



**ARBUTHNOT**  
COMMERCIAL

Asset Based  
Lending

**Arbuthnot Commercial Asset Based Lending Limited**  
**Annual Report for the year ended 31 December 2019**

Registered Number 10915339

TUESDAY



\*A97SUZIX\*

A17

23/06/2020

#372

COMPANIES HOUSE

---

# Contents

---

|    |  |
|----|--|
| 1  | Strategic Report                         |
| 4  | Directors' Report                        |
| 5  | Statement of Directors' Responsibilities |
| 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**

Andrew A Salmon

Stephen J Fletcher

James R Cobb

Timothy J Hawkins

Andrew P Rutherford

James E R Shaw

Steven G Cantlin

## **Secretary**

Nicholas Jennings

## **Registered Office**

Arbuthnot House

7 Wilson Street

London

EC2M 2SN

## **Registered Number**

10915339

## **Auditor**

Mazars LLP

St Katharine's Way

London

E1W 1DD

# Strategic Report and Business Review

| Key Performance Indicators                  | 2019    | 2018    |
|---|---------|---------|
|   | £000    | £000    |
| Total Facilities                            | 130,055 | 43,250  |
| New Facilities                              | 86,805  | 43,250  |
| Drawn Funds                                 | 75,871  | 25,128  |
| Interest income                             | 2,700   | 482     |
| Fee Income                                  | 1,380   | 266     |
| Profit/(Loss) before Tax                    | 24      | (1,333) |
| Expected credit loss rate on customer loans | 0.05%   | 0.20%   |

## Annual Review

Arbuthnot Commercial Asset Based Lending Limited (ACABL) is a specialist asset based lender, focused on delivering facilities to SMEs and lower mid-market corporates. The business provides a full suite of asset based lending facilities including, invoice discounting, stock finance, property, plant and machinery, and cash flow loans.

The company was incorporated on 14<sup>th</sup> August 2017 and commenced trading on 31 May 2018. The year ending 31 December 2019 represented the Company's first full year trading result. During the year the business generated £4.1m of revenue from its client facilities which resulted in a profit before tax for the year of £24k. The loan book grew steadily to finish the year with drawn facilities of £75.9m across 35 clients. New facilities totalling £87m were issued during the year resulting in £130.1m of facilities in issue at the year end.

Following the introduction of IFRS9 in the previous year the company has benchmarked its key assumptions against market participants and industry data. The Company has revised its expected credit loss model assumptions, specifically its probability of default and loss given default assumptions and recognised a net credit to the income statement on stage 1 assets totalling £10k.

The Company continued to invest in staff across front office, client support and operations with a headcount of 16 at the year end.

The business reported month on month profitability in the second half of the year and is expected to make good all previous losses towards the end of 2020.

During the year the business made payments of £450m and processed £485m of invoice volumes. These volumes grew to the extent that the levels processed in the final quarter of the year were double of that in the first quarter.

The company is a wholly owned subsidiary of Arbuthnot Latham and Co., Limited, a Private Bank which is a subsidiary of the AIM-listed Arbuthnot Banking Group. Arbuthnot Latham provides ACABL its core funding along with management support.

---

# Strategic Report and Business Review

---

## **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 Company's business are macroeconomic, credit, funding, operational and cyber.

## **Macroeconomic and competitive environment**

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

### **Coronavirus**

The economic environment is currently unstable and difficult to predict in the UK. This is also the case on the International landscape as many of the developed nations have taken unprecedented steps to completely shut down the normal functioning of their economies. The impact from the coronavirus has already had an adverse effect on the stock markets around the world.

### **Brexit**

Despite the decisive result in the General Election, which gave a clear mandate to complete the Article 50 withdrawal provision, there still remains the uncertainty over the transitional arrangements and negotiation of the final trade deal relating to Brexit, with the UK due to formally exit from the EU rules on 31 December 2020. The company only lends to UK SMEs. A Brexit shock is most likely to affect the company in an economic shock manifesting in reduced cash flow from the client's receivables.

The significant business risks that may arise from an economic shock are:

- a) Increased credit risk as borrowers are unable to continue to meet their interest obligations as they fall due.
- b) A prolonged economic downturn could result in a higher volume of client debtor defaults. This could reduce the amount of eligible invoices the Company would be willing to fund against reducing client income.
- c) Increased client debtor defaults could increase the risk of default by the borrower and its ability to meet its liabilities as they fall due.
- d) The uncertainty in the economy could lead to reduced activity for the Company's borrowers resulting in lower revenues generated from client service fees.
- e) A prolonged reduction in business activity will affect our ability to generate new business opportunities and achieve scale.

The company's exposures and supporting collateral are monitored and controlled in a manner appropriate to the profile of products and creditworthiness of the borrower. The scope and frequency of monitoring requirements reflect the size and nature of individual exposures and the risk profile of the Client. Higher risk profiles and clients known to be experiencing financial stress are subject to more detailed and frequent monitoring.

The Directors consider this monitoring along with high cash turnover of facilities and ability to reduce limits, a key mitigant should the business face adverse trading conditions in an adverse economic scenario.

## **Credit risk**

Credit risk is the risk that a counterparty will be unable to pay amounts in full when due. This Company's loan book as at 31 December 2019 was £75.9m. The lending portfolio is secured against accounts receivables, stock, property, cash flows and other assets. Credit risk is managed through the ACABL and AL Credit Committees.

## **Funding risk**

The Company is largely funded by its parent Arbuthnot Latham and Co., Ltd. Access to a continued supply of loan facilities is critical to ACABL's ability to continue to trade. The parent has pledged funding and liquidity to ACABL for a minimum duration of the company's issued facilities.

