016 Mr. Cobb and Mr. Henderson were each granted phantom options pursuant to the Phantom Option Scheme to acquire 100,000 ordinary 1p shares in the Company at 1591p exercisable in respect of 50% on or after 15 June 2019 and in respect of the remaining 50% on or after 15 June 2021 when a cash payment would be made equal to any increase in market value. The fair value of the options at the grant date was £1.3m

On 7 November 2016 Mr. Salmon exercised options granted to him on 2 November 2011 to subscribe for 141,667 ordinary 40p shares in Secure Trust Bank PLC at 720p (an associate company of the Group) and sold the shares at a price of 2200p.

Directors' Emoluments

This part of the remuneration report is audited information.

	2016 £000	2015 £000
Fees (including benefits in kind)	215	70
Salary payments (including benefits in kind)	7,731	5,165
Pension contributions	119	140
Long term incentive	992	5,030
	9,057	**10,405**

	Salary £000	Bonus £000	Benefits £000	Pension £000	Fees £000	Long term incentive £000	Total 2016 £000	Total 2015 £000
Sir Henry Angest	1,200	-	60	-	-	-	1,260	987
JR Cobb	550	650	17	35	-	331	1,583	701
IA Dewar	-	-	-	-	75	-	75	29
JW Fleming (to 14/04/2016)	130	-	5	10	-	-	145	601
IA Henderson (from 06/05/2016)	297	215	8	23	-	-	543	-
Ms RJ Lea (to 05/05/2016)	-	-	-	-	45	-	45	130
PA Lynam	550	917	10	16	-	-	1,493	1,456
Sir Christopher Meyer	-	-	-	-	60	-	60	55
AA Salmon	1,200	1,900	22	35	-	661	3,818	1,356
RJJ Wickham (to 31/12/2015)	-	-	-	-	-	-	-	60
Sir Alan Yarrow (from 10/06/2016)	-	-	-	-	35	-	35	-
	3,927	**3,682**	**122**	**119**	**215**	**992**	**9,057**	**5,375**

Details of any shares or options held by directors are presented on page 14.

The emoluments of the Chairman were £1,260,000 (2015: £987,000). The emoluments of the highest paid director were £3,818,000 (2015: £1,456,000) including pension contributions of £35,000 (2015: £35,000).

On 15 June 2016 Secure Trust Bank PLC ceased to be a subsidiary company so the salary of Mr. Lynam as its chief executive is only shown up to that date. Mr. Lynam then became a non-executive director of the Company, for which Secure Trust Bank received a fee. On 7 November 2016 Mr Salmon exercised 141,667 share options in Secure Trust Bank (currently treated as an associate company of the Group) at £7.20 and sold the shares on the same day at a price of £22, realising £2,097,000. This is also not included in the table above.

Retirement benefits are accruing under money purchase schemes for five directors who served during 2016 (2015: five directors).

Independent Auditor’s Report

We have audited the financial statements of Arbuthnot Banking Group PLC for the year ended 31 December 2016 set out on pages 25 to 105. 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 19, 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 2016 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

In our opinion the information given in the Strategic Report and the Directors’ Report for the financial year is consistent with the financial statements.

Based solely on the work required to be undertaken in the course of the audit of the financial statements and from reading the Strategic report and the Director’ report:

- we have not identified material misstatements in these reports; and

- in our opinion, these reports have been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

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

• adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or

• the Parent Company financial statements are not in agreement with the accounting records and returns; or

• certain disclosures of directors' remuneration specified by law are not made; or

• we have not received all the information and explanations we require for our audit.

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

15 Canada Square
London
E14 5GL
22 March 2017

Company statement of financial position

	Note	At 31 December 2016 £000	2015 £000
ASSETS			
Loans and advances to banks	18	89,072	12,444
Financial investments	24	121	125
Deferred tax asset	25	397	418
Property, plant and equipment	28	183	204
Other assets	23	887	991
Interests in associates	26	5,056	-
Interests in subsidiaries	41	54,602	46,466
Total assets		**150,318**	**60,648**
EQUITY AND LIABILITIES			
Equity			
Share capital	35	153	153
Other reserves	36	(1,111)	(1,111)
Retained earnings	36	133,847	46,537
Total equity		**132,889**	**45,579**
LIABILITIES			
Other liabilities	32	4,808	4,235
Debt securities in issue	33	12,621	10,834
Total liabilities		**17,429**	**15,069**
Total equity and liabilities		**150,318**	**60,648**

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	Treasury shares	Retained earnings	Non-controlling interests	Total
	£000	£000	£000	£000	£000	£000	£000	£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 2016	-	-	-	-	-	166,143	61,426	227,569
Other comprehensive income, net of tax								
Available-for-sale reserve - net change in fair value	-	-	-	(1,890)	-	-	(487)	(2,377)
Available-for-sale reserve - Associate - net change in fair value	-	-	-	(389)	-	-	-	(389)
Tax on other comprehensive income	-	-	-	456	-	-	-	456
Total other comprehensive income	-	-	-	**(1,823)**	-	-	**(487)**	**(2,310)**
Total comprehensive income for the period	-	-	-	**(1,823)**	-	**166,143**	**60,939**	**225,259**
Transactions with owners, recorded directly in equity								
Contributions by and distributions to owners								
Equity settled share based payment transactions	-	-	-	-	-	(1,074)	31	(1,043)
Secure Trust Bank loss of control	-	(98)	-	525	-	(427)	(124,046)	(124,046)
Final dividend relating to 2015	-	-	-	-	-	(2,531)	(4,811)	(7,342)
Special Interim dividend relating to 2016	-	-	-	-	-	(3,722)	-	(3,722)
Interim dividend relating to 2016	-	-	-	-	-	(1,936)	-	(1,936)
Special Interim dividend relating to 2016	-	-	-	-	-	(44,216)	-	(44,216)
Total contributions by and distributions to owners	-	**(98)**	-	**525**	-	**(53,906)**	**(128,826)**	**(182,305)**
Balance at 31 December 2016	**153**	-	**20**	**(251)**	**(1,131)**	**235,567**	-	**234,358**

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

Company statement of changes in equity

	Attributable to equity holders of the Company				
	Share capital	Capital redemption reserve	Treasury shares	Retained earnings	Total
	£000	£000	£000	£000	£000
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
Total comprehensive income for the period					
Profit for 2016	-	-	-	140,826	140,826
Other comprehensive income, net of income tax	-	-	-	-	-
Total comprehensive income for the period	-	-	-	140,826	140,826
Transactions with owners, recorded directly in equity					
Contributions by and distributions to owners					
Equity settled share based payment transactions	-	-	-	(1,111)	(1,111)
Final dividend relating to 2015	-	-	-	(2,531)	(2,531)
Special dividend relating to 2016	-	-	-	(3,722)	(3,722)
Interim dividend relating to 2016	-	-	-	(1,936)	(1,936)
Special dividend relating to 2016	-	-	-	(44,216)	(44,216)
Total contributions by and distributions to owners	-	-	-	(53,516)	(53,516)
Balance at 31 December 2016	153	20	(1,131)	133,847	132,889

Consolidated statement of cash flows

	Note	Year ended 31 December 2016 £000	Year ended 31 December 2015 £000
Cash flows from operating activities			
Interest received		109,311	171,956
Interest paid		(19,372)	(35,040)
Fees and commissions received		37,511	15,615
Cash payments to employees and suppliers		(99,130)	(115,463)
Taxation paid		(3,020)	(7,409)
Cash flows from operating profits before changes in operating assets and liabilities		25,300	29,659
Changes in operating assets and liabilities:			
- net decrease in derivative financial instruments		66	285
- net decrease/(increase) in loans and advances to customers		855,436	(417,814)
- net decrease/(increase) in other assets		41,780	(118,484)
- net (decrease)/increase in amounts due to customers		(932,189)	735,553
- net (decrease)/increase in other liabilities		(23,595)	5,693
Net cash (outflow)/inflow from operating activities		**(33,202)**	**234,892**
Cash flows from investing activities			
Disposal of financial investments		1,078	44
Purchase of computer software	27	(5,155)	(3,532)
Purchase of property, plant and equipment	28	(354)	(3,395)
Purchase of investment property		(53,339)	-
Proceeds from sale of Everyday Loans Group, net of cash and cash equivalents disposed		101,723	-
Proceeds from sale of Secure Trust Bank shares		147,999	-
Reduction in cash balance with deconsolidation of Secure Trust Bank		(194,344)	-
Purchases of debt securities		(89,384)	(145,880)
Proceeds from redemption of debt securities		69,812	149,835
Net cash outflow from investing activities		**(21,964)**	**(2,928)**
Cash flows from financing activities			
(Decrease)/Increase in borrowings		(52,105)	27,648
Dividends paid		(57,215)	(10,205)
Net cash (outflow)/inflow from financing activities		**(109,320)**	**17,443**
Net (decrease)/increase in cash and cash equivalents		(164,486)	249,407
Cash and cash equivalents at 1 January		397,189	147,782
Cash and cash equivalents at 31 December	39	**232,703**	**397,189**

Company statement of cash flows

	Note	Year ended 31 December 2016 £000	Year ended 31 December 2015 £000
Cash flows from operating activities			
Dividends received from subsidiaries		11,468	6,648
Interest received		283	120
Interest paid		(611)	(599)
Net trading and other income		1,816	1,833
Cash payments to employees and suppliers		(10,107)	(8,718)
Taxation paid		(488)	-
Cash flows from operating profits/(losses) before changes in operating assets and liabilities		2,361	(716)
Changes in operating assets and liabilities:			
- net decrease/(increase) in group company balances		526	(66)
- net decrease in other assets		104	7
- net increase in other liabilities		48	144
Net cash inflow/(outflow) from operating activities		**3,039**	**(631)**
Cash flows from investing activities			
Repayment of loans to subsidiary companies		-	4,500
Increase investment in subsidiary	41	(22,000)	(6,500)
Disposal of share in subsidiaries	41	147,999	-
Purchase of property, plant and equipment	28	(5)	-
Net cash inflow/(outflow) from investing activities		**125,994**	**(2,000)**
Cash flows from financing activities			
Dividends paid		(52,405)	(4,169)
Net cash used in financing activities		**(52,405)**	**(4,169)**
Net increase/(decrease) in cash and cash equivalents		76,628	(6,800)
Cash and cash equivalents at 1 January		12,444	19,244
Cash and cash equivalents at 31 December	39	**89,072**	**12,444**

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 2016 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 22 March 2017.

(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, investment property, 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 at the date 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 yearend 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 Other 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. Rental income

Rental income is recognised on a straight line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental income over the term of the lease.

3.7. 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 3.14), 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.

3.8. 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 in 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.

3.9. 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.

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.

3.10. 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.

3.11. 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 3.15.

3.12. 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.

