



A division of
Arbuthnot Latham

Renaissance Asset Finance Limited
Annual Report for the year ended 31 December 2022

Registered Number 08885289



Contents

1	Strategic Report
4	<i>Directors' Report</i>
6	Independent Auditor's Report
9	Statement of Comprehensive Income
10	Statement of Financial Position
11	Statement of Changes in Equity
12	Statement of Cash Flows
13	Notes to the Financial Statements

Company Information

Directors

Anthony M Lester (Managing Director)

James R Cobb (Chairman)

Stephen J Fletcher (Director)

Andrew A Salmon (Director)

Richard M J Layne (Director)

Secretary

Nicholas Jennings

Registered Office

Arbuthnot House

7 Wilson Street

London

EC2M 2SN

Registered Number

08885289

Auditor

Mazars LLP

30 Old Bailey

London

EC4M 7AU

Strategic Report

Our business

Renaissance Asset Finance Limited ('the Company' or 'RAF') is a specialised asset finance lender established in 2014. The majority of the assets financed by RAF comprise higher value private cars, collectors' cars, purpose built taxis and other specialist vehicles. However, RAF also funds the purchase of a range of commercial plant and machinery as well as a limited volume of business-critical soft assets. RAF prefers to finance assets that have strong collateral characteristics and identifiable second hand markets.

Senior debt facilities are provided by Arbuthnot Latham & Co., Limited, the parent Company and 100% shareholder, to enable RAF to provide unregulated fixed term finance to its chosen customer market of small and medium sized enterprises and high net worth individuals. These are generally introduced to RAF via a network of brokers with whom RAF establishes close working relationships.

In addition to a careful assessment of asset quality, RAF places considerable reliance upon the soundness of the borrower's covenant and in the majority of cases, new customers are visited by our sales team. Thus the underwriting process avoids score cards and automated decision taking, relying on the skill and expertise of our underwriters to assess finance applications on a case by case basis.

Annual Review

RAF continues to experience strong demand for its asset finance facilities with the current pipeline of new business proposals and acceptances above pre-pandemic levels. The business delivered strong balance sheet growth in 2022 with the loan book increasing by 35% in the year, finishing the year at £134.7m (2021: £100.0m). Deferred income has grown by 40% to £18.6m (2021: £13.3m) which underlines the positive balance sheet growth.

The Block Discounting business impacted profitability in the year due to the investment cost of setting up this business and the time taken for new business to draw. However, overall RAF delivered a profitable outcome for the year and with balances now at record levels and driving increased revenue, complimented by enhanced sales and underwriting capabilities, we are optimistic that 2023 performance will be substantially improved.

During the pandemic the business saw a sharp increase in watchlist clients, notably in the purpose built taxi sector. This trend has now stabilised and following ongoing up-to-date payments and no evidence of any residual credit risk, the majority of clients have now been reclassified to performing.

In early 2023 Victoria Fisher, one of the founding Directors, decided to step down as a Director of the business, after dedicating her working life to making the business a success. The Company is very grateful for all her efforts and wishes her well for the future.

Strategic Report

Key Performance Indicators

	2022	2021
New loan originations	£95.3m	£55.0m
Year end net receivables (before impairment)	£134.7m	£100.0m
Profit / (loss) before tax	£0.01m	(£0.06m)
Return on average net receivables	0.00%	(0.06%)

The return on average net receivables is calculated as the profit before tax of £0.01m as a percentage of the loan book of £134.7m.

Principal Risks and Uncertainties

The Company 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 the risk management framework and associated policies is set out in note 6.

The principal risks inherent in the business are credit, security, interest rate, capital, funding, regulatory and conduct.

Macroeconomic and competitive environment

The Company is exposed to indirect risks that may arise from the macroeconomic and competitive environment.

In recent years there have been a number of global and domestic events which have had significant implications on the Company's operating environment, namely: Russia's War in the Ukraine, Coronavirus and Brexit. The culmination of these events has led to significant turmoil in both global and domestic markets. The most significant economic effect from these events includes record inflation driven by high fuel costs, leading to sharp and significant increases in the cost of borrowing. Conditions have improved since the year end however there still remains significant uncertainty around the recovery of the UK economy which may have an impact on the Company's customers and assets.

Credit risk

The Company is exposed to the risk that customers may not fulfil their obligations. The Company has defined lending criteria and monitors its exposures. However, default may arise from events beyond the Company's control, such as the customer's business failure, changes in personal circumstances or fraud.

Successful management of credit risk is critical to the Company's success. The majority of the Company's lending is secured on tangible assets with material resale value and amortised over the lives thereof. Concentration risk is avoided by limiting the size of individual facilities and seeking a diversified range of underlying assets. Careful attention is paid to the covenant quality of the borrower.

Strategic Report

Security

The Company is exposed to the risk that the security on which leases are made may reduce in value and prove inadequate to provide for a full recovery of leases in default. This risk is mitigated by limiting the size of lease facilities, restricting the term of the leases in accordance with the nature of the asset and procuring independent assessment of realistic resale values at the inception of the facility. Additionally, many facilities are supported by personal guarantees.

Interest rate risk

The Company provides its customers with fixed rate finance over a fixed term and raises finance with floating interest rates. As a result, the Company has an exposure to fluctuations in interest rates dependent on when they re-price at a future date.

Capital and funding

The Company has a level of shareholders' funds that is small in proportion to the size of its lease portfolio. Access to a continued supply of realistically priced loan facilities is therefore critical to its ability to continue to trade. Our parent company Arbuthnot Latham & Co., Limited have continued to provide loan facilities, the terms of which reflect our finance agreements with our customers.

Regulatory and conduct risk

RAF is regulated by the FCA and is subject to the risks of legislative and regulatory rule changes, albeit that its lease facilities are in fact unregulated agreements. Nevertheless, care is taken to comply with appropriate Anti-Money Laundering regulations and the fair treatment of customers is monitored through the completion of periodic surveys.



R M J Layne (Apr 21, 2023 11:22 GMT+1)

R M J Layne

Director

21 April 2023

Directors' Report

The Directors present their report and the audited financial statements of the Company for the year ended 31 December 2022.

Principal Activities

Renaissance Asset Finance Limited provides unregulated fixed term finance to its chosen customer market of small and medium sized enterprises and high net worth individuals.

Directors

The Directors who held office during the period were as follows:

AM Lester
JR Cobb
SJ Fletcher
AA Salmon
RMJ Layne
V Fisher (resigned 30 January 2023)

Financial Instruments

Details of the Company's policy for funding its operations and controlling its associated risks are provided in the Strategic Report on page 1 and the risk management note on page 24.