---

# Strategic Report and Business Review

---

## **Operational risk**

Operational risk is the risk that the Company may be exposed to financial losses from conducting its business. The Company is exposed to operational risks from its Information Technology and Operations platforms. There are additional internal controls in these processes that are designed to protect the Company from these risks.

## **Cyber risk**

Cyber risk is an increasing risk that the Company is subject to within its operational processes. This is the risk that the Company is subject to some form of disruption arising from an interruption to its IT and data infrastructure. The Company regularly test the infrastructure to ensure that it remains robust to a range of threats, and have continuity of business plans in place including a disaster recovery provision.



**T J Hawkins**  
Director  
3rd April 2020

---

# Directors' Report

---

The Directors present their report and the audited financial statements of the Company for the year ended 31 December 2019.

## **Principal Activities**

Arbuthnot Commercial Asset Based Lending Limited provides unregulated asset based lending to small and medium enterprises.

## **Directors**

The Directors who held office during the period and at the date of this report are as follows:

Andrew A Salmon  
Stephen J Fletcher  
JR Cobb  
Timothy J Hawkins  
Andrew P Rutherford  
James E R Shaw  
Steven G Cantlin (appointed 28 February 2019)

## **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 2 and the risk management note on page 21.

## **Proposed Dividend**

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

## **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 foreseeable future.

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 financial statements are therefore prepared on the going concern basis.

## **Political Donations**

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

## **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**

During the year KPMG LLP resigned as auditors to the Company and Mazars LLP were appointed by the Directors. A resolution for the re-appointment of Mazars LLP as auditor will be proposed to the shareholders in accordance with section 487 of the Companies Act 2006.

## **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.

---

# Directors' Report

---

## 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 law 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 as adopted by the European Union (IFRSs as adopted by the EU) and applicable law.

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 of the company 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 as adopted by the EU;
- 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 the 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 and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They 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



**T J Hawkins**  
Director  
3rd April 2020



---

# Independent Auditor's Report

to the members of Arbutnot Commercial Asset Based Lending Ltd

---

## Opinion

We have audited the financial statements of Arbutnot Commercial Asset Based Lending Limited (the 'Company') for the year ended 31 December 2019 which comprises of a statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity, 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 International Financial Reporting Standards (IFRSs) as adopted by the European Union.

In our opinion, the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; 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.

## Emphasis of matter - The impact of uncertainties due to the COVID-19 coronavirus

Without modifying our opinion, we draw your attention to the Directors' view on the impacts of the COVID-19 coronavirus disclosed on page 2 and the consideration in the going concern basis of preparation on page 4 and non-adjusting post balance sheet events on page 33.

The full impact following the recent emergence of the global coronavirus is still unknown. It is therefore not currently possible to evaluate all the potential implications to the Company's trade, customers, suppliers and the wider economy.

We considered the impacts of COVID-19 coronavirus on the Company as part of our audit procedures, including assessment of the Company's future prospects and performance.

However, no audit should be expected to predict the unknowable factors or all possible implications for the Company and this is particularly the case in relation to both COVID-19 coronavirus.

## Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

## Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover

---

# Independent Auditor's Report

## to the members of Arbutnot Commercial Asset Based Lending Ltd

---

the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, 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 audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. 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.

### **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.

---

# Independent Auditor's Report

to the members of Arbuthnot Commercial Asset Based Lending Ltd

---

## **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 these financial statements.

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](http://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.

Greg Simpson (Senior Statutory Auditor)  
for and on behalf of Mazars LLP, Chartered Accountants and Statutory Auditor  
Tower Bridge House,  
St Katharine's Way,  
London,  
E1W 1DD

03 April 2020

# Statement of Comprehensive Income

|                                      |      | Year ended<br>31 December | 17 Month<br>period ended<br>31 December |
|--------------------------------------|------|---------------------------|---|
|                                      | Note | 2019<br>£000              | 2018<br>£000                            |
| Interest income                      | 7    | 2,700                     | 482                                     |
| Interest expense                     | 7    | (1,358)                   | (263)                                   |
| <b>Net interest income</b>           | 7    | <b>1,342</b>              | <b>219</b>                              |
| Fee and commission income            | 8    | 1,380                     | 266                                     |
| <b>Net fee and commission income</b> |      | <b>1,380</b>              | <b>266</b>                              |
| <b>Operating income</b>              |      | <b>2,722</b>              | <b>485</b>                              |
| Impairment credit/(loss)             | 9    | 10                        | (50)                                    |
| Operating expenses                   | 10   | (2,708)                   | (1,768)                                 |
| <b>Profit / (loss) before tax</b>    |      | <b>24</b>                 | <b>(1,333)</b>                          |
| Income tax (expense) / credit        | 12   | (9)                       | 253                                     |
| <b>Profit / (loss) for the year</b>  |      | <b>15</b>                 | <b>(1,080)</b>                          |

The Company has no other comprehensive income and hence the profit for the year represents the total comprehensive income for the year.