3.13. 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.

3.14. 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.

3.15. 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).

3.16. 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 10 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.

3.17. Investment property

Investment property is initially measured at cost. Transaction costs are included in the initial measurement. Subsequently, investment property is measured at fair value, with any change therein recognised in profit and loss within other income.

If a change in use occurs and investment property is transferred to owner-occupied property, the property's deemed cost for subsequent reporting is its fair value at the date of change in use.

3.18. 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.

3.19. 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.

3.20. 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 equity settled to cash 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, on the date of modification, the Group recognises the entire liability as a reclassification from equity and does not recognise any profit or loss in the Statement of Comprehensive Income.

3.21. 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.

3.22. 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.

3.23. 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.

3.24. 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.

3.25. 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.

3.26. 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 2017 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 Estimation uncertainty

(a) Credit losses

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

The discounted recoverable amount is typically dependent on the sale of a property. The amount recoverable is determined with reference to:

• The property valuation, which is typically updated every 12 months.
• The time taken to realise the sale proceeds (UK property is assumed to take 12 months and Non-UK property 18 months).
• The property marketing costs (UK property is assumed to be at 3% of property value and Non-UK at 7%).
• The legal costs of sale (UK legal sales costs are assumed to be £5k, whilst Non-UK are assumed to be €10k).

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.

(b) Deferred tax on carried forward losses
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.

(c) Effective Interest Rate
Acquired loan books are initially recognised at fair value. Subsequently they are measured under the effective interest rate method, based on cash flow models which require significant judgement assumptions on the interest rates, prepayment rates, the probability and timing of defaults and the amount of incurred losses. Management review the expected cash flows against actual cash flows to ensure future assumptions on customer behaviour and future cash flows remain valid. If the estimates of future cash flows are revised, the adjustment to the carrying value of the loan book is recognised in the Statement of Comprehensive Income.

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.

(d) 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".

(e) Investment property
The valuation that the Group places on its investment property is subject to a degree of uncertainty and is made on the basis of assumptions in relation to prevailing market rents and effective yields. These assumptions may not prove to be accurate, particularly in periods of market volatility. The main lease ends in 2019. The offices will be refurbished and re-let at prevailing market rents.

The valuation model considers the net present value of net cash flows to be generated from the property, taking into account expected rental growth rate, void periods, occupancy rate, lease incentive costs such as rent-free periods and other costs not paid by tenants. The expected net cash flows are discounted using risk-adjusted discount rates. Among other factors, the discount rate estimation considers the quality of a building and its location, tenant quality and lease terms. Due to the current sub-market rental achieved and the fact that the future refurbishment works will improve the quality of the building (in a desirable location), it is expected that the risk-adjusted discount rate will decrease. Management judgement is required for significant unobservable inputs used in the discounted cash flow model, which have been assessed as follows:

- refurbishment period: 6 months
- void period after refurbishment: 6 months
- rent free period: 6 months
- estimated refurbishment costs: £2.4m
- risk adjusted discount rate: 3.75%
- expected rental uplift following re-let: 22%
- occupancy rates: 95%

(f) Share option scheme valuation

The valuation of the cash settled Share Option Scheme was determined at 31 December 2016 using a Black-Scholes valuation model. 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%.

The Directors consider that there is some uncertainty surrounding whether the participants will all still be in situ and eligible at the vesting date. Therefore the directors have assumed a 91% attrition rate for the share options vesting in June 2019 and 85% attrition rate for the share options vesting in June 2021.

4.2 Judgements

(a) Valuation of financial instruments

The Group measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions. If a market for a financial instrument is not active, the Group establishes fair value using a valuation technique. These include the use of recent arm’s length transactions, reference to other instruments that are substantially the same for which market observable prices exist, net present value and discounted cash flow analysis. The objective of valuation techniques is to determine the fair value of the financial instrument at the reporting date as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. In the instance that fair values of assets and liabilities cannot be reliably measured, they are carried at cost.

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

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

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

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

At 31 December 2016	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
ASSETS				
Derivative financial instruments	-	1,516	-	1,516
Financial investments	133	-	2,012	2,145
Asset	**133**	**1,516**	**2,012**	**3,661**
LIABILITIES				
Derivative financial instruments	-	227	-	227
Liability	-	**227**	-	**227**

At 31 December 2015	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
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**

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:

Movement in level 3	2016 £000	2015 £000
At 1 January	2,548	1,106
Consideration received	494	-
Disposals	(1,310)	(44)
Movements recognised in Other Comprehensive Income	75	1,559
Movements recognised in the Income Statement	205	(73)
At 31 December	**2,012**	**2,548**

Visa Inc. investment
On 21 June 2016, Visa Inc. announced that it had completed the acquisition of Visa Europe Limited. This resulted in the gain which the Group had previously recognised in Other Comprehensive Income being recycled to the Income Statement. As part of the transaction the Group received preference shares in Visa Inc. These shares have been valued at their future conversion value into Visa Inc. common stock. The valuation includes a 31 % haircut. This comprises a 25% haircut due to a contingent liability disclosed in Visa Europe's accounts in relation to litigation, and a 6% haircut based on a liquidity discount.

Investment in overseas property company
For those financial investments measured at fair value, the Group uses proprietary valuation models which are developed from recognised valuation techniques. 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 of 4.90% (2015: 5.75%) and occupancy rates of 95.3% (2015: 94.2%). These inputs are taken from online real estate reports available from BNP Paribas. The inputs are stressed to ensure that the fair value is robust. 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 in the unobservable inputs which impact the valuation of level 3 instruments.

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 2016	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
ASSETS				
Cash and balances at central banks	-	195,752	-	195,752
Loans and advances to banks	-	36,951	-	36,951
Debt securities held-to-maturity	-	107,300	-	107,300
Loans and advances to customers	-	42,691	716,108	758,799
Other assets	-	-	1,197	1,197
Asset	-	**382,694**	**717,305**	**1,099,999**
LIABILITIES				
Deposits from banks	-	3,200	-	3,200
Deposits from customers	-	-	997,649	997,649
Other liabilities	-	-	1,812	1,812
Debt securities in issue	-	-	12,621	12,621
Liability	-	**3,200**	**1,012,082**	**1,015,282**

At 31 December 2015	Level 1 £000	Level 2 £000	Level 3 £000	Total £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**

(b) Associate accounting
An associate is an entity over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture. It is presumed that the investor does not have significant influence if it has less than 20% of the voting power of the investee, unless proven otherwise. ABG holds 18.64% of the voting power of STB, but has retained Board representation and as a result the Board believes ABG has significant influence. The interest in STB is therefore accounted for as an associate.

If significant influence is lost, the shareholding will be accounted for as an available-for-sale financial investment.

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 2016:

At 31 December 2016	Due within one year £000	Due after more than one year £000	Total £000
ASSETS			
Cash	195,752	-	195,752
Loans and advances to banks	36,951	-	36,951
Debt securities held-to-maturity	85,782	21,518	107,300
Derivative financial instruments	85	1,431	1,516
Loans and advances to customers	337,376	421,423	758,799
Other assets	7,708	4,231	11,939
Financial investments	-	2,145	2,145
Deferred tax asset	-	1,665	1,665
Interests in associates	900	81,674	82,574
Intangible assets	-	8,522	8,522
Property, plant and equipment	-	4,782	4,782
Investment property	-	53,339	53,339
Total assets	**664,554**	**600,730**	**1,265,284**
LIABILITIES			
Deposits from banks	3,200	-	3,200
Derivative financial instruments	227	-	227
Deposits from customers	906,083	91,566	997,649
Current tax liability	147	-	147
Other liabilities	17,082	-	17,082
Debt securities in issue	-	12,621	12,621
Total liabilities	**926,739**	**104,187**	**1,030,926**

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 £000	Due after more than one year £000	Total £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 Company as at 31 December 2016:

At 31 December 2016	Due within one year £000	Due after more than one year £000	Total £000
ASSETS			
Loans and advances to banks	6	-	6
Loans and advances to banks - due from subsidiary undertakings	89,066	-	89,066
Financial investments	-	121	121
Deferred tax asset	-	397	397
Property, plant and equipment	-	183	183
Other assets	254	633	887
Interests in associates	-	5,056	5,056
Interests in subsidiaries		54,602	54,602
Total assets	**89,326**	**60,992**	**150,318**
LIABILITIES			
Other liabilities	4,808	-	4,808
Debt securities in issue	-	12,621	12,621
Total liabilities	**4,808**	**12,621**	**17,429**

The table below shows the maturity analysis of assets and liabilities of the Company as at 31 December 2015:

At 31 December 2015	Due within one year £000	Due after more than one year £000	Total £000
ASSETS			
Loans and advances to banks - due from subsidiary undertakings	12,444	-	12,444
Financial investments	-	125	125
Deferred tax asset	-	418	418
Property, plant and equipment	-	204	204
Other assets	641	350	991
Interests in subsidiaries	-	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**

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:

	2016	2015
	£000	£000
Credit risk exposures relating to on-balance sheet assets are as follows:		
Cash and balances at central banks	195,752	368,611
Loans and advances to banks	36,951	28,578
Debt securities held-to-maturity	107,300	87,728
Assets classified as held for sale	-	118,456
Derivative financial instruments	1,516	1,490
Loans and advances to customers - Arbuthnot Latham	758,799	618,902
Loan and advances to customers - Secure Trust Bank	-	960,610
Other assets	1,197	2,625
Financial investments	2,145	2,685
Credit risk exposures relating to off-balance sheet assets are as follows:		
Guarantees	274	56
Loan commitments and other credit related liabilities	35,581	178,863
At 31 December	**1,139,515**	**2,368,604**

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

	2016	2015
	£000	£000
Credit risk exposures relating to on-balance sheet assets are as follows:		
Loans and advances to banks	89,072	12,444
Financial investments	121	125
Other assets	791	891
At 31 December	**89,984**	**13,460**

The above tables represent the maximum credit risk exposure (net of impairment) to the Group and Company at 31 December 2016 and 2015 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 2016		31 December 2015	
	Loan Balance	Collateral	Loan Balance	Collateral
Loan to value	£000	£000	£000	£000
Less than 60%	438,076	1,219,532	486,256	1,256,642
60% - 80%	167,765	253,550	340,781	507,852
80% - 100%	76,289	88,598	80,762	98,792
Greater than 100%	32,022	21,387	36,486	25,738
Total	**714,152**	**1,583,067**	**944,285**	**1,889,024**

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

	31 December 2016		31 December 2015	
	Committed	Collateral	Committed	Collateral
Loan commitments and other credit related liabilities	£000	£000	£000	£000
Less than 60%	26,988	73,659	74,576	171,108
60% - 80%	23,940	42,102	56,702	81,765
80% - 100%	-	-	2,278	2,848
Total	**50,928**	**115,761**	**133,556**	**255,721**

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.