Proposed dividend

No dividends were paid during the year. The Directors do not recommend the payment of a dividend.

Political Donations

The Company made no political donations nor incurred any political expenditure during the year.

Going Concern

After making appropriate enquiries which assessed strategy, income and expenditure, ongoing parental funding and risk management (see note 6), the Directors are satisfied that the Company has adequate resources to continue in operation for the period of at least 12 months from the signing date of these financial statements.

The Company had net current assets of £39.8m as at the year-end (2021: £36.0m). The company is largely funded through intercompany parental facilities. The parent has pledged to provide funding to the company to match the duration of its issued lending facilities.

The Directors consider that the existence of demonstrable profitability, net current assets and funding from the parent should enable the Company to continue in operational existence for the period of at least 12 months from the signing date of these financial statements by meeting its liabilities as they fall due for payment. As with any company placing reliance on the parent for financial support, the Directors acknowledge that there is a reliance on the ultimate parent's ability to continue as a going concern. Details of the parent company's going concern assessment can be found in the Directors' report on page 43 of the Arbuthnot Banking Group Annual Report and Accounts.

The Directors also note the following points in relation to their going concern analysis:

- The Directors have performed severe but plausible scenario stress-tests in response to the risk of customer default (see note 4.1).
- In all scenarios, the Directors are satisfied that the Company has sufficient access to parental funding which would allow it to continue trading as normal.

The financial statements are therefore prepared on the going concern basis.

Other information

Any indication of likely future developments in the business and particulars of significant events which have occurred since the end of the financial year have been included in the Strategic Report on page 1.

Auditor

Mazars LLP has expressed its willingness to continue in office as the Company's auditor. Pursuant to section 487 of the Companies Act 2006, Mazars LLP will therefore be deemed to be reappointed and will remain in office.

Directors' Report

Statement of Disclosure of Information to the Auditor

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.

Statement of Directors' Responsibilities in Respect of the Strategic Report, 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 laws and regulations.


Company law requires the Directors to prepare Financial Statements for each financial year. Under that law they have elected to prepare the Financial Statements in accordance with International Financial Reporting Standards in conformity with the requirements of the Companies Act 2006.

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 Company and of the profit or loss for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant and reliable;
- state whether they have been prepared in accordance with IFRSs in conformity with the requirements of the Companies Act 2006;
- assess the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate Company or to cease operations, or have no realistic alternative but to do so.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions, to disclose with reasonable accuracy at any time the financial position of the Company and to enable the Directors to ensure that its financial statements comply with the Companies Act 2006. The Directors are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

By order of the Board


R M J Layne (Apr 21, 2023 11:22 GMT+1)

R M J Layne
Director
21 April 2023

Independent Auditor's Report

to the members of Renaissance Asset Finance Limited

Opinion

We have audited the financial statements of Renaissance Asset Finance Limited (the 'company') for the year ended 31 December 2022 which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity, the Statement of Cash Flows, and notes to the financial statements, including a summary of significant accounting policies.

The financial reporting framework that has been applied in their preparation is applicable law and UK-adopted international accounting standards in conformity with the requirements of the Companies Act 2006.

In our opinion, the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2022 and of its profit for the year then ended; and
- have been properly prepared in accordance with UK-adopted international accounting standards; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the "Auditor's responsibilities for the audit of the financial statements" section of our report. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the director's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Independent Auditor's Report

to the members of Renaissance Asset Finance Limited

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

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

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

Responsibilities of Directors

As explained more fully in the directors' responsibilities statement set out on page 5, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud.

Based on our understanding of the company and its industry, we identified that the principal risks of non-compliance relate to the regulations and supervisory requirements of the Financial Conduct Authority (FCA), Anti-Money Laundering regulations (AML), General Data Protection Regulation (GDPR), and other laws and regulations, such as the Companies Act, 2006, that have a direct impact on the preparation of the financial statements, and UK tax legislation.

Independent Auditor's Report

to the members of Renaissance Asset Finance Limited

To help us identify instances of non-compliance with these laws and regulations, and in identifying and assessing the risks of material misstatement in respect to non-compliance, our procedures included, but were not limited to:

- Inquiring of management and, where appropriate, those charged with governance, as to whether the company is in compliance with laws and regulations, and discussing their policies and procedures regarding compliance with laws and regulations;
- Inspecting correspondence, if any, with relevant licensing or regulatory authorities;
- Communicating identified laws and regulations to the engagement team and remaining alert to any indications of non-compliance throughout our audit; and
- Considering the risk of acts by the company which were contrary to applicable laws and regulations, including fraud.

In addition, we evaluated the directors' and management's incentives and opportunities for fraudulent manipulation of the financial statements, including the risk of management override of controls, and determined that the principal risks related to posting manual journal entries to manipulate financial performance and management bias through judgements and assumptions in significant accounting estimates, in particular in relation to expected credit loss provision.

Our audit procedures in relation to fraud included but were not limited to:

- Making enquiries of the directors and management on whether they had knowledge of any actual, suspected or alleged fraud;
- Gaining an understanding of the internal controls established to mitigate risks related to fraud;
- Discussing amongst the engagement team the risks of fraud; and
- Addressing the risks of fraud through management override of controls by performing journal entry testing.

There are inherent limitations in the audit procedures described above and the primary responsibility for the prevention and detection of irregularities including fraud rests with management. As with any audit, there remained a risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of the audit report

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.

Martin Orme

Martin Orme (Senior Statutory Auditor) for and on behalf of Mazars LLP
Chartered Accountants and Statutory Auditor
30 Old Bailey,
London, EC4M 7AU
21 April 2023

Statement of Comprehensive Income

		Year ended 31 December 2022	Year ended 31 December 2021
	Note	£000	£000
Leasing income	7	8,898	8,319
Interest expense	7	(3,353)	(2,371)
Net leasing income	7	5,545	5,948
Fee and commission income	8	32	166
Net fee and commission income		32	166
Operating income		5,577	6,114
Net impairment loss on lease receivables	9	(768)	(2,292)
Other income	10	82	59
Operating expenses	11	(4,886)	(3,943)
Profit / (loss) before tax		5	(62)
Income tax credit	13	23	53
Profit / (loss) for the year		28	(9)


The Company has no other Comprehensive Income for the year and hence the profit for the year represents the total Comprehensive Income for the year.