*The notes on pages 13 to 33 are an integral part of these consolidated financial statements*

# Statement of Financial Position

|  |      | At 31 December |               |
|--|------|----------------|---------------|
|  |      | 2019           | 2018          |
|  | Note | £000           | £000          |
| <b>ASSETS</b>                                      |      |                |               |
| Customer loans and receivables                     | 13   | 75,871         | 25,128        |
| Other assets                                       | 15   | 25             | 1,992         |
| Deferred tax asset                                 | 16   | -              | 122           |
| Intangible assets                                  | 17   | 30             | 53            |
| <b>Total assets</b>                                |      | <b>75,926</b>  | <b>27,295</b> |
| <b>EQUITY AND LIABILITIES</b>                      |      |                |               |
| <b>Equity attributable to owners of the parent</b> |      |                |               |
| Share capital                                      | 21   | 500            | 500           |
| Retained earnings                                  | 22   | (1,065)        | (1,080)       |
| Other reserves                                     | 22   | 3,000          | 3,000         |
| <b>Total equity</b>                                |      | <b>2,435</b>   | <b>2,420</b>  |
| <b>LIABILITIES</b>                                 |      |                |               |
| Amounts due to parent                              | 18   | 71,905         | 24,411        |
| Current tax liability                              |      | 9              | -             |
| Other liabilities                                  | 19   | 1,577          | 464           |
| <b>Total liabilities</b>                           |      | <b>73,491</b>  | <b>24,875</b> |
| <b>Total equity and liabilities</b>                |      | <b>75,926</b>  | <b>27,295</b> |

The financial statements on pages 9 to 33 were approved and authorised for issue by the Board of directors on 3rd April 2020 and were signed on their behalf by:



*S G Cantlin, Director*

Registered Number: 10915339

*The notes on pages 13 to 33 are an integral part of these consolidated financial statements*

# Statement of Changes in Equity

|  | Share capital<br>£000 | Share premium<br>£000                | Retained earnings<br>£000 | Total<br>£000 |
|--|-----------------------|--------------------------------------|---------------------------|---------------|
| <b>Total comprehensive income for the period</b>             |                       |                                      |                           |               |
| Profit for the 17 month period to 31 December 2018           | -                     | -                                    | (1,080)                   | (1,080)       |
| <b>Other comprehensive income, net of tax</b>                |                       |                                      |                           |               |
| <b>Total comprehensive income for the period</b>             | -                     | -                                    | (1,080)                   | (1,080)       |
| <b>Transactions with owners, recorded directly in equity</b> |                       |                                      |                           |               |
| Share capital issued   | 500                   | -                                    | -                         | 500           |
| Contributions by owners                                      | -                     | 3,000                                | -                         | 3,000         |
| <b>Contributions by and distributions to owners</b>          |                       |                                      |                           |               |
| <b>Total contributions by and distributions to owners</b>    | 500                   | 3,000                                | -                         | 3,500         |
| <b>Balance at 31 December 2018</b>                           | 500                   | 3,000                                | (1,080)                   | 2,420         |
|  | Share capital<br>£000 | Capital contribution reserve<br>£000 | Retained earnings<br>£000 | Total<br>£000 |
| <b>Balance at 1 January 2018</b>                             | 500                   | 3,000                                | (1,080)                   | 2,420         |
| <b>Total comprehensive income for the period</b>             |                       |                                      |                           |               |
| Profit for Current Year                                      | -                     | -                                    | 15                        | 15            |
| <b>Total comprehensive income for the period</b>             | -                     | -                                    | 15                        | 15            |
| <b>Balance at 31 December 2019</b>                           | 500                   | 3,000                                | (1,065)                   | 2,435         |

The notes on pages 13 to 33 are an integral part of these consolidated financial statements

# Statement of Cash Flows

|   |      | Year ended<br>31 December | 17 Month<br>Period ended<br>31 December |
|---|------|---------------------------|---|
|   |      | 2019                      | 2018                                    |
|   | Note | £000                      | £000                                    |
| <b>Cash flows from operating activities</b>   |      |                           |   |
| Interest received   |      | 3,350                     | 644                                     |
| Interest paid   |      | (1,358)                   | (263)                                   |
| Fees and commissions received   |      | 1,380                     | 266                                     |
| Cash payments to employees and suppliers  |      | (3,213)                   | (1,784)                                 |
| Cash flows from operating profits/(losses) before changes in operating assets and liabilities |      | 159                       | (1,137)                                 |
| Changes in operating assets and liabilities:  |      |                           |   |
| - net increase in loans and advances to customers   |      | (50,733)                  | (25,178)                                |
| - net decrease/(increase) in other assets   |      | 1,967                     | (1,992)                                 |
| - net increase in other liabilities   |      | 1,113                     | 464                                     |
| <b>Net cash outflow from operating activities</b>   |      | <b>(47,494)</b>           | <b>(27,843)</b>                         |
| <b>Cash flows from investing activities</b>   |      |                           |   |
| Purchase of computer software   | 17   | -                         | (68)                                    |
| <b>Net cash outflow from investing activities</b>   |      | <b>-</b>                  | <b>(68)</b>                             |
| <b>Cash flows from financing activities</b>   |      |                           |   |
| Increase in borrowings  |      | 47,494                    | 24,411                                  |
| Proceeds from issue of share capital  |      | -                         | 500                                     |
| Capital contribution received   |      | -                         | 3,000                                   |
| <b>Net cash inflow from financing activities</b>  |      | <b>47,494</b>             | <b>27,911</b>                           |
| <b>Net movement in cash and cash equivalents</b>  |      | <b>-</b>                  | <b>-</b>                                |
| Cash and cash equivalents at 1 January 2018 and 14 August 2017                                |      | -                         | -                                       |
| <b>Cash and cash equivalents at 31 December</b>   | 23   | <b>-</b>                  | <b>-</b>                                |

The notes on pages 13 to 33 are an integral part of these consolidated financial statements

---

# Notes to the Financial Statements

---

## 1. Reporting entity

Arbuthnot Commercial Asset Based Lending Limited is a company domiciled in the United Kingdom. The registered address of Arbuthnot Commercial Asset Based Lending Limited is 7 Wilson Street, London, EC2M 2SN.

## 2. Basis of preparation

### *(a) Statement of compliance*

The Company's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs as adopted and endorsed by the EU) and the Companies Act 2006 applicable to companies reporting under IFRS.

