



18 July 2017

ARBUTHNOT BANKING GROUP (“Arbuthnot”, “the Group” or “ABG”)
Results for the six months to 30 June 2017
“Diversification continues”

Arbuthnot Banking Group announces a half yearly profit before tax of £2.5m, compared with a loss in the prior year of £2.4m.

Included in the profit figure for the six months ended 30 June is an estimated* income of £2.1m for Secure Trust Bank PLC (“STB”) being an associated undertaking.

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

FINANCIAL HIGHLIGHTS

- Profit before tax £2.5m (H1 2016: loss £2.4m)
- Underlying profit before tax £2.7m (H1 2016: £2.0m)
- Earnings per share £0.17 (H1 2016: £11.11)*
- Interim dividend per share 14p (H1 2016: 13p)
- Net assets £234m (H1 2016: £282m)**
- Net assets per share £15.33 (H1 2016: £18.52)

OPERATIONAL HIGHLIGHTS

- Customer loans £879m (H1 2016: £657m), increased by 34%
- Customer deposits £1,229m (H1 2016: £940m), growth of 31%
- Assets Under Management £1,001m (H1 2016: £797m), up by 26%
- Completion of acquisition of Renaissance Asset Finance

Commenting on the results, Sir Henry Angest, Chairman and Chief Executive of Arbuthnot, said: **“The Group has made good progress in its plans to diversify, the Renaissance Asset Finance acquisition has been completed and the Commercial Banking business is gaining momentum. It is also pleasing to see customer deposits and assets under management pass the significant milestone of £1 billion for the first time. However, with uncertain economic and political times ahead we remain cautious in our decision making.”**

The interim results are available at <http://www.arbuthnotgroup.com>.

*The estimate for associate income is based on our 18.6% share of the after tax earnings of Secure Trust calculated using the full year market consensus of the equity research performed on STB, with an assumed straight-line growth in profits over the first half of the year. STB is scheduled to announce its interim results on 22 August 2017. For the avoidance of doubt, ABG’s estimate for the income from STB is not an estimate being made on its behalf. The Group’s profit before tax, profit after tax and earnings per share therefore include this estimated income from STB.

**The prior year includes the impact of the gains arising on the sale of Everyday Loans and the deconsolidation of STB.

**The fall in net assets is as a result of the payment of a £44m special dividend and the final dividend for 2016.

ENQUIRIES:

Arbuthnot Banking Group

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

0207 012 2400

Stifel Nicolaus Europe Ltd trading as KBW (Nomad and Joint Broker)
Robin Mann

0207 710 7600

Gareth Hunt
Stewart Wallace

Numis Securities Ltd (Joint Broker)
Chris Wilkinson
Andrew Holloway

0207 260 1000

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

0203 772 2566

Chairman's Statement

Arbuthnot Banking Group PLC

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

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

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

Arbuthnot Latham & Co., Limited

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

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

The Private Bank has led the way mainly in attracting new customers to the deposit and investment products of the bank. It has also been able to write record volumes of new loans in the period, with new originations reaching £76m in the first half, an increase of 27% on the prior year. However, the Private Bank has experienced a significant level of loan repayments, which resulted in the Private Banking loan book remaining at the same level as the prior year.