The notes on pages 13 to 37 are an integral part of these financial statements

Statement of Financial Position

		At 31 December 2022	At 31 December 2021
	Note	£000	£000
ASSETS			
Cash at bank and in hand	14	2,039	568
Lease receivables	15	133,851	97,113
Current tax asset		14	14
Other assets	17	224	124
Deferred tax asset	18	101	64
Property, plant and equipment	19	12	15
Right-of-use assets	20	420	519
Total assets		136,661	98,417
EQUITY AND LIABILITIES			
Equity attributable to owners of the parent			
Share capital	25	220	220
Share premium account	25	30	30
Retained earnings	26	8,515	8,487
Total equity		8,765	8,737
LIABILITIES			
Intercompany loan	21	125,872	88,437
Other liabilities	22	1,578	704
Lease liabilities	23	446	539
Total liabilities		127,896	89,680
Total equity and liabilities		136,661	98,417

The financial statements on pages 9 to 37 were approved and authorised for issue by the Board of Directors on 21 April 2023 and were signed on their behalf by:


R M J Layne (Apr 21, 2023 11:22 GMT+1)

R M J Layne
Director
Registered Number: 08885289

The notes on pages 13 to 37 are an integral part of these financial statements

Statement of Changes in Equity

	Share capital	Share premium	Retained earnings	Total
	£000	£000	£000	£000
Balance at 1 January 2021	220	30	8,496	8,746
Total comprehensive income for the year				
Profit for 2021	-	-	(9)	(9)
Total comprehensive income for the year	-	-	(9)	(9)
Balance at 31 December 2021	220	30	8,487	8,737
Total comprehensive expense for the year				
Profit for 2022	-	-	28	28
Other comprehensive expense, net of tax				
Total comprehensive expense for the year	-	-	28	28
Balance at 31 December 2022	220	30	8,515	8,765

The notes on pages 13 to 37 are an integral part of these financial statements

Statement of Cash Flows

		Year ended 31 December 2022 £000	Year ended 31 December 2021* £000
	Note		
Cash flows from operating activities			
Profit/(Loss) before tax		5	(62)
- Depreciation and amortisation	19	102	92
- Impairment loss on lease receivables	9	(1,959)	1,910
- Tax paid		23	(365)
Cash flows from operating (losses)/profits before changes in operating assets and liabilities		(1,829)	1,575
Changes in operating assets and liabilities:			
- net increase in leases to customers	15	(34,779)	(7,096)
- net increase/(decrease) in other assets	17	(137)	84
- net inflow/(outflow) in other liabilities	22	874	(97)
Net cash outflow from operating activities		(35,871)	(5,534)
Cash flows from investing activities			
Cash flows from financing activities			
Increase in borrowings		37,435	5,623
Lease payments	23	(93)	(80)
Net cash inflow/(outflow) from financing activities		37,342	5,543
Net increase in cash and cash equivalents		1,471	9
Cash and cash equivalents at 1 January		568	559
Cash and cash equivalents at 31 December	14	2,039	568

*Prior year values have been represented using the indirect method in accordance with IAS 7.

Notes to the Financial Statements

1. Reporting entity

Renaissance Asset Finance Limited is a company domiciled in the United Kingdom. The registered address of Renaissance Asset Finance Limited is 7 Wilson Street, London, EC2M 2SN.

2. Basis of preparation

(a) Statement of compliance

The financial statements have been prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006.

(b) Basis of measurement

The Company's financial statements have been prepared under the historical cost convention.

(c) Functional and presentational currency

The functional and presentational currency of the Company is Pounds Sterling.

(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 Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 4.

(e) Going concern

After making appropriate enquiries which assessed strategy, income and expenditure, ongoing parental funding and risk management (see note 6), the Directors are satisfied that the Company has adequate resources to continue in operation for the period of at least 12 months from the signing date of these financial statements.

The Company had net current assets of £39.8m as at the year-end (2021: £36.0m). The company is largely funded through intercompany parental facilities. The parent has pledged to provide funding to the company to match the duration of its issued lending facilities.

The Directors consider that the existence of demonstrable profitability, net current assets and funding from the parent should enable the Company to continue in operational existence for the period of at least 12 months from the signing date of these financial statements by meeting its liabilities as they fall due for payment. As with any company placing reliance on the parent for financial support, the Directors acknowledge that there is a reliance on the ultimate parent's ability to continue as a going concern. Details of the parent company's going concern assessment can be found in the Directors' report on page 43 of the Arbutnot Banking Group Annual Report and Accounts.

The Directors also note the following points in relation to their going concern analysis:

- The Directors have performed severe but plausible scenario stress-tests in response to the risk of customer default (see note 4.1).
- In all scenarios, the Directors are satisfied that the Company has sufficient access to parental funding which would allow it to continue trading as normal.

The financial statements are therefore prepared on the going concern basis.

(f) Accounting developments

The accounting policies adopted are consistent with those of the previous financial year.

Notes to the Financial Statements

3. Significant accounting policies

The accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

3.1. Leases and leasing income

At inception or on reassessment of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company assesses whether:

- the contract involves the use of an identified asset. This may be specified explicitly or implicitly and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;
- the Company has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- the Company has the right to direct the use of the asset. The Company has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used.

At inception or on reassessment of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices.

(a) As a lessee

The Company recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore it or its site, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain re-measurements of the lease liability.

Practical exemptions

The Company has elected not to recognise right-of-use assets and lease liabilities for short-term leases of machinery that have a lease term of 12 months or less and leases of low value assets. The Company recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Lease liability

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Primarily, the Company uses its incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rates as at the commencement date;
- amounts expected to be payable under a residual value guarantee.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in the statement of comprehensive income if the carrying amount of the right-of-use asset has been reduced to zero.

Notes to the Financial Statements

(b) 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 of the Company is attributable to the financing of assets and comprises imputed interest on finance and hire purchase contracts.

Amounts due from customers under hire purchase contracts and finance leases are recognised as lease receivables at an amount equal to the net investment in the lease. The net investment in a lease is the gross investment, including initial direct costs, discounted at the interest rate implicit in the lease.

3.2. Interest expense

Interest expense is recognised in the Statement of Comprehensive Income for all instruments measured at amortised cost using the effective interest rate method.

3.3. Fee and commission income

Fees and commissions which are not part of the lease receivable are generally recognised on an accrual basis when the service has been provided.

3.4. Financial assets and financial liabilities

IFRS 9 requires financial assets and liabilities to be measured at amortised cost, fair value through other comprehensive income ("FVOCI") or fair value through the profit and loss ("FVTPL"). Liabilities are measured at amortised cost or FVTPL. The company classifies financial assets and financial liabilities in the following categories: financial assets and financial liabilities at FVTPL; FVOCI, financial assets and liabilities at amortised cost and other financial liabilities. Management determines the classification of its financial instruments at initial recognition.