As at 31 December 2016, loans for which forbearance measures were undertaken totalled 0.12% (2015: 0.14%) of total loans to customers for the Bank. All forbearance measures undertaken in the year were within the UK mortgage portfolio. These are set out in the following table:

	2016		2015	
	Number	Loan Balance	Number	Loan Balance
		£000		£000
Transfer to interest only	3	115	6	764
Move historic arrears to capital	-	-	1	147
Interest temporarily not being charged	1	3,607	-	-
Payment holiday	1	78	-	-
Total forbearance	**5**	**3,800**	**7**	**911**

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	
	2016	2015	2016	2015
	£000	£000	£000	£000
Concentration by product				
Cash collateralised	5,245	15,987	-	-
Commercial Lending				
Real estate finance	-	367,999	-	109,033
Asset finance	-	70,685	35,581	20,081
Commercial finance	71,674	52,222	-	9,277
Residential mortgages	626,751	538,701	-	40,230
Investment portfolio secured	34,014	30,284	-	-
Non-Performing	15,953	9,839	-	-
Other Collateral	2,103	7,482	-	-
Motor	-	165,697	-	242
Unsecured				
Personal lending	3,059	79,706	-	-
Retail	-	220,418	-	-
Other	-	20,492	-	-
At 31 December	**758,799**	**1,579,512**	**35,581**	**178,863**
Concentration by location				
East Anglia	2,714	99,340	-	28,091
East Midlands	7,245	49,222	-	1,088
London	422,901	600,254	21,691	79,523
Midlands	3,800	7,811	-	-
North East	2,100	29,239	-	564
North West	14,288	90,496	4,541	4,863
Northern Ireland	-	8,301	-	-
Scotland	13,410	74,635	-	2,000
South East	117,805	245,647	5,597	40,738
South West	89,018	87,429	738	6,204
Wales	7,460	42,436	-	1,427
West Midlands	14,436	69,162	108	4,787
Yorkshire & Humber	6,398	59,210	-	3,033
Overseas	20,136	74,627	-	5,667
Other	37,088	41,703	2,906	878
At 31 December	**758,799**	**1,579,512**	**35,581**	**178,863**

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 24, a stress test scenario of a 10% (2015: 10%) decline in market prices, with all other things being equal, would result in a £11,000 (2015: £11,000) decrease in the Group's income and a decrease of £172,000 (2015: £215,000) 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 24, a stress test scenario of a 10% (2015: 10%) decline in market prices, with all other things being equal, would result in a £11,000 (2015: £11,000) decrease in the Company's income and a decrease of £10,000 (2015: £10,000) 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 2016. 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 2016	£000	£000	£000	£000	£000
ASSETS					
Cash and balances at central banks	195,669	35	40	8	195,752
Loans and advances to banks	2,197	24,494	5,062	5,198	36,951
Debt securities held-to-maturity	94,299	13,001	-	-	107,300
Derivative financial instruments	1,516	-	-	-	1,516
Loans and advances to customers	701,165	21,927	35,707	-	758,799
Other assets	1,197	-	-	-	1,197
Financial investments	120	569	1,456	-	2,145
	996,163	**60,026**	**42,265**	**5,206**	**1,103,660**
LIABILITIES					
Deposits from banks	3,198	-	-	2	3,200
Derivative financial instruments	227	-	-	-	227
Deposits from customers	903,687	59,916	28,535	5,511	997,649
Other liabilities	1,812	-	-	-	1,812
Debt securities in issue	-	-	12,621	-	12,621
	908,924	**59,916**	**41,156**	**5,513**	**1,015,509**
Net on-balance sheet position	**87,239**	**110**	**1,109**	**(307)**	**88,151**
Credit commitments	54,934	-	-	-	54,934

The table below summarises the Group's exposure to foreign currency exchange risk at 31 December 2015:

At 31 December 2015	GBP (£) £000	USD ($) £000	Euro (€) £000	Other £000	Total £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

A 10% strengthening of the pound against the US dollar would lead to a £3,000 increase (2015: £3,000 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 £6,000 (2015: £52,000) 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 20), which cover 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 2016:

At 31 December 2016	GBP (£) £000	Euro (€) £000	Total £000
ASSETS			
Loans and advances to banks	76,037	13,035	89,072
Financial investments	121	-	121
Other assets	791	-	791
	76,949	**13,035**	**89,984**
LIABILITIES			
Other liabilities	3,624	-	3,624
Debt securities in issue	-	12,621	12,621
	3,624	**12,621**	**16,245**
Net on-balance sheet position	**73,325**	**414**	**73,739**

The table below summarises the Company's exposure to foreign currency exchange rate risk at 31 December 2015:

At 31 December 2015	GBP (£) £000	Euro (€) £000	Total £000
ASSETS			
Loans and advances to banks	1,087	11,357	12,444
Financial investments	125	-	125
Other assets	894	-	894
	2,106	**11,357**	**13,463**
LIABILITIES			
Other liabilities	2,832	-	2,832
Debt securities in issue	-	10,834	10,834
	2,832	**10,834**	**13,666**
Net on-balance sheet position	**(726)**	**523**	**(203)**

A 10% strengthening of the pound against the Euro would lead to £41,000 (2015: £52,000) 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 £0.5m to £2.0m (2015: £0.4m to £1.8m) for the Group, with the same impact to equity pre-tax. The Company has no fixed rate exposures, but a upward change of 50 basis points on variable rates would increase pre-tax profits and equity by £7,000 (2015: increase pre-tax profits and equity by £7,000).

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

Group **As at 31 December 2016**	Within 3 months £000	More than 3 months but less than 6 months £000	More than 6 months but less than 1 year £000	More than 1 year but less than 5 years £000	More than 5 years £000	Non interest bearing £000	Total £000
ASSETS							
Cash and balances at central banks	195,752	-	-	-	-	-	195,752
Loans and advances to banks	36,951	-	-	-	-	-	36,951
Debt securities held-to-maturity	78,994	6,813	21,493	-	-	-	107,300
Derivative financial instruments	85	-	-	1,431	-	-	1,516
Loans and advances to customers	624,468	120,311	8,755	5,265	-	-	758,799
Other assets	-	-	-	-	-	162,821	162,821
Financial investments	-	-	-	-	-	2,145	2,145
Total assets	**936,250**	**127,124**	**30,248**	**6,696**	**-**	**164,966**	**1,265,284**
LIABILITIES							
Deposits from banks	3,200	-	-	-	-	-	3,200
Derivative financial instruments	227	-	-	-	-	-	227
Deposits from customers	813,047	61,519	84,480	38,603	-	-	997,649
Other liabilities	-	-	-	-	-	17,229	17,229
Debt securities in issue	12,621	-	-	-	-	-	12,621
Equity	-	-	-	-	-	234,358	234,358
Total liabilities	**829,095**	**61,519**	**84,480**	**38,603**	**-**	**251,587**	**1,265,284**
Impact of derivative instruments	3,800	(3,800)	-	-	-	-	
Interest rate sensitivity gap	**110,955**	**61,805**	**(54,232)**	**(31,907)**	**-**	**(86,621)**	
Cumulative gap	**110,955**	**172,760**	**118,528**	**86,621**	**86,621**	-	

Group **As at 31 December 2015**	Within 3 months £000	More than 3 months but less than 6 months £000	More than 6 months but less than 1 year £000	More than 1 year but less than 5 years £000	More than 5 years £000	Non interest bearing £000	Total £000
ASSETS							
Cash and balances at central banks	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**	-	

Company As at 31 December 2016	Within 3 months £000	More than 3 months but less than 6 months £000	More than 6 months but less than 1 year £000	More than 1 year but less than 5 years £000	More than 5 years £000	Non interest bearing £000	Total £000
ASSETS							
Loans and advances to banks	88,914	-	-	-	-	158	89,072
Other assets	-	-	-	-	-	61,125	61,125
Financial investments	-	-	-	-	-	121	121
Total assets	**88,914**	-	-	-	-	**61,404**	**150,318**
LIABILITIES							
Other liabilities	-	-	-	-	-	4,808	4,808
Debt securities in issue	12,621	-	-	-	-	-	12,621
Equity	-	-	-	-	-	132,889	132,889
Total liabilities	**12,621**	-	-	-	-	**137,697**	**150,318**
Interest rate sensitivity gap	**76,293**	-	-	-	-	**(76,293)**	
Cumulative gap	**76,293**	**76,293**	**76,293**	**76,293**	**76,293**	-	

Company As at 31 December 2015	Within 3 months £000	More than 3 months but less than 6 months £000	More than 6 months but less than 1 year £000	More than 1 year but less than 5 years £000	More than 5 years £000	Non interest bearing £000	Total £000
ASSETS							
Loans and advances to banks	12,444	-	-	-	-	-	12,444
Other assets	-	-	-	-	-	48,079	48,079
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**	-	

(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 Committee ("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") has a Board approved ILAAP. 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 2016:

At 31 December 2016	Carrying amount £000	Gross nominal inflow/ (outflow) £000	Not more than 3 months £000	More than 3 months but less than 1 year £000	More than 1 year but less than 5 years £000	More than 5 years £000
Financial liability by type						
Non-derivative liabilities						
Deposits from banks	3,200	(3,200)	(3,200)	-	-	-
Deposits from customers	997,649	(1,000,384)	(716,285)	(243,247)	(40,852)	-
Other liabilities	1,812	(1,812)	(223)	-	-	(1,589)
Debt securities in issue	12,621	(14,345)	(86)	(259)	(1,379)	(12,621)
Issued financial guarantee contracts	-	(274)	(274)	-	-	-
Unrecognised loan commitments	-	(35,581)	(35,581)	-	-	-
	1,015,282	**(1,055,596)**	**(755,649)**	**(243,506)**	**(42,231)**	**(14,210)**
Derivative liabilities						
Risk management:						
- Outflows	-	(227)	(227)	-	-	-
	-	**(227)**	**(227)**	-	-	-

At 31 December 2016	Carrying amount £000	Gross nominal inflow/ (outflow) £000	Not more than 3 months £000	More than 3 months but less than 1 year £000	More than 1 year but less than 5 years £000	More than 5 years £000
Financial asset by type						
Non-derivative assets						
Cash and balances at central banks	195,752	195,752	195,752	-	-	-
Loans and advances to banks	36,951	36,951	36,951	-	-	-
Debt securities held-to-maturity	107,300	130,360	70,082	41,334	18,944	-
Loans and advances to customers	758,799	841,283	218,427	130,870	447,253	44,733
Other assets	1,197	1,197	1,197	-	-	-
Financial investments	2,145	2,145	2,025	-	120	-
	1,102,144	**1,207,688**	**524,434**	**172,204**	**466,317**	**44,733**
Derivative assets						
Risk management:						
- Inflows	-	1,516	85	-	-	1,431
	-	**1,516**	**85**	**-**	**-**	**1,431**

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

At 31 December 2015	Carrying amount £000	Gross nominal inflow/ (outflow) £000	Not more than 3 months £000	More than 3 months but less than 1 year £000	More than 1 year but less than 5 years £000	More than 5 years £000
Financial liability by type						
Non-derivative liabilities						
Deposits from banks	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:						
- Inflows	135	-	-	-	-	-
- Outflows	-	(135)	(135)	-	-	-
	135	**(135)**	**(135)**	**-**	**-**	**-**

At 31 December 2015	Carrying amount £000	Gross nominal inflow/ (outflow) £000	Not more than 3 months £000	More than 3 months but less than 1 year £000	More than 1 year but less than 5 years £000	More than 5 years £000
Financial asset by type						
Non-derivative assets						
Cash and balances at central banks	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						
Risk management:						
- Inflows	1,490	1,490	59	-	-	1,431
	1,490	**1,490**	**59**	**-**	**-**	**1,431**

The table below sets out the components of the Group's liquidity reserves:

	31 December 2016		31 December 2015	
	Amount	Fair value	Amount	Fair value
Liquidity reserves	£000	£000	£000	£000
Cash and balances at central banks	195,752	195,752	368,611	368,611
Loans and advances to banks	36,943	36,943	28,578	28,578
Debt securities held-to-maturity	107,300	108,757	87,728	87,594
Undrawn credit lines	12,500	12,500	38,500	38,500
	352,495	**353,952**	**523,417**	**523,283**

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 2016 were £112.0m (2015: £226.2m).