### *(b) Basis of measurement*

The Company 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 foreseeable future. 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 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, except for the following:

#### **IFRS 16 'Leases'**

The Company has adopted IFRS 16 under the modified retrospective transition approach from 1 January 2019 and has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. The total impact of IFRS 16 over the life of a lease will be neutral on the income statement, however its implementation will result in a higher charge in the earlier years following implementation with a lower charge in later years.

For the year ended 31 December 2019, the Company had no leases requiring recognition under IFRS 16.

## 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, unless otherwise stated.

### **3.1. Interest income and expense**

Interest income and expense are recognised in the Statement of Comprehensive Income for all instruments measured at amortised cost using the effective interest rate ("EIR") method.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

- the gross carrying amount of the financial asset; or
- the amortised cost of the financial liability.



# Notes to the Financial Statements

The 'gross carrying amount of a financial asset' is the amortised cost of a financial asset before adjusting for any expected credit loss allowance.

When calculating the effective interest rate, the Company takes into account all contractual terms of the financial instrument but does not consider expected credit losses.

The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts. For interest discount facilities where accounts receivables are taken as collateral, a discount margin is charged, calculated on the number of days elapsed between any funds advanced to the invoice collection date.

The carrying amount of the financial asset or financial liability is adjusted if the Company revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest income or expense.

For financial assets that have become credit impaired following initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit impaired, then the calculation of interest income reverts to the gross basis.

## 3.2. Fee and commission income

Fee and commission income which is integral to the EIR on a financial asset are included in the effective interest rate. (See note 3.1)

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

| Types of fee         | Description  |
|----------------------|--|
| Invoice service fees | Servicing fees relate to ongoing sales ledgers and invoice management.                                     |
| Monitoring fees      | Monitoring and ongoing servicing of other collateral excluding invoice/receivable facilities ie. Inventory |
| Other Fees           | Other account management and transaction charges   |

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 Company satisfies its performance obligations.

## 3.3. 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.

The company does not have any financial assets or liabilities classified as FVTPL or OCI and only has financial assets and liabilities measured at amortised cost.

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.

---

# Notes to the Financial Statements

---

## *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 on the principal amount outstanding. Financial assets measured at amortised cost consist of customer loans and receivables.

## *Customer Loans and receivables*

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

## **Basis of measurement for financial assets and liabilities**

### *Amortised cost measurement*

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition, minus principal payments, plus or minus the cumulative amortisation using the effective interest 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.

---

# Notes to the Financial Statements

---

## *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.

## **3.4. Impairment of financial assets**

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 loan'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 loan 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 loan 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.

## *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.

---

# Notes to the Financial Statements

---

## *Write-off*

Loans and 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.

## *(b) Renegotiated loans*

Loans 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 loans.

## *(c) 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.

### **3.5. 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.

### **3.6 Intangible assets**

#### *Computer software*

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised on the basis of the expected useful lives (three years). Costs associated with maintaining computer software programs are recognised as an expense as incurred. Costs associated with developing computer software which are assets in the course of construction, which management has assessed to not be available for use, are not amortised.

### **3.7. Leases**

Payments associated with short-term leases and low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

### **3.8. Cash and cash equivalents**

For the purposes of the Statement of Cash Flows, cash and cash equivalents comprises cash on hand and demand deposits, and cash equivalents are deemed highly liquid investments that are convertible into cash with an insignificant risk of changes in value with a maturity of three months or less at the date of acquisition.

### **3.9. Employee benefits**

#### *(a) 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. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

There are no post-retirement benefits other than pensions.

### **3.10. Taxation**

Current income tax which is payable on taxable profits is recognised as an expense in the period in which the profits arise. Income tax recoverable on tax allowable losses is recognised as an asset only to the extent that it is regarded as recoverable by offset against current or future taxable profits.

Deferred tax is provided in full on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. 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.

---

# Notes to the Financial Statements

---

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.

## **3.11. Provisions and contingent liabilities**

Provisions are recognised when the Company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic resources will be required from the Company and amounts can be reliably measured.

Onerous contract provisions are recognised for losses on contracts where the forecast costs of fulfilling the contract throughout the contract period exceed the forecast income receivable. In assessing the amount of the loss to provide on any contract, account is taken of the Company's forecast results which the contract is servicing. The provision is calculated based on discounted cash flows to the end of the contract.

Contingent liabilities are disclosed when the Company has a present obligation as a result of a past event, but the probability that it will be required to settle that obligation is more than remote, but not probable.

## **3.12. New standards and interpretations not yet adopted**

There are no new standards, interpretations and amendments to existing standards published applicable to the Company.

# 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

Expected credit losses ("ECL") on financial assets

The Company reviews its loan portfolios to assess impairment at least on a quarterly basis. The basis for evaluating impairment losses is described in accounting policy 3.4. The measurement of ECL required IFRS 9, judgements and estimation uncertainties relate to assessment of whether credit risk on the financial asset has increased significantly since initial recognition, incorporation of forward-looking information ("FLI") in the measurement of ECLs and key assumptions used in estimating recoverable cash flows. These estimates are driven by a number of factors that are subject to change which may result in different levels of ECL allowances.

12 month ECLs on loans and advances (loans within Stage 1) are calculated using a statistical model. The key assumptions are the probability of default and the economic scenarios. Life time ECLs on loans and advances (loans within Stage 2 and 3) are calculated based on an individual valuation of the underlying asset and other expected cash flows.

For individually significant financial assets in Stage 2 and 3, ECL is calculated on an individual basis and all relevant factors that have a bearing on the expected future cash flows are taken into account. These factors can be subjective and can include the individual circumstances of the borrower, the realisable value of collateral, the Company's position relative to other claimants, and the likely cost to sell and duration of the time to collect. The level of ECL is the difference between the value of the recoverable amount (which is equal to the expected future cash flows discounted at the loan's original effective interest rate), and its carrying amount.