A financial asset or financial liability is measured initially at fair value plus, transaction costs that are directly attributable to its acquisition or issue with the exception of financial assets at FVTPL where these costs are debited to the income statement.

(a) Financial instruments measured at amortised cost

Financial assets that are held to collect contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. A basic lending arrangement results in contractual cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding. Financial assets measured at amortised cost consist of lease receivables.

(b) Lease receivables

Lease receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the company provides money, goods or services directly to a debtor with no intention of trading the receivable and the SPPI criteria are met. Lease receivables are recognised when cash is advanced inclusive of transaction costs. Lease receivables are carried at amortised cost using the effective interest rate method.

(c) Financial assets and financial liabilities at FVTPL

Financial assets and liabilities are classified at FVTPL where they do not meet the criteria to be measured at amortised cost or FVOCI or where financial assets are designated at FVTPL to reduce an accounting mismatch. They are measured at fair value in the statement of financial position, with fair value gains/losses recognised in the income statement.

Financial assets that are held for trading or managed within a business model that is evaluated on a fair value basis are measured at FVTPL, because the business objective is neither hold-to-collect contractual cash flows nor hold-to-collect-and-sell contractual cash flows.

Financial assets and liabilities at FVTPL are initially recognised on the date from which the Company becomes a party to the contractual provisions of the instrument, including any acquisition costs. Subsequent measurement of financial assets and financial liabilities held in this category are carried at FVTPL until the investment is sold.

The company does not have any financial assets or liabilities classified as FVTPL.

Notes to the Financial Statements

(d) Financial instruments at FVOCI

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. Financial investments are initially recognised at cost, which is considered as the fair value of the investment including any acquisition costs. The securities are subsequently measured at fair value in the statement of financial position.

Fair value changes in the securities are recognised directly in equity (OCI).

A debt instrument is measured at fair value through other comprehensive income if it meets both of the following conditions:

- the asset is held within a business model whose objective is achieved by collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset meet the SPPI criterion.

There is a rebuttable presumption that all equity investments are FVTPL, however on initial recognition the Company may make an irrevocable election to present the fair value movement of equity investments that are not held for trading within OCI. The election can be made on an instrument by instrument basis.

For debt instruments, changes in fair value are recognised in OCI. As the asset is measured at fair value, any ECL does not adjust the carrying value of the asset, it is reflected in other comprehensive income.

For equity instruments, there are no reclassifications of gains and losses to the profit or loss statement on derecognition and no impairment recognised in the profit or loss. Equity fair value movements are not reclassified from OCI under any circumstances.

The company does not have any financial assets or liabilities classified as OCI.

Basis of measurement for financial assets and liabilities

Amortised cost measurement

The company only has financial assets and liabilities measured at amortised cost. 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 rate method of any difference between the initial amount recognised and the maturity amount, less any reduction for impairment.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or when the Company 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 Company is recognised as a separate asset or liability in the Statement of Financial Position. In transactions in which the Company neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset and it retains control over the asset, the Company 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 Company derecognises a financial liability when its contractual obligations are discharged, cancelled, expire, are modified or exchanged.

Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRS, or for gains and losses arising from a group of similar transactions such as the Company's trading activity.

Notes to the Financial Statements

3.5. Impairment of finance lease receivables

The Company recognises loss allowances on an expected credit loss basis for all financial assets measured at amortised cost.

Credit loss allowances are measured as an amount equal to lifetime ECL, except for the following assets, for which they are measured as 12 month ECL:

- Financial assets determined to have a low credit risk at the reporting date
- Financial assets which have not experienced a significant increase in credit risk since their initial recognition

Impairment model

The IFRS 9 impairment model adopts a three-stage approach based on the extent of credit deterioration since origination:

• Stage 1: 12-month ECL applies to all financial assets that have not experienced a significant increase in credit risk ("SICR") since origination and are not credit impaired. The ECL will be computed based on the probability of default events occurring over the next 12 months.

• Stage 2: When a financial asset experiences a SICR subsequent to origination, but is not in default, it is considered to be in Stage 2. This requires the computation of ECL based on the probability of all possible default events occurring over the remaining life of the financial asset. The Stage 2 lifetime ECL is the difference between the value of the recoverable amount (which is equal to the expected future cash flows discounted at the lease's original effective interest rate), and its carrying amount. Provisions are higher in this stage (except where the value of charge against the financial asset is sufficient to enable recovery in full) because of an increase in credit risk and the impact of a longer time horizon being considered (compared to 12 months in Stage 1).

Evidence that a financial asset has experienced a SICR includes the following considerations:

- A lease is in arrears between 31 and 90 days;
- Forbearance action has been undertaken;

• Stage 3: Financial assets that are credit impaired are included in this stage. Similar to Stage 2, the allowance for credit losses will continue to capture the lifetime expected credit losses. The Stage 3 lifetime ECL is the difference between the value of the recoverable amount, and its carrying amount. At each reporting date, the Company will assess whether financial assets carried at amortised cost are in default. A financial asset will be considered to be in default when an event(s) that has a detrimental impact on estimated future cash flows have occurred.

Evidence that a financial asset is within Stage 3 includes the following data:

- A lease is in arrears in excess of 90 days;
- Breach of terms of forbearance;
- Recovery action is in hand; or
- Bankruptcy proceedings or similar insolvency process of a client, or director of a company.

The credit risk of financial assets that become credit impaired are not expected to improve such that they are no longer considered credit impaired.

Notes to the Financial Statements

Presentation of allowance for ECL in the statement of financial position

For financial assets measured at amortised cost, these are presented as the gross carrying amount of the assets minus a deduction for the ECL.

Write-off

Lease receivables are written off (either partially or in full) when there is no realistic prospect of recovery. This is the case when the Company determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the outstanding amount due.

Renegotiated leases

Leases that are neither subject to ECLs nor individually significant, and whose terms have been renegotiated, are no longer considered to be past due but are treated as new leases.

Forbearance

Under certain circumstances, the Company 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 Company seeks to ensure that any forbearance results in a fair outcome for both the customer and the Company.

3.6. Impairment of non-financial assets

The carrying amounts of the Company's non-financial assets, other than 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.

3.7. Property, plant and equipment

Fixtures, fittings and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation is calculated using the straight-line method to allocate the cost to the residual values over the estimated useful lives, applying the following annual rates, which are subject to regular review:

Leasehold improvements	10 years
Fixtures and fittings	4 years

Gains and losses on disposals are determined by deducting carrying amount from proceeds. These are included in the Statement of Comprehensive Income.

3.8. Employee benefits

Post-retirement obligations

The Company 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 Company has no further payment obligations once the contributions have been paid. The contributions are recognised as an employee benefit expense when they are due.