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 2016:

At 31 December 2016	Carrying amount £000	Gross nominal inflow/ (outflow) £000	Not more than 3 months £000	More than 3 months but less than 1 year £000	More than 1 year but less than 5 years £000	More than 5 years £000
Financial liability by type						
Non-derivative liabilities						
Other liabilities	3,624	(3,624)	(2,035)	-	-	(1,589)
Issued financial guarantee contracts	12,621	(14,345)	(86)	(259)	(1,379)	(12,621)
	16,245	**(17,969)**	**(2,121)**	**(259)**	**(1,379)**	**(14,210)**

At 31 December 2016	Carrying amount £000	Gross nominal inflow/ (outflow) £000	Not more than 3 months £000	More than 3 months but less than 1 year £000	More than 1 year but less than 5 years £000	More than 5 years £000
Financial asset by type						
Non-derivative assets						
Loans and advances to banks	89,072	89,072	89,072	-	-	-
Financial investments	121	121	-	-	121	-
Other assets	791	791	791	-	-	-
	89,984	**89,984**	**89,863**	**-**	**121**	**-**

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

At 31 December 2015	Carrying amount £000	Gross nominal inflow/ (outflow) £000	Not more than 3 months £000	More than 3 months but less than 1 year £000	More than 1 year but less than 5 years £000	More than 5 years £000
Financial liability by type						
Non-derivative liabilities						
Other liabilities	3,068	(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)**

At 31 December 2015	Carrying amount £000	Gross nominal inflow/ (outflow) £000	Not more than 3 months £000	More than 3 months but less than 1 year £000	More than 1 year but less than 5 years £000	More than 5 years £000
Financial asset by type						
Non-derivative assets						
Loans and advances to banks	12,444	12,444	11,965	-	-	479
Financial investments	125	125	-	-	125	-
Other assets	891	891	891	-	-	-
	13,460	**13,460**	**12,856**	**-**	**125**	**479**

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 £920m (2015: £739m). Additionally, the Group provides investment advisory services.

(e) Financial assets and liabilities

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

At 31 December 2016	Fair value through profit or loss £000	Held-to-maturity £000	Loans and receivables £000	Available-for-sale £000	Other amortised cost £000	Total carrying amount £000	Fair value £000
ASSETS							
Cash and balances at central banks	-	-	195,752	-	-	195,752	195,752
Loans and advances to banks	-	-	36,951	-	-	36,951	36,951
Debt securities held-to-maturity	-	107,300	-	-	-	107,300	108,757
Derivative financial instruments	1,516	-	-	-	-	1,516	1,516
Loans and advances to customers	-	-	758,799	-	-	758,799	742,894
Other assets	-	-	1,197	-	-	1,197	1,197
Financial investments	-	-	-	2,145	-	2,145	2,145
	1,516	**107,300**	**992,699**	**2,145**	**-**	**1,103,660**	**1,089,212**
LIABILITIES							
Deposits from banks	-	-	-	-	3,200	3,200	3,200
Derivative financial instruments	227	-	-	-	-	227	227
Deposits from customers	-	-	-	-	997,649	997,649	997,649
Other liabilities	-	-	1,812	-	-	1,812	1,812
Debt securities in issue	-	-	-	-	12,621	12,621	12,621
	227	**-**	**1,812**	**-**	**1,013,470**	**1,015,509**	**1,015,509**

At 31 December 2015	Fair value through profit or loss £000	Held-to-maturity £000	Loans and receivables £000	Available-for-sale £000	Other amortised cost £000	Total carrying amount £000	Fair value £000
ASSETS							
Cash and balances at central banks	-	-	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**

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

7. Capital management

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

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

In accordance with the EU's Capital Requirements Directive (CRD) and the required parameters set out in the Prudential 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 41.

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

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

- Tier 1 comprises mainly shareholders' funds and revaluation reserves, after deducting goodwill, other intangible assets and the deduction for a significant investment in a financial institution (STB). The portion of the investment up to 10% of ABG's Tier 1 is added back to capital resources and then risk weighted at 250%.
- 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:

	2016 £000	2015 £000
Tier 1		
Share capital	153	153
Retained earnings	235,567	123,330
Deduction for significant investment	(81,674)	-
Add back 10% of CET1 (risk weighted at 250%)	22,557	-
Other reserves	(1,362)	(1,111)
Non-controlling interests	-	67,887
Deduction for non-controlling interests	-	(23,047)
Goodwill	(1,682)	(2,695)
Deductions for other intangibles	(6,840)	(8,179)
Revaluation reserve	(271)	1,145
Total tier 1 capital resources	**166,448**	**157,483**
Tier 2		
Collective provisions	-	2,031
Debt securities in issue	12,621	10,834
Total tier 2 capital resources	**12,621**	**12,865**
Total tier 1 & tier 2 capital resources	**179,069**	**170,348**

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 2016 are published as a separate document on the Group website under Investor Relations (Announcements & Shareholder Info).

8. Interest income

	2016 £000	Re-presented* 2015 £000
Cash and balances at central banks	997	670
Loans and advances to banks	124	218
Debt securities held-to-maturity	844	539
Loans and advances to customers	36,106	31,374
	38,071	**32,801**

* Prior year numbers have been re-presented to exclude discontinuing operations (see note 14).

In 2016, the Group recognised £325k (2015: £nil) of additional interest income to reflect actual cash flows received on the aquired mortgage book having been in excess of forecast cash flows.

9. Fee and commission income

	2016 £000	Re-presented* 2015 £000
Banking commissions	1,947	1,666
Investment management fees and commissions	7,122	5,946
Wealth planning fees and commissions	2,156	1,969
Other fee income	205	418
	11,430	**9,999**

* Prior year numbers have been re-presented to exclude discontinuing operations (see note 14).

10. Net impairment loss on financial assets

	2016 £000	Re-presented* 2015 £000
Net Impairment losses on loans and advances to customers	427	1,250
Impairment losses on financial investments	47	34
	474	**1,284**

* Prior year numbers have been re-presented to exclude discontinuing operations (see note 14).

11. Other income

Other income mainly consists of rental income from the investment property (see note 29) of £1.1m and £1.6m realised on the investment in Visa (see note 24).

12. Operating expenses

Operating expenses comprise:	2016 £000	Re-presented* 2015 £000
Staff costs, including Directors:		
Wages and salaries	26,708	19,483
Social security costs	3,154	2,117
Pension costs	1,247	946
Share based payment transactions (note 37)	215	51
Amortisation of intangibles (note 27)	521	473
Depreciation (note 28)	1,146	855
Financial Services Compensation Scheme Levy	233	160
Operating lease rentals	2,610	1,941
Operating expenses for investment property	115	-
Acquisitions costs	398	1,645
Other administrative expenses	9,764	8,255
Total operating expenses from continuing operations	**46,111**	**35,926**

* Prior year numbers have been re-presented to exclude discontinuing operations (see note 14).

Details on Directors remuneration is disclosed in the Remuneration Report on page 21.

Remuneration of the auditor and its associates, excluding VAT, was as follows:	2016 £000	2015 £000
Fees payable to the Company's auditor for the audit of the Company's annual accounts	99	95
Fees payable to the Company's auditor and its associates for other services:		
Audit of the accounts of subsidiaries	237	329
Audit related assurance services	157	65
Taxation compliance services	36	82
Taxation advisory services	99	61
Other assurance services	170	321
Corporate finance services	-	115
Other non-audit services	15	13
Total fees payable	**813**	**1,081**

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

13. Income tax expense

United Kingdom corporation tax at 20% (2015: 20.25%)	2016 £000	2015 £000
Current taxation		
Corporation tax charge - current year	179	71
Corporation tax charge - adjustments in respect of prior years	457	-
	636	**71**
Deferred taxation		
Origination and reversal of temporary differences	11	(67)
Adjustments in respect of prior years	73	(125)
	84	**(192)**
Income tax expense/(credit)	**720**	**(121)**
Tax reconciliation		
Profit/(loss) before tax	179	(2,606)
Tax at 20% (2015: 20.25%)	36	(528)
Permanent differences	67	531
Tax rate change	87	1
Prior period adjustments	530	(125)
Corporation tax charge/(credit) for the year	**720**	**(121)**

Prior year adjustments mainly relate to management charges disallowed, as a result of the resolution of a lengthy dispute with HMRC.

The tax charge on discontinuing operations is disclosed in note 14.

The UK corporation tax rate reduced from 21% 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 17% 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 is 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.

14. Discontinued operations

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

Discontinued operations	Year ended 31 December 2016 £000	Year ended 31 December 2015 £000
Profit after tax from discontinued operations - ELL (up to 13 April 2016)	2,027	9,392
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	19,617
Profit after tax on sale of discontinued operations - STB	100,180	-
Profit after tax from discontinued operations	**228,110**	**29,009**

On 4 December 2015, STB 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 £6.2m, 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.