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

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

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

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

Secure Trust Bank PLC

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

Outlook

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

Consolidated Statement of Comprehensive Income

		Six months ended 30 June 2017	Six months ended 30 June 2016
	Note	£000	£000
Interest income		22,106	15,988
Interest expense		(2,839)	(4,105)
Net interest income		19,267	11,883
Fee and commission income		6,183	7,708
Fee and commission expense		(322)	(376)
Net fee and commission income		5,861	7,332
Operating income		25,128	19,215
Net impairment loss on financial assets		(343)	(388)
Other income	2	1,104	1,665
Profit from associates	1	2,145	265
Operating expenses	3	(25,499)	(23,121)
Profit / (loss) before income tax		2,535	(2,364)
Income tax expense		(90)	(539)
Profit / (loss) after income tax from continuing operations		2,445	(2,903)
Profit from discontinued operations after tax	6	-	228,110
Profit for the period		2,445	225,207
Other comprehensive income			
Items that are or may be reclassified to profit or loss			
Available-for-sale reserve		-	(2,321)
Available-for-sale reserve - Associate		389	(209)
Tax on other comprehensive income		(78)	262
Other comprehensive income for the period, net of tax		311	(2,268)
Total comprehensive income for the period		2,756	222,939
Profit attributable to:			
Equity holders of the Company		2,445	163,781
Non-controlling interests		-	61,426
		2,445	225,207
Total comprehensive income attributable to:			
Equity holders of the Company		2,756	161,513
Non-controlling interests		-	61,426
		2,756	222,939
Earnings per share for profit attributable to the equity holders of the Company during the period			
(expressed in pence per share):			
- basic	5	16.5	1,111.2
- diluted	5	16.5	1,107.5

Consolidated Statement of Financial Position

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

Consolidated Statement of Changes in Equity

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

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

Consolidated Statement of Cash Flows

	Six months ended 30 June 2017 £000	Six months ended 30 June 2016 £000
Cash flows from operating activities		
Interest received	20,004	87,027
Interest paid	(3,347)	(16,490)
Fees and commissions received	4,966	12,987
Net trading and other income	1,104	-
Cash payments to employees and suppliers	(16,392)	(63,503)
Taxation paid	-	(6,053)
Cash flows from operating profits before changes in operating assets and liabilities	6,335	13,968
Changes in operating assets and liabilities:		
- net decrease in derivative financial instruments	(527)	127
- net (increase)/decrease in loans and advances to customers	(121,290)	956,385
- net (increase)/decrease in other assets	(7,720)	22,212
- net increase/(decrease) in deposits from banks	3,379	(53,319)
- net increase/(decrease) in amounts due to customers	236,796	(990,299)
- net increase/(decrease) in other liabilities	3,960	(20,342)
Net cash inflow/(outflow) from operating activities	120,933	(71,268)
Cash flows from investing activities		
Purchase of financial investments	-	(462)
Disposal of financial investments	-	837
Purchase of computer software	(8,797)	(5,071)
Proceeds from sale of software	-	8,062
Purchase of investment property	-	(50,200)
Purchase of property, plant and equipment	(361)	(939)
Proceeds from sale of property, plant and equipment	-	8,815
Disposal of subsidiaries, net of cash and cash equivalents disposed	-	65,695
Purchases of debt securities	(108,363)	(59,893)
Proceeds from redemption of debt securities	55,772	41,424
Net cash (outflow)/inflow from investing activities	(61,749)	8,268
Cash flows from financing activities		
Dividends paid	(2,680)	(7,342)
Net cash used in financing activities	(2,680)	(7,342)
Net increase/(decrease) in cash and cash equivalents	56,504	(70,342)
Cash and cash equivalents at 1 January	232,703	397,189
Cash and cash equivalents at 30 June	289,207	326,847