There are no post-retirement benefits other than pensions.

Notes to the Financial Statements

3.9. 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 financial statements. 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 the 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.

3.10. Adoption of new and revised reporting standards

There are no standards, interpretations and amendments to existing standards that have been published and are mandatory for the Company's accounting periods beginning on or after 1 January 2023 or later periods, that will have any material impact on the Company's financial statements.

3.11. Standards issued but not yet effective

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2023 and earlier application is permitted; however, the Company has not early adopted the new and amended standards in preparing these consolidated financial statements.

Other standards

The following new and amended standards are not expected to have a significant impact on the Company's financial statements.

- Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12, effective for annual periods beginning on or after 1 January 2023).
- Classification of Liabilities as Current or Non-current (Amendments to IAS 1, effective for annual periods beginning on or after January 1, 2023).
- IFRS 17 Insurance Contracts and amendments to IFRS 17 Insurance Contracts. (effective for annual reporting periods beginning on or after January 1, 2023)
- Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2).
- Definition of Accounting Estimates (Amendments to IAS 8, effective for annual periods beginning on or after January 1, 2023)

Notes to the Financial Statements

4. Critical accounting estimates and judgements in applying accounting policies

The Company 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 Company reviews its lease portfolios to assess impairment at least on a monthly basis. The basis for evaluating impairment losses is described in accounting policy 3.5. Where lease receivables are individually evaluated for impairment, management uses its 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.

In determining whether an impairment loss should be recorded in the Statement of Comprehensive Income, the Company 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 leases 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 Company. 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 Company 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.

Management have considered a range of variables in determining the level of future ECL. The key judgments were in relation to collateral values, time to collect and default rates across a number of different economic scenarios.

Collateral Values

If collateral values were decreased by 10% the provision charge would increase by £175k (2021: £55k), and if collateral values were increased by 10% the provision charge would be reduced by £134k (2021: £35k).

Probability of Default

If the probability of default doubled the provision charge would increase by £215k (2021: £140k). A reduction in the probability of default by half the provision charge would be reduced by £109k (2021: £68k).

Time to Collect

If time to collect was increased by 6 months the provision charge would increase by £115k (2021: £44k), and if time to collect was reduced by 6 months the provision charge would be reduced by £125k (2021: £32k).

Economic Scenarios

Five economic scenarios were modelled. A probability was assigned to each scenario to arrive at an overall weighted impact on ECL. Management judgment is required in the application of the probability weighting for each scenario.

The five macroeconomic scenarios modelled on asset values were as follows:

- Extreme Downside
- Downside 2
- Downside 1
- Baseline
- Upside

Notes to the Financial Statements

The Company considered the impact of various assumptions on the calculation of ECL (changes in GDP, unemployment rates, inflation, interest rates and collateral values) and concluded that collateral values and UK GDP are key drivers of credit risk and credit losses for each portfolio of financial instruments.

The table below lists the macroeconomic assumptions at 31 December 2022 used in the base, upside and downside scenarios over the five-year forecast period. The assumptions represent the year-on-year percentage change for GDP.

UK GDP – annual growth
At 31 December 2022

Year	Baseline	Upside	Downside 1	Downside 2	Extreme downside
2023	(0.9%)	0.7%	(2.3%)	(3.7%)	(5.0%)
2024	1.4%	2.4%	1.3%	1.3%	1.2%
2025	2.0%	2.7%	1.7%	1.5%	1.2%
2026	1.8%	2.5%	1.6%	1.4%	1.2%
2027	1.8%	2.3%	1.6%	1.4%	1.2%

The tables below reflect the expected changes in collateral/asset values in each of the macroeconomic scenarios and the probability weighting applied for each scenario.

Another of the key judgements concerns the probability of the economic scenarios to the measurement of the ECL. The probability weighting and forward-looking economic scenarios are as follows for the Company:

	Probability weighting		Change in asset values	
	2022	2021	2022	2021
Economic Scenarios				
Extreme Downside	11.0%	2.0%	-15% to -60%	-15% to -60%
Downside 2	11.0%	5.0%	-7.5% to -30%	-7.5% to -30%
Downside 1	12.0%	16.0%	-2.5% to -15%	-2.5% to -15%
Baseline	53.0%	52.0%	0.0%	0.0%
Upside	13.0%	25.0%	2.0%	2.0%
Weighted average change in asset values			-7.0%	-2.7%

The above tables reflect the 5-year average expected change in collateral values in each economic scenario for the Company which were applied over the full term the Company is exposed to credit risk (also an average of 5 years). The expected change in asset values under each scenario were weighted according to the probability of each scenario, to arrive at a probability weighted change in asset values. These adjusted asset values are then used to assess the future expected cash flows, which are considered along with the loan exposures at default to calculate the expected credit loss. No other long-term averages are used in the calculation of ECL, as the above changes are in effect modelled over the full term of the Company's exposure to credit risk.

Notes to the Financial Statements

At 31 December 2022 the weighted average change in asset values is a 7.0% decline compared to a 2.7% decline at 31 December 2021. The table below compares the 31 December 2022 ECL provision using the 31 December 2022 economic scenarios and the 31 December 2022 ECL provision using the 31 December 2021 economic scenarios.

	Economic Scenarios as at	
	2022 £000	2021 £000
ECL Provision		
Stage 1	213	119
Stage 2	60	21
Stage 3	625	598
At 31 December	898	738

Additionally, management have assessed the impact of assigning a 100% probability to each of the economic scenarios, which would have the following impact on the Profit or Loss of the Company:

	2022	2021
Extreme Downside	(£3.9m)	(£4.4m)
Downside 2	(£0.6m)	(£0.8m)
Downside 1	(£0.1m)	(£0.1m)
Baseline	£0.2m	-
Upside	£0.3m	£0.1m

Notes to the Financial Statements

5. Maturity analysis of assets and liabilities

The table below shows the maturity analysis of assets and liabilities of the Company as at 31 December 2022:

	Due within one year £000	Due after more than one year £000	Total £000
At 31 December 2022			
ASSETS			
Cash at bank and in hand	2,039	-	2,039
Lease receivables	39,066	94,785	133,851
Current tax asset	14	-	14
Other assets	224	-	224
Deferred tax asset	-	101	101
Property, plant and equipment	-	12	12
Right-of-use asset	99	321	420
	41,442	95,219	136,661
LIABILITIES			
Intercompany loan and overdraft	-	125,872	125,872
Other liabilities	1,578	-	1,578
Lease liabilities	98	348	446
	1,676	126,220	127,896

The table below shows the maturity analysis of assets and liabilities of the Company as at 31 December 2021:

	Due within one year £000	Due after more than one year £000	Total £000
At 31 December 2021			
ASSETS			
Cash at bank and in hand	568	-	568
Lease receivables	35,968	61,145	97,113
Current tax asset	14	-	14
Other assets	124	-	124
Deferred tax asset	-	64	64
Property, plant and equipment	-	15	15
Right-of-use asset	99	420	519
	36,773	61,644	98,417
LIABILITIES			
Intercompany loan and overdraft	-	88,437	88,437
Other liabilities	704	-	704
Lease liabilities	93	446	539
	797	88,883	89,680

Notes to the Financial Statements

6. Financial risk management

Strategy

The Directors and senior management of the Company have formally adopted a Company 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 the Company, variances against budget and prior year, and other performance data.