	Note	From 1 January to 13 April 2016 £000	Year ended 31 December 2015 £000
Interest income		11,137	39,230
Net interest income		**11,137**	**39,230**
Fee and commission income		147	1,523
Fee and commission expense		(124)	(358)
Net fee and commission income		**23**	**1,165**
Operating income		**11,160**	**40,395**
Net impairment loss on financial assets		(2,610)	(7,537)
Operating expenses		(6,016)	(21,195)
Profit before tax		**2,534**	**11,663**
Tax expense		(507)	(2,271)
Profit after tax		**2,027**	**9,392**
Profit on sale of business		116,754	-
Total profit from discontinued operation		**118,781**	**9,392**
Profit attributable to:			
Equity holders of the Company		61,667	4,876
Non-controlling interests		57,114	4,516
Profit after tax		**118,781**	**9,392**
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	16	418.4	33.1
- diluted	16	418.2	32.0

The following 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
Total assets	**119,744**
Intercompany funding	108,088
Current tax liability	3,212
Other liabilities	4,748
Total liabilities	**116,048**
Net identifiable assets / (liabilities)	**3,696**
Consideration	123,206
Costs	(2,756)
Profit on sale of ELL	**116,754**

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	Year ended 31 December 2015 £000
Cash flows from operating activities		
Interest received	11,137	40,595
Fees and commissions received	23	1,165
Cash payments to employees and suppliers	(8,626)	(21,197)
Taxation paid	(507)	(130)
Cash flows from operating profits before changes in operating assets and liabilities	2,027	20,433
Changes in operating assets and liabilities:		
- net increase in loans and advances to customers	(3,618)	(27,788)
- net (increase) / decrease in other assets	(249)	654
- net increase in other liabilities	2,621	7,027
Net cash inflow from operating activities	**781**	**326**
Cash flows from investing activities		
Purchase of computer software	-	(33)
Purchase of property, plant and equipment	(9)	(253)
Net cash outflow from investing activities	**(9)**	**(286)**
Net increase/(decrease) in cash and cash equivalents	772	40
Cash and cash equivalents at 1 January	1,661	1,621
Cash and cash equivalents at 13 April / 31 December	**2,433**	**1,661**

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 result 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 42 – Retail banking).

	Note	From 1 January to 15 June 2016 £000	Year ended 31 December 2015 £000
Interest income		57,498	100,442
Interest expense		(12,107)	(21,560)
Net interest income		**45,391**	**78,882**
Fee and commission income		7,981	16,867
Fee and commission expense		(779)	(3,660)
Net fee and commission income		**7,202**	**13,207**
Operating income		**52,593**	**92,089**
Net impairment loss on financial assets		(12,172)	(16,782)
Operating expenses		(29,073)	(50,133)
Profit before tax		**11,348**	**25,174**
Tax expense		(2,199)	(5,557)
Profit after tax		**9,149**	**19,617**
Profit on sale of shares		100,180	-
Total profit from discontinued operation		**109,329**	**19,617**
Profit attributable to:			
Equity holders of the Company		105,017	10,335
Non-controlling interests		4,312	9,282
Profit after tax		**109,329**	**19,617**
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	16	712.5	70.1
- diluted	16	712.2	67.9

The following 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
Total assets	**1,359,029**
Deposits from banks	25,000
Deposits from customers	1,046,009
Current tax liability	293
Other liabilities	29,748
Total liabilities	**1,101,050**
Net identifiable assets	**257,979**

Profit on sale of shares was 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
Profit on sale of STB	**100,180**

Cash flow from discontinued operations - STB excluding ELL

	From 1 January to 15 June 2016 £000	Year ended 31 December 2015 £000
Cash flows from operating activities		
Interest received	68,635	141,145
Interest paid	(12,107)	(28,210)
Fees and commissions received	7,226	4,355
Cash payments to employees and suppliers	(51,552)	(76,150)
Taxation paid	(6,034)	(7,410)
Cash flows from operating profits before changes in operating assets and liabilities	6,168	33,730
Changes in operating assets and liabilities:		
- net decrease/(increase) in loans and advances to banks	-	15,000
- net increase in loans and advances to customers	(165,976)	(338,343)
- net decrease/(increase) in other assets	117,395	(120,678)
- net (decrease)/increase in deposits from banks	(10,000)	19,059
- net increase in amounts due to customers	12,936	424,655
- net decrease in other liabilities	(5,031)	5,613
Net cash (outflow)/inflow from operating activities	**(44,508)**	**39,036**
Cash flows from investing activities		
Purchase of computer software	(1,754)	(2,286)
Purchase of property, plant and equipment	(531)	(1,068)
Disposal of property, plant and equipment	2,179	-
Proceeds from disposal of businesses	106,912	-
Proceeds from sale of property, plant and equipment	456	-
Proceeds from redemption of debt securities	-	12,487
Net cash inflow/(outflow) from investing activities	**107,262**	**9,133**
Cash flows from financing activities		
Dividends paid	(10,005)	(12,552)
Net cash used in financing activities	**(10,005)**	**(12,552)**
Net increase in cash and cash equivalents	52,749	35,617
Cash and cash equivalents at 1 January	141,595	105,978
Cash and cash equivalents at 15 June / 31 December	**194,344**	**141,595**

15. Average number of employees

	2016	2015
Retail banking	-	706
Private banking	268	210
Group	19	21
	287	**937**

As STB was deconsolidated during the year, the employees have been removed from the above averages in 2016

16. 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 year.

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 50,000 (2015: 200,000).

Profit attributable	2016 £000	2015 £000
Total profit after tax attributable to equity holders of the Company	166,143	12,726
Loss after tax from continuing operations attributable to equity holders of the Company	(541)	(2,485)
Profit after tax from discontinued operations attributable to equity holders of the Company (STB excl. ELL)	105,017	10,335
Profit after tax from discontinued operations attributable to equity holders of the Company (ELL)	61,667	4,876

Dilutive profit attributable	2016 £000	2015 £000
Total profit after tax attributable to equity holders of the Company	166,143	12,448
Loss after tax from continuing operations attributable to equity holders of the Company	(541)	(2,485)
Profit after tax from discontinued operations attributable to equity holders of the Company (STB excl. ELL)	105,017	10,148
Profit after tax from discontinued operations attributable to equity holders of the Company (ELL)	61,667	4,785

Basic Earnings per share	2016 p	2015 p
Total Basic Earnings per share	1,127.2	86.3
Basic Earnings per share from continuing operations	(3.7)	(16.9)
Basic Earnings per share from discontinued operations (STB excl. ELL)	712.5	70.1
Basic Earnings per share from discontinued operations (ELL)	418.4	33.1

Diluted Earnings per share	2016 p	2015 p
Total Diluted Earnings per share	1,126.7	83.3
Diluted Earnings per share from continuing operations	(3.7)	(16.6)
Diluted Earnings per share from discontinued operations (STB excl. ELL)	712.2	67.9
Diluted Earnings per share from discontinued operations (ELL)	418.2	32.0

17. Cash and balances at central banks

Group	2016 £000	2015 £000
Cash and balances at central banks	**195,752**	**368,611**

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).

18. Loans and advances to banks

Group	2016 £000	2015 £000
Placements with banks included in cash and cash equivalents (note 39)	**36,951**	**28,578**

The table below presents an analysis of loans and advances to banks by rating agency designation as at 31 December, based on Moody's long term ratings:

Group	2016 £000	2015 £000
Aa1	-	220
A1	20,696	15,972
A2	15,582	6,258
A3	110	5,366
Baa1	555	762
Unrated	8	-
	36,951	**28,578**

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

Company	2016 £000	2015 £000
Placements with banks included in cash and cash equivalents (note 39)	**89,072**	**12,444**

Loans and advances to banks include bank balances of £89.1m (2015: £12.4m) with Arbuthnot Latham & Co., Ltd.

19. 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 presented in the Statement of Financial Position at amortised cost.

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

Group	2016 £000	2015 £000
At 1 January	87,728	91,683
Exchange difference	2,087	808
Additions	89,384	145,880
Redemptions	(68,103)	(150,643)
Deconsolidation of STB	(3,796)	-
At 31 December	**107,300**	**87,728**

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

Group	2016 £000	2015 £000
Aaa	40,337	42,618
Aa1	23	23,317
Aa2	26,089	8,913
Aa3	6,000	1
A1	31,953	6,311
A2	-	4,554
A3	2,898	2,000
Baa1	-	14
	107,300	**87,728**

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

20. Derivative financial instruments

	2016			2015		
Group	Contract/ notional amount £000	Fair value assets £000	Fair value liabilities £000	Contract/ notional amount £000	Fair value assets £000	Fair value liabilities £000
Currency swaps	6,566	85	218	34,459	59	135
Interest rate caps	3,800	-	9	-	-	-
Structured notes	1,607	1,431	-	1,607	1,431	-
	11,973	**1,516**	**218**	**36,066**	**1,490**	**135**

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 indices) and non-derivative host contracts (discounted bonds). Both the host and embedded derivatives are presented net within derivative financial instruments.

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

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

Group	2016 £000	2015 £000
Aa3	-	34,459
A1	10,366	-
Baa1	1,607	1,607
	11,973	**36,066**

21. Loans and advances to customers

Group	2016 £000	2015 £000
Gross loans and advances	759,772	1,615,208
Less: allowances for impairment on loans and advances (note 22)	(973)	(35,696)
	758,799	**1,579,512**

On 19 December 2016 AL completed the purchase of a private banking loan portfolio from Duncan Lawrie Ltd for a consideration of £42.7m. The portfolio is included in loans and advances to customers at fair value.

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

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

Group	2016 £000	2015 £000
Gross investment in finance lease receivables:		
- No later than 1 year	-	41,906
- Later than 1 year and no later than 5 years	-	67,789
- Later than 5 years	-	873
	-	110,568
Unearned future finance income on finance leases	-	(18,996)
Net investment in finance leases	-	**91,572**
The net investment in finance leases may be analysed as follows:		
- No later than 1 year	-	31,684
- Later than 1 year and no later than 5 years	-	59,074
- Later than 5 years	-	814
	-	**91,572**

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

	2016	2015

Group	£000	£000
Neither past due nor impaired	719,515	1,516,236
Past due but not impaired	23,379	23,792
Impaired	16,878	75,180
Gross	759,772	1,615,208
Less: allowance for impairment	(973)	(35,696)
Net	**758,799**	**1,579,512**

(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	2016 £000	2015 £000
Past due up to 30 days	961	643
Past due 30 - 60 days	5,689	1,714
Past due 60 - 90 days	638	1,706
Over 90 days	16,091	19,729
Total	**23,379**	**23,792**

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 (2015: £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. The fair value of the collateral held against past due but not impaired or impaired balances is £103.7m (2015: £93.3m) against loans of £40.3m (2015: £43.2m), giving an average loan-to-value of 39% (2015: 46%). The weighted average loan-to-value is 61% (2015: 63%). 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 £15.9m (2015: £18.0m).