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 £21k, and if collateral values were increased by 10% the provision charge would be reduced by £15k.

#### *Probability of Default*

If the probability of default increased by 10% the provision charge would increase by £4k. A reduction in the probability of default by 10% would result in a positive impact to the profit of loss of £4k.

#### *Time to Collect*

If time to collect was increased by 3 months the provision charge would increase by £3k, and if time to collect was reduced by 3 months there would be a £3k favourable impact on the profit or loss.

#### *Economic Scenarios*

Management also assess expected credit loss over five economic scenarios: No Change, Severe, Moderate, Growth and Decline. Each scenario is probability weighted to assess expected losses. If the likelihood of a severe scenario doubled, an additional provision of £6k would be required. If the likelihood of a severe scenario was halved there would be a positive impact to profit or loss of £3k. If a 100% probability was assigned to the each of the scenarios the effect on the impairment charge would be:

| Scenario         | Impact on Profit or Loss | £000 |
|------------------|--------------------------|------|
| Severe decline   | Increased charge         | 860  |
| Moderate decline | Increased charge         | 204  |
| Decline          | Increased charge         | 17   |
| No change        | Reduced charge           | 25   |
| Growth           | Reduced charge           | 28   |

# 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 2019:

|                                 | Due within<br>one year<br>£000 | Due after<br>more than<br>one year<br>£000 | Total<br>£000 |
|---------------------------------|--------------------------------|--|---------------|
| <b>At 31 December 2019</b>      |                                |  |               |
| <b>ASSETS</b>                   |                                |  |               |
| Loans and advances to customers | 53,120                         | 22,751                                     | 75,871        |
| Other assets                    | 25                             | -  | 25            |
| Intangible assets               | -                              | 30   | 30            |
|                                 | <b>53,145</b>                  | <b>22,781</b>                              | <b>75,926</b> |
| <b>LIABILITIES</b>              |                                |  |               |
| Amounts due to parent           | -                              | 71,905                                     | 71,905        |
| Current tax liability           | 9                              | -  | 9             |
| Other liabilities               | 1,577                          | -  | 1,577         |
|                                 | <b>1,586</b>                   | <b>71,905</b>                              | <b>73,491</b> |

The table below shows the maturity analysis of assets and liabilities of the Company as at 31 December 2018:

|                                 | Due within<br>one year<br>£000 | Due after<br>more than<br>one year<br>£000 | Total<br>£000 |
|---------------------------------|--------------------------------|--|---------------|
| <b>At 31 December 2018</b>      |                                |  |               |
| <b>ASSETS</b>                   |                                |  |               |
| Loans and advances to customers | 13,776                         | 11,352                                     | 25,128        |
| Other assets                    | 1,992                          | -  | 1,992         |
| Deferred tax asset              | -                              | 122  | 122           |
| Intangible assets               | -                              | 53   | 53            |
|                                 | <b>15,768</b>                  | <b>11,527</b>                              | <b>27,295</b> |
| <b>LIABILITIES</b>              |                                |  |               |
| Amounts due to parent           | -                              | 24,411                                     | 24,411        |
| Other liabilities               | 464                            | -  | 464           |
|                                 | <b>464</b>                     | <b>24,411</b>                              | <b>24,875</b> |

---

# Notes to the Financial Statements

---

## 6. Financial risk management

### *Strategy*

The Directors 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 management on an ongoing basis by means of procedures such as physical controls, credit and other authorisation limits and segregation of duties. The Board also receives regular reports on any risk matters that need to be brought to its attention. Significant risks identified in connection with the development of new activities are subject to consideration by the Board. There are budgeting procedures in place and reports are presented regularly to the Board detailing the results of each principal business unit, variances against budget and prior periods, 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 take on exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Impairment provisions are provided for losses that have been incurred at the balance sheet date. Significant changes in the economy, or in the health of a particular industry segment that represents a concentration in the Company's portfolio, could result in losses that are different from those provided for at the balance sheet date. Credit risk is managed through the Credit Committee.

The Company structure the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to products, and one borrower or groups of borrowers. Such risks are monitored on a revolving basis and subject to an annual or more frequent review. The limits are approved periodically by the Board of Directors and actual exposures against limits are monitored daily.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees.

The Company employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of collateral to secure advances, which is common practice. The principal collateral types for customer loans and receivables include, but are not limited to charges over business assets such as premises, inventory and accounts receivable.

Upon initial recognition of loans and advances, the fair value of collateral is based on valuation techniques commonly used for the corresponding assets. In order to minimise any potential credit loss the Company will seek additional collateral from the counterparty as soon as impairment indicators are noticed for the relevant individual loans and advances. Repossessed collateral, not readily convertible into cash, is made available for sale in an orderly fashion, with the proceeds used to reduce or repay the outstanding indebtedness, or held as inventory where the Company intends to sell in the future. Where excess funds are available after the debt has been repaid, they are available either for other secured lenders with lower priority or are returned to the customer.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loan and receivable finance facilities. With respect to credit risk on commitments to extend credit, the Company is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards.



# Notes to the Financial Statements

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

|  | 2019<br>£000 | 2018<br>£000 |
|--|--------------|--------------|
| Credit risk exposures relating to on-balance sheet assets are as follows:  |              |              |
| Loans and advances to customers - Stage 1                                  | 75,871       | 25,128       |
| Other assets   | 12           | 1,976        |
| Credit risk exposures relating to off-balance sheet assets are as follows: |              |              |
| Loan commitments and other credit related liabilities                      | 53,494       | 17,950       |
| At 31 December   | 129,377      | 45,054       |

The above tables represent the maximum credit risk exposure (net of impairment) to the Company at 31 December 2019 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.