The principal non-operational risks inherent in the Company's business are credit, market and liquidity risks.

(a) Credit risk

The Company takes 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's portfolio could result in losses that are different from those that are provided for at the balance sheet date. Credit risk is managed through the Company's internal Credit Committee and ultimately the Credit Committee of Arbuthnot Latham & Co., Limited.

The Company seeks to minimise exposure to credit losses by the following, but not limited to:

- Applying a robust Credit Policy when assessing credit risk in a transaction,
- Comprehensive testing of the covenant of the counterparty,
- Lending predominantly on a secured basis against identifiable, accessible and re-sellable assets of value,
- Maintaining rigorous and timely collections and arrears management processes,
- Operating strong control and governance within the Company and with oversight from Arbuthnot Latham & Co., Limited.

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

	2022	2021
	£000	£000
Credit risk exposures relating to on-balance sheet assets are as follows:		
Cash at bank and in hand	2,039	568
Lease receivables	133,851	97,113
Other assets	1	1
At 31 December	135,891	97,682

The above tables represent the maximum credit risk exposure (net of impairment) to the Company at 31 December 2022 and 2021 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.

Notes to the Financial Statements

Impairment Policy

The Company has an Impairment Policy in place in respect of Impairment Provisioning for potential and problem debt exposures and the methodology to be adopted for Expected Credit Losses ("ECL") and specific impairment provisions for all of the lease receivables on the adoption of IFRS 9.

As at 31 December 2022, lease receivables for which forbearance measures were in place totalled 0.5% (2021: 0.0%) of total leases to customers for the Company. These are set out in the following tables:

	2022		2021	
	Number	Lease Receivables £000	Number	Lease Receivables £000
Payment holiday	1	609	1	33
Total forbearance	1	609	1	33

Concentration risk

The Company is a small ticket asset financier providing hire purchase and finance lease products to business users in the small and medium sized enterprise market. The customer base is made up of small private limited companies, partnerships and sole traders but the Company does also provide finance to High Net Worth Individuals for the acquisition of expensive motor cars.

The Company does not specialise in any industry sector and finances a broad range of assets, 96% of which are considered as 'hard' assets which are robust in that they are identifiable, up-liftable and with an established second hand market. By diversifying business written across the spectrum of industry sectors and the different types of 'hard' assets financed by the Company thus mitigates the risk from an economic downturn.

The tables below shows the concentration of the lease portfolio based on the product type.

	Lease receivables	
	2022	2021
	£000	£000
Concentration by product		
Hire purchase	127,308	88,521
Finance lease	6,543	8,592
At 31 December	133,851	97,113

(b) Market risk

Price risk

The Company is not exposed to any price risk.

Currency risk

The Company is not exposed to currency risk as all exposures are in Pound Sterling.

(c) Liquidity risk

The Company manages liquidity risk on an expected maturity basis and expects the inter-group lending to remain matched to the maturities on the asset portfolio of the loan receivables. The Company's liquidity risk is monitored by its parent whose aim is to maintain sufficient liquid resources to cover cash flow imbalances and fluctuations in funding to maintain full confidence in the solvency of the Company and to meet its financial obligations.

Notes to the Financial Statements

The tables below show the undiscounted contractual cash flows of the Company's financial liabilities and assets as at 31 December 2022:

	Carrying amount	Gross nominal inflow/ (outflow)	Not more than 3 months	More than 3 months but less than 1 year	More than 1 year but less than 5 years	More than 5 years
At 31 December 2022	£000	£000	£000	£000	£000	£000
Financial liability by type						
Non-derivative liabilities						
Intercompany loan	125,872	(125,872)	-	-	(125,872)	-
Other liabilities	1,578	(1,578)	(1,578)	-	-	-
	127,450	(127,450)	(1,578)	-	(125,872)	-

	Carrying amount	Gross nominal inflow/ (outflow)	Not more than 3 months	More than 3 months but less than 1 year	More than 1 year but less than 5 years	More than 5 years
At 31 December 2022	£000	£000	£000	£000	£000	£000
Financial asset by type						
Non-derivative assets						
Cash at bank and in hand	2,039	2,039	2,039	-	-	-
Lease receivables	133,851	152,447	15,036	33,724	103,687	-
Other assets	1	1	1	-	-	-
	135,891	154,487	17,076	33,724	103,687	-

The tables below show the undiscounted contractual cash flows of the Company's financial liabilities and assets as at 31 December 2021:

	Carrying amount	Gross nominal inflow/ (outflow)	Not more than 3 months	More than 3 months but less than 1 year	More than 1 year but less than 5 years	More than 5 years
At 31 December 2021	£000	£000	£000	£000	£000	£000
Financial liability by type						
Non-derivative liabilities						
Intercompany loan	88,437	(100,582)	-	-	(100,582)	-
Other liabilities	704	(704)	(704)	-	-	-
	89,141	(101,286)	(704)	-	(100,582)	-

	Carrying amount	Gross nominal inflow/ (outflow)	Not more than 3 months	More than 3 months but less than 1 year	More than 1 year but less than 5 years	More than 5 years
At 31 December 2021	£000	£000	£000	£000	£000	£000
Financial asset by type						
Non-derivative assets						
Cash at bank and in hand	568	568	568	-	-	-
Lease receivables	97,113	110,379	9,386	33,699	67,294	-
Other assets	1	1	1	-	-	-
	97,682	110,948	9,955	33,699	67,294	-

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 Company and its exposure to changes in interest rates and exchange rates.

Notes to the Financial Statements

7. Leasing income in respect of lease receivables

	Year ended 31 December 2022 £000	Year ended 31 December 2021 £000
Leasing income in respect of lease receivables	8,898	8,319
Total leasing income	8,898	8,319
Intercompany loan interest	(3,353)	(2,371)
Total leasing expense	(3,353)	(2,371)
Net leasing income	5,545	5,948

8. Fee and commission income

	Year ended 31 December 2022 £000	Year ended 31 December 2021 £000
Other fee income	32	166
	32	166

Fee and commission income which is integral to the EIR of a financial asset are included in the effective interest rate. (See note 7).