Secure Trust Bank PLC (2015 comparatives)

The majority of the loans were unsecured personal loans with an average size at inception of £5,000; therefore the portfolio did not have a significant concentration to any individuals, sectors or geographic locations. £0.2m related to a standard mortgage loan secured upon residential property which was neither past due nor impaired. The residential property over which the mortgage loan was secured had a fair value of £0.2m based on other property sales, and a loan to value ratio of 72%.

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

£165.7m of the loans were secured against motor vehicles where the security was discharged when the buyer exercised 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.

22. Allowances for impairment of loans and advances

Reconciliation of specific allowance for impairments:

Group	2016 £000	2015 £000
At 1 January	35,696	38,411
Adjustments for disposals	-	(5,812)
Impairment losses	474	26,654
De-consolidation of STB	(34,285)	-
Loans written off during the year as uncollectible	(962)	(23,590)
Amounts recovered during the year	50	33
At 31 December	**973**	**35,696**

Reconciliation of collective allowance for impairments:

Group	2016 £000	2015 £000
At 1 January	3,141	2,031
Impairment losses	-	1,110
De-consolidation of STB	(3,141)	-
At 31 December	-	**3,141**

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

Group	2016 £000	2015 £000
Loans and advances to customers - UK Private Bank	973	1,411
Loan and advances to customers - Retail Bank	-	34,285
At 31 December	**973**	**35,696**

23. Other assets

Group	2016 £000	2015 £000
Trade receivables	1,197	2,625
Inventory	5,213	5,226
Prepayments and accrued income	5,529	9,043
	11,939	**16,894**

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. The land is currently in the process of being redeveloped and will ultimately be sold off as individual residential plots. The proceeds from the sale of these plots will be used to reduce or repay the outstanding indebtedness.

Company	2016 £000	2015 £000
Trade receivables	633	732
Due from subsidiary undertakings	158	159
Prepayments and accrued income	96	100
	887	**991**

24. Financial investments

Group	2016 £000	2015 £000
Designated at fair value through profit and loss		
- Listed securities	108	112
Available-for-sale		
- Listed securities	13	13
- Debt securities	1,443	1,239
- Unlisted securities	581	1,321
Total financial investments	**2,145**	**2,685**

Listed securities
The Group holds investments in listed securities which are valued based on quoted prices.

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
On 23 June 2016 Arbuthnot Latham received €1.3m cash consideration following Visa Inc.'s completion of the acquisition of Visa Europe. As part of the deal Arbuthnot Latham also received preference shares in Visa Inc., these have been valued at their future conversion value into Visa Inc. common stock. Management has assessed the fair value of the Company’s investment as £569k. This valuation includes a 31% haircut, as referred to in Note 4.

Company	2016 £000	2015 £000
Financial investments comprise:		
- Listed securities (at fair value through profit and loss)	108	112
- Unlisted securities (available-for-sale)	13	13
Total financial investments	121	125

25. Deferred taxation

The deferred tax asset comprises:

Group	2016 £000	2015 £000
Unrealised surplus on revaluation of freehold property	-	196
Accelerated capital allowances and other short-term timing differences	929	697
Unutilised tax losses	736	891
Deferred tax asset	**1,665**	**1,784**
At 1 January	1,784	2,588
Other Comprehensive Income - available-for-sale securities	248	(262)
Profit and loss account - accelerated capital allowances and other short-term timing differences	(21)	673
Profit and loss account - tax losses	(64)	(812)
Deconsolidate / Transfer to assets classified as held for sale	(282)	(403)
Deferred tax asset at 31 December	**1,665**	**1,784**

Company	2016 £000	2015 £000
Accelerated capital allowances and other short-term timing differences	397	418
Deferred tax asset	**397**	**418**
At 1 January	418	406
Profit and loss account - accelerated capital allowances and other short-term timing differences	(21)	12
Deferred tax asset at 31 December	**397**	**418**

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 21% 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 17% 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 is levied at a rate of 8% on the profits of banking companies, after taking into account an annual allowance of £25m. This is expected to increase the Group's future current tax charge accordingly.

26. Interests in associates

Group	2016 £000	2015 £000
Tarn Crag	900	943
Secure Trust Bank PLC	81,674	-
Interests in associates	**82,574**	**943**

Tarn Crag

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 £197k (2015: loss of £331k). Legal costs of £43k, previously capitalised against the carrying value of the associate, were written off in the year.

The summarised balance sheet for Tarn Crag is set out below:

	Tarn Crag	
	2016	2015
At 31 December	£000	£000
ASSETS		
Cash and balances at central banks	3,468	2,236
Loans and advances to customers		
Other assets	656	1,010
Property, plant and equipment	9,201	15,412
	13,325	**18,658**
EQUITY AND LIABILITIES		
Deposits from banks	12,474	12,014
Other liabilities	1,484	667
Debt securities in issue	1,400	1,400
Revaluation reserve	(1,418)	4,995
Retained Earnings	(615)	(418)
	13,325	**18,658**

(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.

Secure Trust Bank

On 15 June 2016 Arbuthnot Banking Group sold 6 million shares in Secure Trust Bank PLC (‘STB’) for £150m, 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 principal place of business of STB is the United Kingdom. Subsequent to initial recognition at fair value, the investment is accounted for using the equity method. The fair value of the investment as at 31 December 2016 was £75.4m. STB recorded a profit after tax of £11.4m in the period from 16 June to 31 December 2016. The carrying value of the interest in STB is shown as the fair value at the date of sale adjusted for the share of the Group’s profit after tax and dividends received. STB is listed on the main market of the London Stock Exchange.
(a) Significant restrictions
The Group does not have significant restrictions on its ability to access funds, other than the liquidity in the market for the sale of the shares.

(b) Risks associated with interests
As STB is a publicly listed company, there are a number of risks, e.g. conduct risk, regulatory risk and macroeconomic and competitive environment risks that could have an impact on the share price and ultimate recoverability of the investment.

(c) Changes in ownership interest
On 15 June 2016 Arbuthnot Banking Group sold 6 million shares in Secure Trust Bank PLC (‘STB’) for £150m, 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.

On 7 November 460,419 share options in STB vested. On the same date 283,335 share options were exercised with admission of the shares on the stock market on 9 November. This increased STB’s shares in issue from 18,191,894 to 18,475,229 and as a result ABG’s shareholding was diluted from 18.93% to 18.64%. If the remaining share options of 177,084 were exercised, ABG’s shareholding would further dilute to 18.47%.

Company	2016 £000	2015 £000
Secure Trust Bank PLC	5,056	-
Interests in associates	**5,056**	-

27. Intangible assets

Group	Goodwill £000	Computer software £000	Other intangibles £000	Total £000
Cost				
At 1 January 2015	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**
Additions	-	5,155	-	5,155
Transfer out on deconsolidation	(1,013)	(9,301)	(2,200)	(12,514)
At 31 December 2016	**1,682**	**8,507**	**214**	**10,403**
Accumulated amortisation				
At 1 January 2015	-	(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)**
Amortisation charge	-	(478)	(43)	(521)
Transfer out on deconsolidation	-	4,794	734	5,528
At 31 December 2016	-	**(1,732)**	**(149)**	**(1,881)**
Net book amount				
At 31 December 2015	2,695	6,605	1,574	10,874
At 31 December 2016	1,682	6,775	65	8,522

Included within Computer Software additions is an amount of £5.5m (2015: £0.9m) relating to intangible assets in the course of construction, which management has assessed to not be available for use as at 31 December 2016 are not being amortised.

The accounting policy for goodwill is described in note 3.15 (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 perform 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 is currently one CGU (2015: three) with goodwill attached; the core Arbuthnot Latham CGU (£1.7m).

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 (2015: 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 2019 as per the approved 3 year plan. A growth rate of 11% (2015: 19%) was used for income and 13% (2015: 16%) for expenditure from 2017 to 2019 (these rates were the best estimate of future forecasted performance), while a 3% (2015: 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.

Cash flows were discounted at a pre-tax rate of 12% (2015: 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.

Company	Computer software £000
Cost	
At 1 January 2015	40
At 31 December 2015 and 2016	**40**
Accumulated amortisation	
At 1 January 2015	(36)
Amortisation charge	(4)
At 31 December 2015 and 2016	**(40)**
Net book amount	
At 31 December 2015 and 2016	-

28. 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 2015	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**
Additions	-	127	227	-	354
Transfer out on de-consolidation of STB	(7,488)	(226)	(9,929)	-	(17,643)
At 31 December 2016	**-**	**4,587**	**2,741**	**97**	**7,425**
At 1 January 2015	(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)**
Depreciation charge	-	(697)	(425)	(24)	(1,146)
Transfer out on de-consolidation of STB	1,037	10	8,166	-	9,213
At 31 December 2016	**-**	**(1,217)**	**(1,380)**	**(46)**	**(2,643)**
Net book amount					
At 31 December 2015	**6,451**	**4,156**	**3,322**	**75**	**14,004**
At 31 December 2016	**-**	**3,370**	**1,361**	**51**	**4,782**

The Group’s opening freehold property is also the Registered Office of Secure Trust Bank and was fully utilised for the Group’s own purposes.

The carrying value of freehold land not depreciated is £nil (2015: £1.7m). The historical cost of freehold property included at valuation was as follows:

Group	2016 £000	2015 £000
Cost	-	7,628
Accumulated depreciation	-	(1,305)
Net book amount	-	**6,323**

Company	Computer and other equipment £000	Motor Vehicles £000	Total £000
Cost or valuation			
At 1 January 2015	204	-	204
Additions	5	97	102
At 31 December 2015	**209**	**97**	**306**
Additions	5	-	5
At 31 December 2016	**214**	**97**	**311**
Accumulated depreciation			
At 1 January 2015	(77)	-	(77)
Depreciation charge	(3)	(22)	(25)
At 31 December 2015	**(80)**	**(22)**	**(102)**
Depreciation charge	(2)	(24)	(26)
At 31 December 2016	**(82)**	**(46)**	**(128)**
Net book amount			
At 31 December 2015	**129**	**75**	**204**
At 31 December 2016	**132**	**51**	**183**

29. Investment property

Group	Total £000
Purchase price	50,200
Acquisition costs	3,139
At 31 December 2016	**53,339**

Arbuthnot Latham & Co., Limited acquired premises in the West End of London (namely 20 King Street/10 St James's Street) on 23 June 2016. The property comprises 22,450 square feet of office space and approximately 7,000 square feet of retail space. The property is held by way of leasehold from The Crown Estate Commissioners with 119 years unexpired and with a review every five years.

The property, which is currently fully tenanted, generates annual rental income in excess of £1.8m. It is accounted for as investment property and the Group has elected to apply the fair value model. It is therefore initially recognised at cost and then subsequently at fair value. The fair value is determined using the rental income on the property and the associated effective yield of similar properties in the surrounding area (see note 4.1(e)). At 31 December 2016 there was no material difference between the cost of the property and the fair value. No property interests are held under operating leases and accounted for as investment property. There was also no independent valuation done at year end.