1. Operating segments

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

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

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

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

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

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

	Discontinued operations (Retail Banking)			Continuing operations			Total £000	Group Total £000
	ELL £000	STB £000	Total £000	Retail Bank Associate Income £000	UK Private banking £000	Group Centre £000		
Six months ended 30 June 2016								
Interest revenue	11,137	57,498	68,635	-	16,112	68	16,180	
Inter-segment revenue	-	-	-	-	(128)	(64)	(192)	
Interest revenue from external customers	11,137	57,498	68,635	-	15,984	4	15,988	
Fee and commission income	147	7,981	8,128	-	7,708	-	7,708	
Revenue from external customers	11,284	65,479	76,763	-	23,692	4	23,696	
Interest expense	-	(12,107)	(12,107)	-	(3,996)	64	(3,932)	
Add back inter-segment revenue	-	-	-	-	128	(128)	-	
Subordinated loan note interest	-	-	-	-	-	(173)	(173)	
Fee and commission expense	(124)	(779)	(903)	-	(376)	-	(376)	
Segment operating income	11,160	52,593	63,753	-	19,448	(233)	19,215	
Impairment losses	(2,610)	(12,172)	(14,782)	-	(388)	-	(388)	
Other income	-	-	-	-	2,209	(544)	1,665	
Income from associates	-	-	-	265	-	-	265	
Operating expenses	(6,016)	(29,073)	(35,089)	-	(16,762)	(6,359)	(23,121)	
Segment profit / (loss) before tax	2,534	11,348	13,882	265	4,507	(7,136)	(2,364)	11,518
Income tax (expense) / income	(507)	(2,199)	(2,706)	-	(48)	(491)	(539)	(3,245)
Segment profit / (loss) after tax	2,027	9,149	11,176	265	4,459	(7,627)	(2,903)	8,273
Profit on sale of discontinued operations	116,754	100,180	216,934	-	-	-	-	-
Segment profit / (loss) after tax	118,781	109,329	228,110	265	4,459	(7,627)	(2,903)	225,207
Loans and advances to customers				-	657,122	-	657,122	657,122
Other assets				-	515,489	83,837	599,326	599,326
Segment total assets				-	1,172,611	83,837	1,256,448	1,256,448
Customer deposits				-	939,539	-	939,539	939,539
Other liabilities				-	179,577	(144,580)	34,997	34,997
Segment total liabilities				-	1,119,116	(144,580)	974,536	974,536
Other segment items:								
Capital expenditure				-	(53,721)	-	(53,721)	(53,721)
Depreciation and amortisation				-	(753)	(1)	(754)	(754)

2. Other income

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

3. Operating expenses

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

4. Underlying profit reconciliation

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

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

4. Underlying profit reconciliation - continued

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

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

5. Earnings per ordinary share

Basic

Basic earnings per ordinary share are calculated by dividing the profit after tax attributable to equity holders of the Company by the weighted average number of ordinary shares 14,815,045 (2016: 14,738,548) in issue during the period. On 30 March 2017, Sir Henry Angest bought 150,500 shares previously held in an ESOP trust.

Diluted

Diluted earnings per ordinary share are calculated by dividing the dilutive profit after tax attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the period, as well as the number of dilutive share options in issue during the period. There were no dilutive share options in issue at the end of June (2016: 50,000).

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

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

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

	Six months ended 30 June 2017	Six months ended 30 June 2016
Diluted Earnings per share	p	p
Total Diluted Earnings per share	16.5	1,107.5
Diluted Earnings per share from continuing operations	16.5	(19.6)

Diluted Earnings per share from discontinuing operations - ELL	-	417.0
Diluted Earnings per share from discontinuing operations - STB	-	710.1

6. Discontinued operations

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

	Six months ended 30 June 2017	Six months ended 30 June 2016
	£000	£000
Discontinued operations		
Profit after tax from discontinued operations - ELL (up to 13 April 2016)	-	2,027
Profit after tax on sale of discontinued operations - ELL	-	116,754
Profit after tax from discontinued operations - STB (up to 15 June 2016)	-	9,149
Profit after tax on sale of discontinued operations - STB	-	100,180
Profit after tax from discontinued operations	-	228,110

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

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

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

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

(expressed in pence per share):

- basic	5	-	418.4
- diluted	5	-	417.0

6. Discontinued operations - continued

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

	Recognised values on sale 2016 £000
Loans and advances to banks	457
Loans and advances to customers	116,744
Property, plant and equipment	452
Intangible assets	1,258
Deferred tax assets	371
Prepayments and accrued income	451
Other assets	11
Total assets	119,744
Intercompany funding	108,088
Current tax liability	3,212
Other liabilities	4,748
Total liabilities	116,048
Net identifiable assets	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.