## Renegotiated loans and forbearance

The contractual terms of a facility may be modified due to factors that are not related to the current or potential credit deterioration of the customer (changing market conditions, customer retention, etc.). In such cases, the modified loan may be derecognised and the renegotiated loan recognised as a new loan at fair value.

As at 31 December 2019, lending facilities for which forbearance measures were in place were nil (2018: nil).

## Concentration risk

Due to the amount of customer facilities diversified across a number of industry sectors the Directors do not consider there to be a potential material exposure arising from concentration risk.

## (b) Operational risk (unaudited)

The Company's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Company's reputation with overall cost effectiveness and to avoid control procedures that restrict initiatives and creativity. Operational risk arises from all of the Company's operations.

Compliance with the Arbuthnot Banking Group ("Group") standards is supported by a programme of periodic reviews undertaken by Internal Audit. The results of the Internal Audit reviews are discussed with senior management, with summaries submitted to the Group Audit Committee.

## (c) Market risk

### Price risk

The Company is not exposed to any price risk.

# Notes to the Financial Statements

## Currency risk

The Company lends to clients and has borrowing facilities from its parent in pound sterling, US dollars and Euros.

The table below summarises the Company's exposure to foreign currency exchange rate risk at 31 December 2019. Included in the table below are the Company's assets and liabilities at carrying amounts, categorised by currency.

|                                      | GBP (£)       | USD (\$)   | Euro (€)   | Other       | Total         |
|--------------------------------------|---------------|------------|------------|-------------|---------------|
|                                      | £000          | £000       | £000       | £000        | £000          |
| <b>At 31 December 2019</b>           |               |            |            |             |               |
| <b>ASSETS</b>                        |               |            |            |             |               |
| Loans and advances to customers      | 75,289        | 144        | 452        | (14)        | 75,871        |
| Other assets                         | 25            | -          | -          | -           | 25            |
| Intangible asset                     | 30            | -          | -          | -           | 30            |
|                                      | <b>75,344</b> | <b>144</b> | <b>452</b> | <b>(14)</b> | <b>75,926</b> |
| <b>LIABILITIES</b>                   |               |            |            |             |               |
| Amounts due to parent                | 71,441        | 75         | 403        | (14)        | 71,905        |
| Current tax liability                | 9             | -          | -          | -           | 9             |
| Other liabilities                    | 1,577         | -          | -          | -           | 1,577         |
|                                      | <b>73,027</b> | <b>75</b>  | <b>403</b> | <b>(14)</b> | <b>73,491</b> |
| <b>Net on-balance sheet position</b> | <b>2,317</b>  | <b>69</b>  | <b>49</b>  | <b>-</b>    | <b>2,435</b>  |
| <b>Credit commitments</b>            | <b>53,494</b> | <b>-</b>   | <b>-</b>   | <b>-</b>    | <b>53,494</b> |

The table below summarises the Company's exposure to foreign currency exchange risk at 31 December 2018:

|                                      | GBP (£)       | USD (\$)    | Euro (€)   | Other    | Total         |
|--------------------------------------|---------------|-------------|------------|----------|---------------|
|                                      | £000          | £000        | £000       | £000     | £000          |
| <b>At 31 December 2018</b>           |               |             |            |          |               |
| <b>ASSETS</b>                        |               |             |            |          |               |
| Loans and advances to customers      | 24,716        | 274         | 138        | -        | 25,128        |
| Other assets                         | 1,992         | -           | -          | -        | 1,992         |
| Deferred tax asset                   | 122           | -           | -          | -        | 122           |
| Intangible asset                     | 53            | -           | -          | -        | 53            |
|                                      | <b>26,883</b> | <b>274</b>  | <b>138</b> | <b>-</b> | <b>27,295</b> |
| <b>LIABILITIES</b>                   |               |             |            |          |               |
| Amount due to parent                 | 23,924        | 344         | 143        | -        | 24,411        |
| Other liabilities                    | 464           | -           | -          | -        | 464           |
|                                      | <b>24,388</b> | <b>344</b>  | <b>143</b> | <b>-</b> | <b>24,875</b> |
| <b>Net on-balance sheet position</b> | <b>2,495</b>  | <b>(70)</b> | <b>(6)</b> | <b>-</b> | <b>2,420</b>  |
| <b>Credit commitments</b>            | <b>17,950</b> | <b>-</b>    | <b>-</b>   | <b>-</b> | <b>17,950</b> |

# Notes to the Financial Statements

## Interest rate risk

Interest rate risk is the potential adverse impact on the Company's future cash flows from changes in interest rates, and arises from the differing interest rate risk characteristics of the Company's assets and liabilities. The Company's lending and borrowing facilities share the same variable reference rate. The Company is therefore not exposed to interest rate risk.

## (d) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

The Company is funded by the parent Arbuthnot Latham & Co., Limited, The Company's liquidity risk is monitored by the parent whose aim is to manage 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.

The tables below show the undiscounted contractual cash flows of the Company's financial liabilities and assets as at 31 December 2019:

|                                    | Carrying<br>amount | Gross<br>nominal<br>inflow/<br>(outflow) | Not more<br>than 3<br>months | More than<br>3 months<br>but less<br>than 1<br>year | More than<br>1 year but<br>less than<br>5 years | More than<br>5 years |
|------------------------------------|--------------------|--|------------------------------|---|---|----------------------|
|                                    | £000               | £000                                     | £000                         | £000  | £000  | £000                 |
| <b>At 31 December 2019</b>         |                    |  |                              |   |   |                      |
| <b>Financial liability by type</b> |                    |  |                              |   |   |                      |
| <b>Non-derivative liabilities</b>  |                    |  |                              |   |   |                      |
| Amounts due to parent              | 71,905             | (77,843)                                 | (493)                        | (1,490)   | (75,860)  | -                    |
| Other liabilities                  | 1,223              | (1,223)                                  | (1,223)                      | -   | -   | -                    |
| Unrecognised loan commitments      | -                  | (53,494)                                 | (53,494)                     | -   | -   | -                    |
|                                    | <b>73,128</b>      | <b>(132,560)</b>                         | <b>(55,210)</b>              | <b>(1,490)</b>                                      | <b>(75,860)</b>                                 | <b>-</b>             |