The Group received £1.1m rental income during the year and incurred £0.1m of direct operating expenses.

30. Deposits from banks

Group	2016 £000	2015 £000
Deposits from other banks	**3,200**	**55,305**

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

31. Deposits from customers

Group	2016 £000	2015 £000
Current/demand accounts	610,512	499,022
Notice accounts	141,728	579,877
Term deposits	245,409	850,939
	997,649	**1,929,838**

Included in customer accounts are deposits of £8,380,000 (2015: £4,195,000) held as collateral for loans and advances. The fair value of these deposits approximates the carrying value.

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

32. Other liabilities

Group	2016 £000	2015 £000
Trade payables	1,814	14,581
Accruals and deferred income	15,268	17,396
	17,082	**31,977**

Financial Services Compensation Scheme Levy

In common with all regulated UK deposit takers, AL pays levies to the Financial Services Compensation Scheme ("FSCS") to enable the FSCS to meet claims against the Scheme. 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 £0.1m (2015: £0.3m) relates to the interest levy for the scheme year 2016/17 which is payable in September 2017. 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 2016/17 was paid by the Group in September 2016.

Company	£000	£000
Due to subsidiary undertakings	3,624	3,068
Accruals and deferred income	1,184	1,167
	4,808	**4,235**

33. Debt securities in issue

Group and Company	2016 £000	2015 £000
Subordinated loan notes	**12,621**	**10,834**

The subordinated loan notes were issued on 7 November 2005 and are denominated in Euros. The principal amount outstanding at 31 December 2016 was €15,000,000 (2015: €15,000,000). The notes carry interest at 3% over the interbank rate for three month deposits in euros and are repayable at par in August 2035 unless redeemed or repurchased earlier by the Company.

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

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

34. Contingent liabilities and commitments

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 2016, the Group had capital commitments of £nil (2015: £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	2016 £000	2015 £000
Guarantees and other contingent liabilities	274	56
Commitments to extend credit:		
- Original term to maturity of one year or less	35,581	178,863
	35,855	**178,919**

Operating lease commitments

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

Group	2016 £000	2015 £000
Expiring:		
Within 1 year	2,635	3,710
Later than 1 year and no later than 5 years	8,422	9,974
Later than 5 years	5,745	7,790
	16,802	**21,474**

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.

In addition to the above commitments, ground rent of £230k per annum is payable in relation to the investment property.

35. Share capital

Group and Company	Number of shares	Ordinary share capital £000	Share premium £000
At 1 January 2015	15,279,322	153	-
At 31 December 2015 & December 2016	**15,279,322**	**153**	-

The Ordinary shares have a par value of 1p per share (2015: 1p per share). At 31 December 2016 the Company held 390,274 shares (2015: 390,274) in treasury.

36. Reserves and retained earnings

Group	2016 £000	2015 £000
Revaluation reserve	-	98
Capital redemption reserve	20	20
Available-for-sale reserve	(251)	1,047
Treasury shares	(1,131)	(1,131)
Retained earnings	235,567	123,330
Total reserves at 31 December	**234,205**	**123,364**

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	2016 £000	2015 £000
Capital redemption reserve	20	20
Treasury shares	(1,131)	(1,131)
Retained earnings	133,847	46,537
Total reserves as 31 December	**132,736**	**45,426**

37. Share-based payment options

Company – equity settled
The Company had the following equity settled share-based payment awards outstanding at 31 December 2016:

- 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.

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 14 June 2016 Mr. Salmon and Mr. Cobb each exercised all their respective options granted on 16 April 2013 and sold the shares on the same day at a price of 1591p. No equity settled share options were granted, forfeited, or expired during the year. ABG incurred an expense in relation to share based payments of £31,000 during 2016 (2015: £37,000), as disclosed in Note 12. In line with the Group accounting policy, where the equity settled scheme was modified to cash settled, the entire liability totalling £1,128,000 at 14 June 2016 was accounted for as a reserves reclassification, with no profit or loss recognised in the Income Statement.

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

	2016	2015
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)	0.25	0.53

Company – cash settled
On 14 June 2016 Mr. Salmon was granted phantom options pursuant to the Phantom Option Scheme to acquire 200,000 ordinary 1p shares in the Company at 1591p exercisable in respect of 50% on or after 15 June 2019 and in respect of the remaining 50% on or after 15 June 2021 when a cash payment would be made equal to any increase in value. On 14 June 2016 Mr. Cobb and Mr. Henderson were each granted phantom options pursuant to the Phantom Option Scheme to acquire 100,000 ordinary 1p shares in the Company at 1591p exercisable in respect of 50% on or after 15 June 2019 and in respect of the remaining 50% on or after 15 June 2021 when a cash payment would be made equal to any increase in market value. The fair value of the options at grant date was £1.3m.

The performance conditions of the Scheme are that for the duration of the vesting period, the dividends paid by ABG must have increased in percentage terms when compared to an assumed dividend of 29p per share in respect of the financial year ending 31 December 2016, by a minimum of the increase in the Retail Prices Index during that period.

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 ABG or any of its subsidiaries which has a material impact on the business of ABG.

Options are forfeited if they remain unexercised after a period of more than 7 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.

The probability of payout has been assigned based on the likelihood of meeting the performance criteria, which is 100%. The Directors consider that there is some uncertainty surrounding whether the participants will all still be in situ and eligible at the vesting date. Therefore the directors have assumed a 9% attrition rate for the share options vesting in June 2019 and 15% attrition rate for the share options vesting in June 2021. The attrition rate will increase by 3% per year until the vesting date. ABG incurred an expense in relation to share based payments of £0.2m during 2016, as disclosed in Note 12.

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

	2016
Expected Stock Price Volatility	33.0%
Expected Dividend Yield	2.3%
Risk Free Interest Rate	0.4%
Average Expected Life (in years)	3.46

38. Dividends per share

Final dividends are not accounted for until they have been approved at the Annual General Meeting. At the meeting on 4 May 2017, a dividend in respect of 2016 of 18p per share (2015: actual dividend 17p per share) amounting to a total of £2.68m (2015: actual £2.53m) is to be proposed. The financial statements for the year ended 31 December 2016 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 2017.

39. Cash and cash equivalents

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

Group	2016 £000	2015 £000
Cash and balances at central banks (Note 17)	195,752	368,611
Loans and advances to banks (Note 18)	36,951	28,578
	232,703	**397,189**

Company	2016 £000	2015 £000
Loans and advances to banks	**89,072**	**12,444**

40. Related party transactions

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

Other than the directors' remuneration (see Remuneration Report pages 20 to 21), payment of dividends and transactions with subsidiaries and associates, 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 and their close family members.

Group - subsidiaries	2016 £000	2015 £000
Loans		
Loans outstanding at 1 January	3,123	5,503
Loans advanced during the year	2,076	726
Loan repayments during the year	(3,429)	(3,106)
Transferred to loans with associates	(409)	-
Loans outstanding at 31 December	**1,361**	**3,123**
Interest income earned	**122**	**143**

Group - associates	2016 £000	2015 £000
Loans		
Loans advanced during the year	5	-
Loan repayments during the year	(10)	-
Transferred from loans with subsidiaries	409	-
Loans outstanding at 31 December	**404**	-
Interest income earned	**5**	-

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 (2015: £nil).

Group - subsidiaries	2016 £000	2015 £000
Deposits		
Deposits at 1 January	2,692	2,665
Deposits placed during the year	6,644	2,721
Deposits repaid during the year	(5,623)	(2,694)
Transferred to deposits with associates	(315)	-
Deposits at 31 December	**3,398**	**2,692**
Interest expense on deposits	**12**	**13**

Group - associates	2016 £000	2015 £000
Deposits		
Deposits placed during the year	3	-
Transferred from deposits with subsidiaries	315	-
Deposits at 31 December	**318**	-
Interest expense on deposits	**3**	-

Details of directors' remuneration are given in the Remuneration Report. The Directors do not believe that there were any other transactions with key management or their close family members that require disclosure.

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

	2016 Highest balance during the year	2016 Balance at 31 December	2015 Highest balance during the year	2015 Balance at 31 December
	£000	£000	£000	£000
ASSETS				
Due from subsidiary undertakings	150,776	89,224	23,454	12,603
Shares in subsidiary undertakings	54,602	54,602	46,466	46,466
Total assets	**205,378**	**143,826**	**69,920**	**59,069**
LIABILITIES				
Due to subsidiary undertakings	3,650	3,357	5,431	2,832
Total liabilities	**3,650**	**3,357**	**5,431**	**2,832**

The disclosure of the yearend 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:

	2016	2015
	£000	£000
Arbuthnot Latham & Co., Ltd - Recharge of property and IT costs	1,087	1,587
Arbuthnot Latham & Co., Ltd - Recharge for costs paid on the Company's behalf	4,015	3,288
Arbuthnot Latham & Co., Ltd - Group recharges for shared services	(1,483)	(1,421)
OBC Insurance Consultants Ltd - Dividend received	-	(132)
Secure Trust Bank PLC (up to 15 June as subsidiary) - Group recharges for shared services	(212)	(412)
Secure Trust Bank PLC (up to 15 June as subsidiary) - Dividends received	(5,195)	(6,517)
Secure Trust Bank PLC (from 16 June as associate) - Group recharges for shared services	(120)	-
Secure Trust Bank PLC (from 16 June as associate) - Dividends received	(6,273)	-
West Yorkshire Insurance Company Ltd - Legal fees settled	-	25
Total	**(8,181)**	**(3,582)**

41. Interests in subsidiaries

Company	Investment at cost £000	Impairment provisions £000	Net £000
At 1 January 2015	42,530	(2,564)	39,966
Capital contribution to Arbuthnot Latham & Co., Limited	6,500	-	6,500
At 31 December 2015	**49,030**	**(2,564)**	**46,466**
Capital contribution to Arbuthnot Latham & Co., Limited	22,000	-	22,000
Sale of shares in Secure Trust Bank PLC	(8,808)	-	(8,808)
Transfer to interests in associates	(5,056)	-	(5,056)
At 31 December 2016	**57,166**	**(2,564)**	**54,602**

Company	2016 £000	2015 £000
Subsidiary undertakings:		
Banks	52,302	44,166
Other	2,300	2,300
Total	**54,602**	**46,466**

(a) List of subsidiaries

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

	Country of incorporation	Ownership interest % 2016	2015	Principal activity
Arbuthnot Latham & Co., Limited	UK	100	100	Private banking
Secure Trust Bank PLC	UK	-	52	Retail banking

Secure Trust Bank became an associate company of the Group from 15 June 2016.