6. Discontinued operations - continued

Cash flow from discontinued operations - ELL	Six months	From 1
	ended 30 June 2017 £000	January to 13 April 2016 £000
Cash flows from operating activities		
Interest received	-	11,137
Fees and commissions received	-	23
Cash payments to employees and suppliers	-	(8,626)
Taxation paid	-	(507)
Cash flows from operating profits before changes in operating assets and liabilities	-	2,027
Changes in operating assets and liabilities:		
- net increase in loans and advances to customers	-	(3,618)
- net increase in other assets	-	(249)
- net increase in other liabilities	-	2,621
Net cash inflow from operating activities	-	781
Cash flows from investing activities		
Purchase of property, plant and equipment	-	(9)
Net cash outflow from investing activities	-	(9)
Cash flows from financing activities		
Increase in borrowings		
Dividends paid		
Net increase in cash and cash equivalents	-	772
Cash and cash equivalents at 1 January	-	1,661
Cash and cash equivalents at 13 April	-	2,433

6. Discontinued operations - continued

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

	Note	Six months ended 30 June 2017 £000	From 1 January to 15 June 2016 £000
Interest income		-	57,498
Interest expense		-	(12,107)
Net interest income		-	45,391
Fee and commission income		-	7,981
Fee and commission expense		-	(779)
Net fee and commission income		-	7,202
Operating income		-	52,593
Net impairment loss on financial assets		-	(12,172)
Operating expenses		-	(29,074)
Profit before tax		-	11,347
Tax expense		-	(2,198)
Profit after tax		-	9,149
Profit on sale of shares		-	100,180
Total profit from discontinued operation		-	109,329
Profit attributable to:			
Equity holders of the Company		-	105,017
Non-controlling interests		-	4,312
Profit after tax		-	109,329

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

(expressed in pence per share):

- basic	5	-	712.5
- diluted	5	-	710.1

6. Discontinued operations - continued

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

	Recognised values on sale
	2016
	£000
Cash and balances at central banks	176,647
Loans and advances to banks	27,618
Loans and advances to customers	1,117,700
Other assets	5,805
Financial investments	15,030
Deferred tax asset	606
Intangible assets	7,017
Property, plant and equipment	8,606
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 were calculated as follows:

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

6. Discontinued operations - continued

	Six months ended 30 June 2017 £000	From 1 January to 15 June 2016 £000
Cash flow from discontinued operations - STB excluding ELL		
Cash flows from operating activities		
Interest received	-	68,635
Interest paid	-	(12,107)
Fees and commissions received	-	7,226
Cash payments to employees and suppliers	-	(51,552)
Taxation paid	-	(6,034)
Cash flows from operating profits before changes in operating assets and liabilities	-	6,168
Changes in operating assets and liabilities:		
- net increase in loans and advances to customers	-	(165,976)
- net decrease in other assets	-	117,395
- net decrease in deposits from banks	-	(10,000)
- net increase in amounts due to customers	-	12,936
- net decrease in other liabilities	-	(5,031)
Net cash outflow from operating activities	-	(44,508)
Cash flows from investing activities		
Purchase of computer software	-	(1,754)
Purchase of property, plant and equipment	-	(531)
Disposal of property, plant and equipment	-	2,179
Proceeds from disposal of businesses	-	106,912
Proceeds from sale of property, plant and equipment	-	456
Net cash inflow from investing activities	-	107,262
Cash flows from financing activities		
Increase in borrowings	-	(10,005)
Dividends paid	-	(10,005)
Net cash used in financing activities	-	(10,005)
Net increase in cash and cash equivalents	-	52,749
Cash and cash equivalents at 1 January	-	141,595
Cash and cash equivalents at 15 June	-	194,344

7. Basis of reporting

The interim financial statements have been prepared on the basis of accounting policies set out in the Group's 2016 statutory accounts as amended by standards and interpretations effective during 2017 and in accordance with IAS 34 "Interim Financial Reporting" (except for comparatives in the statement of financial position). The directors do not consider the fair value of the assets and liabilities presented in these financial statements to be materially different from their carrying value.

The statements were approved by the Board of Directors on 17 July 2017 and are unaudited. The interim financial statements will be posted to shareholders and copies may be obtained from The Company Secretary, Arbuthnot Banking Group PLC, Arbuthnot House, 7 Wilson Street, London EC2M 2SN.