|                                | Carrying<br>amount | Gross<br>nominal<br>inflow/<br>(outflow) | Not more<br>than 3<br>months | More than<br>3 months<br>but less<br>than 1<br>year | More than<br>1 year but<br>less than<br>5 years | More than<br>5 years |
|--------------------------------|--------------------|--|------------------------------|---|---|----------------------|
|                                | £000               | £000                                     | £000                         | £000  | £000  | £000                 |
| <b>At 31 December 2019</b>     |                    |  |                              |   |   |                      |
| <b>Financial asset by type</b> |                    |  |                              |   |   |                      |
| <b>Non-derivative assets</b>   |                    |  |                              |   |   |                      |
| Customer loans and receivables | 75,871             | 77,018                                   | 55,620                       | 5,222   | 14,184  | 1,993                |
| Other assets                   | 12                 | 12                                       | 12                           | -   | -   | -                    |
|                                | <b>75,883</b>      | <b>77,030</b>                            | <b>55,632</b>                | <b>5,222</b>  | <b>14,184</b>                                   | <b>1,993</b>         |

# 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 2018:

|                                    | Carrying<br>amount<br>£000 | Gross<br>nominal<br>inflow/<br>(outflow)<br>£000 | Not more<br>than 3<br>months<br>£000 | More than<br>3 months<br>but less<br>than 1<br>year<br>£000 | More than<br>1 year but<br>less than<br>5 years<br>£000 | More than<br>5 years<br>£000 |
|------------------------------------|----------------------------|--|--------------------------------------|---|---|------------------------------|
| <b>At 31 December 2018</b>         |                            |  |                                      |   |   |                              |
| <b>Financial liability by type</b> |                            |  |                                      |   |   |                              |
| <b>Non-derivative liabilities</b>  |                            |  |                                      |   |   |                              |
| Amounts due to parent              | 24,411                     | (26,427)   | (166)                                | (506)   | (25,755)  | -                            |
| Other liabilities                  | 115                        | (115)  | (115)                                | -   | -   | -                            |
| Unrecognised loan commitments      | -                          | (17,950)   | (17,950)                             | -   | -   | -                            |
|                                    | <b>24,526</b>              | <b>(44,492)</b>                                  | <b>(18,231)</b>                      | <b>(506)</b>  | <b>(25,755)</b>   | <b>-</b>                     |

|                                | Carrying<br>amount<br>£000 | Gross<br>nominal<br>inflow/<br>(outflow)<br>£000 | Not more<br>than 3<br>months<br>£000 | More than<br>3 months<br>but less<br>than 1<br>year<br>£000 | More than<br>1 year but<br>less than<br>5 years<br>£000 | More than<br>5 years<br>£000 |
|--------------------------------|----------------------------|--|--------------------------------------|---|---|------------------------------|
| <b>At 31 December 2018</b>     |                            |  |                                      |   |   |                              |
| <b>Financial asset by type</b> |                            |  |                                      |   |   |                              |
| <b>Non-derivative assets</b>   |                            |  |                                      |   |   |                              |
| Customer loans and receivables | 25,128                     | 26,258   | 13,399                               | 2,791   | 10,068  | -                            |
| Other assets                   | 1,976                      | 1,976  | 1,976                                | -   | -   | -                            |
|                                | <b>27,104</b>              | <b>28,234</b>                                    | <b>15,375</b>                        | <b>2,791</b>  | <b>10,068</b>   | <b>-</b>                     |

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.

## Assets pledged as collateral or encumbered

There are no financial assets recognised in the statement of financial position that had been pledged as collateral for liabilities at 31 December 2019.

# Notes to the Financial Statements

## (e) Financial assets and liabilities

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

|                                 | Amortised<br>cost<br>£000 | Total<br>carrying<br>amount<br>£000 |
|---------------------------------|---------------------------|-------------------------------------|
| <b>At 31 December 2019</b>      |                           |                                     |
| <b>ASSETS</b>                   |                           |                                     |
| Loans and advances to customers | 75,871                    | 75,871                              |
| Other assets                    | 12                        | 12                                  |
|                                 | <b>75,883</b>             | <b>75,883</b>                       |
| <b>LIABILITIES</b>              |                           |                                     |
| Amounts due to parent           | 71,905                    | 71,905                              |
| Other liabilities               | 1,223                     | 1,223                               |
|                                 | <b>73,128</b>             | <b>73,128</b>                       |
| <b>At 31 December 2018</b>      |                           |                                     |
| <b>ASSETS</b>                   |                           |                                     |
| Loans and advances to customers | 25,128                    | 25,128                              |
| Other assets                    | 1,976                     | 1,976                               |
|                                 | <b>27,104</b>             | <b>27,104</b>                       |
| <b>LIABILITIES</b>              |                           |                                     |
| Amounts due to parent           | 24,411                    | 24,411                              |
| Other liabilities               | 115                       | 115                                 |
|                                 | <b>24,526</b>             | <b>24,526</b>                       |

## 7. Net interest income

|                                 | Year ended<br>31 December<br>2019<br>£000 | 17 Month<br>period ended<br>31 December<br>2018<br>£000 |
|---------------------------------|---|---|
| Loans and advances to customers | 2,700                                     | 482   |
| <b>Total interest income</b>    | <b>2,700</b>                              | <b>482</b>  |
| Intercompany loan interest      | (1,358)                                   | (263)   |
| <b>Total interest expense</b>   | <b>(1,358)</b>                            | <b>(263)</b>  |
| <b>Net interest income</b>      | <b>1,342</b>                              | <b>219</b>  |