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

	% shareholding	Country of incorporation	Principal activity
Direct shareholding			
Arbuthnot Fund Managers Limited	100.0%	UK	Dormant
Arbuthnot Investments Limited	100.0%	UK	Dormant
Arbuthnot Limited	100.0%	UK	Dormant
Arbuthnot Properties Limited	100.0%	UK	Dormant
Arbuthnot Unit Trust Management Limited	100.0%	UK	Dormant
Gilliat Financial Solutions Limited	100.0%	UK	Dormant
Peoples Trust and Savings Plc	100.0%	UK	Dormant
Secure Trust Bank PLC*	18.6%	UK	Retail banking
West Yorkshire Insurance Company Limited	100.0%	UK	Non-trading
Windward Insurance Company PCC Limited	100.0%	Guernsey	Insurance
Indirect shareholding via intermediate holding companies			
Arbuthnot Latham (Nominees) Limited	100.0%	UK	Dormant
Arbuthnot Securities Limited	100.0%	UK	Dormant
Artillery Nominees Limited	100.0%	UK	Dormant
Debt Managers (Services) Limited*	18.6%	UK	Debt collection company
John K Gilliat & Co., Limited	100.0%	UK	Dormant
Pinnacle Universal	100.0%	BVI	Property development
Secure Homes Services Limited*	18.6%	UK	Property rental
STB Leasing Limited*	18.6%	UK	Leasing
Tarn Crag Limited*	50.0%	Isle of Man	Property management
V12 Finance Group Limited*	18.6%	UK	Holding company
V12 Personal Finance Limited*	18.6%	UK	Dormant
V12 Retail Finance Limited*	18.6%	UK	Sourcing and servicing of unsecured loans

* Treated as interests in associates.

All other subsidiary and related undertakings are unlisted and none are banking institutions, except for Secure Trust Bank PLC. All 100% owned entities are included in the consolidated financial statements and have an accounting reference date of 31 December. All other entities are disclosed in the consolidated financial statements under interests in associates (see note 26).

(b) Non-controlling interests in subsidiaries

The only subsidiary in 2015 within the Group with non-controlling interests was Secure Trust Bank PLC, where external parties had 48.1% ownership interests in the bank. Summary financial information for Secure Trust Bank PLC for 2015 is shown in the table below.

Summary of profit	Year ended 31 December 2016 £000	Year ended 31 December 2015 £000
Operating income	-	132,484
Profit after income tax	-	29,009
Total comprehensive income	-	**29,009**
Profit allocated to non-controlling interests	-	**13,798**

Summary of assets and liabilities	31 December 2016 £000	31 December 2015 £000
Loans and advances to customers	-	960,610
Other assets	-	286,721
Liabilities	-	(1,106,147)
Net assets	-	**141,184**
Carrying amount of non-controlling interests	-	**67,887**

Summary of cash flows	Year ended 31 December 2016 £000	Year ended 31 December 2015 £000
Cash flows from operating activities	-	53,188
Cash flows from investing activities	-	(3,397)
Cash flows from financing activities, before dividends to non-controlling interests	-	(12,552)
Cash flows from financing activities - cash dividends to non-controlling interests	-	(6,036)
Net increase in cash and cash equivalents	-	**31,203**

(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 the banking subsidiary’s assets and liabilities are £1,004m and £952m respectively (2015: £2,252m and £2,058m respectively; 2015 included Secure Trust Bank PLC).

(d) Risks associated with interests

During the year Arbuthnot Banking Group PLC made £22.0m (2015: £6.5m) capital contributions to Arbuthnot Latham & Co., Ltd. The contributions were made to assist the private bank during a period of growth to ensure that all regulatory capital requirements were met.

(e) Changes in ownership interest

On 15 June 2016 Arbuthnot Banking Group sold 6 million shares in Secure Trust Bank PLC (‘STB’) for £150m, 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.

42. Operating segments

The Group is organised into three main operating segments, arranged over three separate companies with each having its own specialised banking service, 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, commercial 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 (Retail Banking)			Continuing operations				
Year ended 31 December 2016	ELL £000	STB £000	**Total £000**	Retail Bank Associate Income £000	UK Private banking £000	Group Centre £000	**Total £000**	**Group Total £000**
Interest revenue	11,137	57,498	**68,635**	-	38,245	285	**38,530**	
Inter-segment revenue	-	-	-	-	(174)	(285)	**(459)**	
Interest revenue from external customers	11,137	57,498	**68,635**	-	38,071	-	**38,071**	
Fee and commission income	147	7,981	**8,128**	-	11,430	-	**11,430**	
Revenue from external customers	**11,284**	**65,479**	**76,763**	-	**49,501**	-	**49,501**	
Interest expense	-	(12,107)	**(12,107)**	-	(7,474)	200	**(7,274)**	
Add back inter-segment revenue	-	-	-	-	174	(174)	-	
Subordinated loan note interest	-	-	-	-	-	(352)	**(352)**	
Fee and commission expense	(124)	(779)	**(903)**	-	(425)	-	**(425)**	
Segment operating income	11,160	52,593	**63,753**	-	41,776	(326)	**41,450**	
Impairment losses	(2,610)	(12,172)	**(14,782)**	-	(474)	-	**(474)**	
Other income	-	-	-	-	4,353	(1,184)	**3,169**	
Income from associates	-	-		2,145			**2,145**	
Operating expenses	(6,016)	(29,073)	**(35,089)**	-	(36,602)	(9,509)	**(46,111)**	
Segment profit / (loss) before tax	2,534	11,348	**13,882**	2,145	9,053	(11,019)	**179**	**14,061**
Income tax (expense) / income	(507)	(2,199)	**(2,706)**	-	(211)	(509)	**(720)**	**(3,426)**
Segment profit / (loss) after tax	**2,027**	**9,149**	**11,176**	**2,145**	**8,842**	**(11,528)**	**(541)**	**10,635**
Profit on sale of discontinued operations	116,754	100,180	**216,934**	-	-	-	-	
Segment profit / (loss) after tax	**118,781**	**109,329**	**228,110**	**2,145**	**8,842**	**(11,528)**	**(541)**	**227,569**
Loans and advances to customers					758,799	-	**758,799**	
Other assets					440,363	66,122	**506,485**	
Segment total assets					**1,199,162**	**66,122**	**1,265,284**	**1,265,284**
Customer deposits					997,649	-	**997,649**	
Other liabilities					120,815	(87,538)	**33,277**	
Segment total liabilities					**1,118,464**	**(87,538)**	**1,030,926**	**1,030,926**
Other segment items:								
Capital expenditure					(5,504)	(5)	**(5,509)**	
Depreciation and amortisation					(1,641)	(26)	**(1,667)**	

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

Year ended 31 December 2015	Discontinued operations (Retail Banking) ELL £000	STB £000	Total £000	Continuing operations UK Private banking £000	Group Centre £000	Total £000	Group Total £000
Interest revenue	39,230	100,442	**139,672**	32,974	126	**33,100**	
Inter-segment revenue	-	(211)	**(211)**	(181)	(118)	**(299)**	
Interest revenue from external customers	39,230	100,231	**139,461**	32,793	8	**32,801**	
Fee and commission income	1,523	16,867	**18,390**	9,999	-	**9,999**	
Revenue from external customers	40,753	117,098	**157,851**	**42,792**	**8**	**42,800**	
Interest expense	-	(21,560)	**(21,560)**	(7,691)	25	**(7,666)**	
Add back inter-segment revenue	-	211	**211**	181	(181)	**-**	
Subordinated loan note interest	-	-	**-**	-	(324)	**(324)**	
Fee and commission expense	(358)	(3,660)	**(4,018)**	(206)	-	**(206)**	
Segment operating income	40,395	92,089	**132,484**	35,076	(472)	**34,604**	
Impairment losses	(7,537)	(16,782)	**(24,319)**	(1,250)	(34)	**(1,284)**	
Other income	-	-	**-**	1,894	(1,894)	**-**	
Operating expenses	(21,195)	(50,133)	**(71,328)**	(29,722)	(6,204)	**(35,926)**	
Segment profit / (loss) before tax	11,663	25,174	**36,837**	5,998	(8,604)	**(2,606)**	**34,231**
Income tax (expense) / income	(2,271)	(5,557)	**(7,828)**	109	12	**121**	**(7,707)**
Segment profit / (loss) after tax	9,392	19,617	**29,009**	**6,107**	**(8,592)**	**(2,485)**	**26,524**
Loans and advances to customers	-	960,610	**960,610**	618,902	-	**618,902**	
Other assets	118,456	168,655	**287,111**	385,547	(20,611)	**364,936**	
Segment total assets	118,456	1,129,265	**1,247,721**	**1,004,449**	**(20,611)**	**983,838**	**2,231,559**
Customer deposits	-	1,033,073	**1,033,073**	896,766	-	**896,766**	
Other liabilities	8,700	64,827	**73,527**	55,330	(18,541)	**36,789**	
Segment total liabilities	8,700	1,097,900	**1,106,600**	**952,096**	**(18,541)**	**933,555**	**2,040,155**
Other segment items:							
Capital expenditure	-	(3,639)	**(3,639)**	(3,186)	(102)	**(3,288)**	
Depreciation and amortisation	-	(2,865)	**(2,865)**	(1,320)	(29)	**(1,349)**	

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

The UK private bank has a branch in Dubai, which generated £3.1m (2015: £1.9m) fee income and had operating costs of £2.2m (2015: £1.8m). All Dubai branch income is booked in the UK. Other than the Dubai branch, all operations of the Group are conducted wholly within the United Kingdom and geographical information is therefore not presented.

43. 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 2016 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	105.2	272	247.1	6.1
Arbuthnot Banking Group PLC	Banking Services	Dubai	-	15	(2.2)	-

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)	-

The Dubai branch income is booked through the UK, hence the turnover is nil in the above analysis. Offsetting this income against Dubai branch costs would result in a £870k profit (2015: £33k). No public subsidies were received during 2016 or 2015.

44. 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 40 of the consolidated financial statements includes related party transactions with Sir Henry Angest.

45. Events after the balance sheet date

There were no material post balance sheet events to report.

Five Year Summary

	2012	2013	2014	2015	2016
	£000	£000	£000	£000	£000
Profit for the year after tax	11,118	11,515	17,016	26,524	227,569
Profit before tax from continuing operations*	(4,654)	(1,480)	(3,824)	(2,606)	179
Total Earnings per share					
Basic (p)	54.6	53.8	58.6	86.3	1,127.2
Earnings per share from continuing operations*					
Basic (p)	(28.4)	(5.7)	(24.8)	(16.9)	(3.7)
Dividends per share (p) - ordinary	25.0	26.0	27.0	29.0	31.0
- special	-	18.0	-	-	325.0

Other KPI:

	2012	2013	2014	2015	2016
	£000	£000	£000	£000	£000
Net asset value per share (p)	449.3	570.5	1,136.0	1,252.7	1,533.8

* - Prior year numbers have been restated for continuing operations.