All other fee and commission income is recognised as the related services are performed, under IFRS 15, Revenues from Contracts with Customers. Fee and commission income is reported in the below segments.

The principles in applying IFRS 15 to fee and commission use the following 5 step model:

- identify the contract(s) with a customer;
- identify the performance obligations in the contract;
- determine the transaction price;
- allocate the transaction price to the performance obligations in the contract; and
- recognise revenue when or as the Group satisfies its performance obligations.

Brokerage fee income is recognised, under IFRS 15, at a point in time when the related services are performed, and the brokered finance deal is completed.

Notes to the Financial Statements

9. Net impairment loss on financial assets

	2022	2021
	£000	£000
Net impairment losses on leases to customers	(768)	(2,292)
	(768)	(2,292)

During the year, the Company recovered £55k (2021: £49k) of leases which had previously been written off.

10. Other income

Other income mainly consists of retention of sale proceeds in respect of finance leases and admin fees.

	Year ended 31 December	Year ended 31 December
	2022	2021
	£000	£000
Other income	82	59
	82	59

11. Operating expenses

	Year ended 31 December	Year ended 31 December
	2022	2021
	£000	£000
Operating expenses comprise:		
Staff costs, including Directors:		
Wages and salaries	2,497	2,199
Social security costs	314	269
Pension costs	146	138
Amortisation	99	84
Depreciation	3	8
Parent company management charge	527	279
Other administrative expenses	1,300	1,050
Total operating expenses from continuing operations	4,886	4,027

	Year ended 31 December	Year ended 31 December
	2022	2021
	£000	£000
Remuneration of the auditor and its associates, excluding VAT, was as follows:		
Fees payable to the Company's auditor for the audit of the Company's annual accounts	93	68
Total fees payable	93	68

Notes to the Financial Statements

12. Average number of employees

	2022	2021
Directors	2	2
Employees	35	32
	37	34

13. Income tax expense

	Year ended 31 December 2022 £000	Year ended 31 December 2021 £000
United Kingdom corporation tax at 19.00% (2021: 19%)		
Current taxation		
Corporation tax charge - current year	6	-
Corporation tax charge - adjustments in respect of prior years	-	(112)
	6	(112)
Deferred taxation		
Origination and reversal of temporary differences	(26)	(8)
Adjustments in respect of prior years	(3)	67
	(29)	59
Income tax credit	(23)	(53)
Tax reconciliation		
Profit/(loss) before tax	6	(62)
Tax at 19.00% (2021: 19%)	1	(12)
Permanent differences	3	3
Tax rate change	(24)	-
Adjustments in respect of prior years	(3)	(44)
Corporation tax credit for the year	(23)	(53)

In the Budget speech on 3 March 2021, the Chancellor of the Exchequer, announced the increase of corporation tax from 19% to 25% from 1 April 2023, which was enacted on 10 June 2021. This increased the deferred tax asset on the balance sheet (with expected utilisation after 1 April 2023) and similarly further increased the tax credit recorded in the profit and loss account in the year.

14. Cash at bank and in hand

	2022 £000	2021 £000
Cash at bank and in hand	2,039	568

Notes to the Financial Statements

15. Lease receivables

	2022			
	Stage 1	Stage 2	Stage 3	Total
	£000	£000	£000	£000
Company loans and advances to customers				
At 1 January 2022	82,952	11,375	5,643	99,970
Originations and (repayments)*	42,529	(2,721)	(2,303)	37,505
Write-offs	-	-	(2,726)	(2,726)
Transfer to Stage 1	5,886	(5,886)	-	-
Transfer to Stage 2	(868)	868	-	-
Transfer to Stage 3	(1,668)	(1,181)	2,849	-
At 31 December 2022	128,831	2,455	3,463	134,749
Less allowances for ECLs (see note 16)	(213)	(60)	(625)	(898)
Net loans and advances at 31 December 2022	128,618	2,395	2,838	133,851
	2021			
	Stage 1	Stage 2	Stage 3	Total
	£000	£000	£000	£000
Company loans and advances to customers				
At 1 January 2021	74,790	16,748	1,336	92,874
Originations and (repayments)*	9,122	(1,399)	(244)	7,479
Write-offs	-	-	(383)	(383)
Transfer to Stage 1	2,510	(2,510)	-	-
Transfer to Stage 2	(365)	365	-	-
Transfer to Stage 3	(3,105)	(1,829)	4,934	-
At 31 December 2021	82,952	11,375	5,643	99,970
Less allowances for ECLs (see note 16)	(107)	(36)	(2,714)	(2,857)
Net loans and advances at 31 December 2021	82,845	11,339	2,929	97,113

*Originations include deferred broker fees of £2.0m (2021: £1.5m)

For a maturity profile of lease receivables, refer to note 5.

Leases to customers comprise lease receivables as follows:

	2022	2021
	£000	£000
Gross investment in finance lease receivables:		
- No later than 1 year	48,760	43,085
- Later than 1 year and no later than 5 years	103,687	67,294
	152,447	110,379
Unearned future finance income on finance leases	(18,596)	(13,266)
Net investment in finance leases	133,851	97,113
The net investment in finance leases may be analysed as follows:		
- No later than 1 year	39,066	35,968
- Later than 1 year and no later than 5 years	94,785	61,145
	133,851	97,113

Notes to the Financial Statements

Analysis of past due loans and advances to customers by division:

	2022
Gross lease balance of agreements in arrears	£000
Up to 30 days	2,240
Stage 1	1,858
Stage 2	215
Stage 3	167
30 - 60 days	43
Stage 2	43
60 - 90 days	116
Stage 2	52
Stage 3	64
Over 90 days	3,214
Stage 3	3,214
At 31 December	5,613

	2021
Gross lease balance of agreements in arrears	£000
Up to 30 days	1,813
Stage 1	1,647
Stage 3	166
30 - 60 days	2,736
Stage 1	40
Stage 3	2,696
60 - 90 days	98
Stage 3	98
Over 90 days	2,583
Stage 2	2
Stage 3	2,581
At 31 December	7,230

(a) 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 (2021: £nil).

Notes to the Financial Statements

16. Allowances for impairment of finance leases

	Stage 1	Stage 2	Stage 3	Total
	£000	£000	£000	£000
At 1 January 2022	107	36	2,714	2,857
Transfer to Stage 2	(1)	1	-	-
Transfer to Stage 3	(4)	(9)	13	-
Current year charge	17	(7)	597	607
Change in assumptions	95	39	26	160
Repayments and write-offs	-	-	(2,726)	(2,726)
At 31 December 2022	214	60	624	898

	Stage 1	Stage 2	Stage 3	Total
	£000	£000	£000	£000
At 1 January 2021	249	353	345	947
Transfer to Stage 2	(3)	3	-	-
Transfer to Stage 3	(13)	(30)	43	-
Current year charge	102	15	3,116	3,233
Adjustment due to variation in expected future cash flows	(141)	(281)	(48)	(470)
Change in assumptions	(43)	(14)	(66)	(123)
Repayments and write-offs	(44)	(10)	(676)	(730)
At 31 December 2021	107	36	2,714	2,857

17. Other assets

	2022	2021
	£000	£000
Trade receivables	1	1
Prepayments and accrued income	223	123
	224	124

Notes to the Financial Statements

18. Deferred taxation

The deferred tax asset comprises:

	2022	2021
	£000	£000
Accelerated capital allowances and other short-term timing differences	101	64
Deferred tax asset	101	64
At 1 January	64	130
Profit and loss account - accelerated capital allowances and other short-term timing differences	37	(66)
Deferred tax asset at 31 December	101	64

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.

19. Property, plant and equipment

	Leasehold improvements	Fixtures & fittings	Total
	£000	£000	£000
Cost			
At 1 January 2021	21	23	44
At 31 December 2021	21	23	44
At 31 December 2022	21	23	44
Depreciation			
At 1 January 2021	(5)	(16)	(21)
Depreciation charge	(2)	(6)	(8)
At 31 December 2021	(7)	(22)	(29)
Depreciation charge	(2)	(1)	(3)
At 31 December 2022	(9)	(23)	(32)
Net book amount			
At 31 December 2021	14	1	15
At 31 December 2022	12	-	12

Notes to the Financial Statements

20. Right-of-use assets

	Properties	Motor Vehicles	Total
	£000	£000	£000
At 1 January 2021	526	-	526
Additions	-	77	77
Amortisation	(73)	(11)	(84)
At 31 December 2021	453	66	519
Amortisation	(73)	(26)	(99)
At 31 December 2022	380	40	420

21. Intercompany loan

	2022	2021
	£000	£000
Intercompany loan	125,872	88,437

The intercompany loan is provided by the parent company, Arbuthnot Latham & Co., Limited. It is part of a revolving credit facility of £250m with a review date of 31 January 2025 and an interest rate of 3.00% (2021: 3.00%).

22. Other liabilities

	2022	2021
	£000	£000
Trade payables	447	168
Amount due to Group companies	7	325
Accruals and deferred income	1,124	211
	1,578	704

23. Lease liabilities

	Properties	Motor Vehicles	Total
	£000	£000	£000
At 1 January 2021	542	-	542
Additions	-	77	77
Interest expense	27	1	28
Lease payments	(93)	(15)	(108)
At 31 December 2021	476	63	539
Interest expense	25	1	26
Lease payments	(94)	(25)	(119)
At 31 December 2022	407	39	446

Notes to the Financial Statements

Maturity analysis	2022	2021
	£000	£000
Less than one year	119	119
One to five years	385	412
More than five years	-	92
Total undiscounted lease liabilities at 31 December	504	623
Lease liabilities included in the statement of financial position at 31 December	446	539
Current	98	93
Non-current	348	446

24. Contingent liabilities and commitments

Contingent liabilities

The Company 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 Company's business activities or other sanctions. The Company 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 2022, the Company had capital commitments of £nil (2021: £nil) in respect of equipment purchases.

Credit commitments

The contractual amounts of the Company's off-balance sheet financial instruments that commit it to extend credit to customers are £nil (2021: £nil).

25. Share capital

	2022	2021
	£000	£000
220,000 Ordinary A shares of £1 each	220	220
10,000 Ordinary B shares of 1p each	-	-
10,000 Ordinary C shares of 1p each	-	-
10,000 Ordinary D shares of 1p each	-	-
Total ordinary capital	220	220
Share premium account	30	30

The Ordinary B, C and D shares each have a value of £100 (2021: £100 each).

The number of shares in the table above are for 31 December 2022 and 31 December 2021.

26. Retained earnings

	2022	2021
	£000	£000
Retained earnings	8,515	8,487
Total reserves at 31 December	8,515	8,487

Notes to the Financial Statements

27. Related party transactions

Related parties of the Company include Arbuthnot Banking Group PLC and its 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.

A number of intercompany transactions are entered into with Arbuthnot Latham & Co., Limited. The related party transactions, outstanding balances at year end, and related expense and income for the year are as follows:

	2022	2021
	£000	£000
Amounts recharged		
Interest on intercompany loan from the parent company	3,323	2,343
Costs recharged from the parent company	1,403	350
	2022	2021
	£000	£000
Intergroup balances		
Balances due to the parent company	7	325
Balances due on intercompany loan	125,872	88,437

The intercompany loan and overdraft are repayable after more than one year.

Fees were paid to the parent, Arbuthnot Latham & Co., Limited for the services of AA Salmon, JR Cobb, SJ Fletcher and RMJ Layne.

Emoluments for Directors / Key Management Personnel for the year were as follows:

	2022	2021
	£000	£000
Salary payments	477	455
Social security costs	66	60
Pension contributions	40	42
	583	557

Pension contributions are being accrued under money purchase schemes for 1 director (2021: 2 directors) in respect of qualifying service. JR Cobb, SJ Fletcher, RMJ Layne and AA Salmon did not receive any remuneration for their services to this company but their total emoluments are included in the financial statements of Arbuthnot Banking Group PLC.

Remuneration paid to Directors and Key Management includes amounts paid to the highest paid person in respect of:

	2022	2021
	£000	£000
Salary payments	245	231
Pension contributions	21	21
	266	252

Notes to the Financial Statements

28. Ultimate controlling party

The Company is a subsidiary of Arbuthnot Latham & Co., Limited (a company registered in England and Wales), which in turn is a subsidiary of Arbuthnot Banking Group PLC (also a company registered in England and Wales), which is the ultimate parent company. Sir Henry Angest, the Group Chairman and CEO, has a beneficial interest in 56.3% of the issued Ordinary share capital of Arbuthnot Banking Group PLC and is regarded by the Directors as the controlling entity. A copy of the consolidated financial statements of Arbuthnot Banking Group PLC may be obtained from 7 Wilson Street, London, EC2M 2SN.

29. Non-adjusting events after the balance sheet date

There were no events after the balance sheet date.