# Notes to the Financial Statements

## 8. Fee and commission income

|                      | Year ended<br>31 December | 17 Month<br>period ended<br>31 December |
|----------------------|---------------------------|---|
|                      | 2019                      | 2018                                    |
|                      | £000                      | £000                                    |
| Invoice service fees | 920                       | 201                                     |
| Monitoring fees      | 347                       | 36                                      |
| Other fees           | 113                       | 29                                      |
|                      | <b>1,380</b>              | <b>266</b>                              |

## 9. Impairment loss

|  | Year ended<br>31 December | 17 Month<br>period ended<br>31 December |
|--|---------------------------|---|
|  | 2019                      | 2018                                    |
|  | £000                      | £000                                    |
| Net Impairment losses on loans and advances to customers - stage 1 | 10                        | (50)                                    |
|  | <b>10</b>                 | <b>(50)</b>                             |

## 10. Operating expenses

|  | Year ended<br>31 December | 17 Month<br>period ended<br>31 December |
|--|---------------------------|---|
|  | 2019                      | 2018                                    |
|  | £000                      | £000                                    |
| Operating expenses comprise:                               |                           |   |
| Staff costs, including Directors:                          |                           |   |
| Wages, salaries and bonuses                                | 1,769                     | 1,098                                   |
| Social security costs                                      | 212                       | 126                                     |
| Pension costs  | 91                        | 62                                      |
| Amortisation of intangibles (note 17)                      | 23                        | 15                                      |
| Operating lease rentals                                    | 104                       | 60                                      |
| Parent company management charge                           | 263                       | 263                                     |
| Other administrative expenses                              | 246                       | 144                                     |
| <b>Total operating expenses from continuing operations</b> | <b>2,708</b>              | <b>1,768</b>                            |

|  | Year ended<br>31 December | 17 Month<br>period ended<br>31 December |
|--|---------------------------|---|
|  | 2019                      | 2018                                    |
|  | £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 | 25                        | 25                                      |
| <b>Total fees payable</b>  | <b>25</b>                 | <b>25</b>                               |

## 11. Average number of employees

|           | Year ended<br>31 December | 17 month<br>period ended<br>31 December |
|-----------|---------------------------|---|
|           | 2019                      | 2018                                    |
| Directors | 3                         | 3                                       |
| Employees | 11                        | 4                                       |
|           | <b>14</b>                 | <b>7</b>                                |

# Notes to the Financial Statements

## 12. Income tax expense

|   | Year ended<br>31 December | 17 Month<br>period ended<br>31 December |
|---|---------------------------|---|
|   | 2019                      | 2018                                    |
|   | £000                      | £000                                    |
| United Kingdom corporation tax at 19.00%          |                           |   |
| Corporation tax charge - current year             | 9                         | -                                       |
|   | 9                         | -                                       |
| Deferred taxation                                 |                           |   |
| Origination and reversal of temporary differences | -                         | (253)                                   |
| Income tax credit                                 | -                         | (253)                                   |
| Tax reconciliation                                |                           |   |
| Profit/(loss) before tax                          | 24                        | (1,331)                                 |
| Tax at 19.00%                                     | 4                         | (253)                                   |
| Permanent differences                             | 5                         | -                                       |
| Corporation tax charge/(credit) for the year      | 9                         | (253)                                   |

On 26 October 2015 the Government substantively enacted a reduction in the UK corporation tax rate from 20% to 19% (effective from 1 April 2017). An additional reduction to 17% (effective from 1 April 2020) was substantively enacted on 6 September 2016. However, before the general election that took place on 12 December 2019, the Conservative Party said that the corporation tax rate will no longer reduce, if they remained in government. It is expected that this will be enacted in early 2020, after being confirmed in the Budget speech on 11 March 2020.

This will reduce the Company's future current tax charge accordingly. The deferred tax asset at 31 December 2019 has therefore been calculated based on the rate of 19%.

## 13. Customer loans and receivables

|   | 2019   | 2018   |
|---|--------|--------|
|   | £000   | £000   |
| Gross loans and advances  | 75,911 | 25,178 |
| Less: allowances for impairment on loans and advances (note 14) | (40)   | (50)   |
|   | 75,871 | 25,128 |

All customer loans and receivables at the year end are classified as stage 1.

For a maturity profile of loans and advances to customers, refer to note 5.

### (b) Loans and advances renegotiated

Restructuring activities include external payment arrangements, modification and deferral of payments. Following restructuring, a previously overdue customer account is reset to a normal status and managed together with other similar accounts. Restructuring policies and practices are based on indicators or criteria which, in the judgement of management, indicate that payment will most likely continue. These policies are kept under continuous review. Renegotiated loans that would otherwise be past due or impaired totalled £nil (2018: £nil).

# Notes to the Financial Statements

## 14. Allowances for impairment of loans and advances

Reconciliation of allowance for impairments:

|                       | 2019<br>£000 | 2018<br>£000 |
|-----------------------|--------------|--------------|
| At 1 January          | 50           | -            |
| Impairment losses     | 28           | 50           |
| Change in assumptions | (38)         | -            |
| At 31 December        | 40           | 50           |

Following the publication of results, incorporating IFRS 9, from peers and market participants along with additional data available subsequent to implementation of the new standard, the Company has revised its expected credit loss model assumptions, specifically its probability of default and loss given default assumptions.

## 15. Other Assets

|                                | 2019<br>£000 | 2018<br>£000 |
|--------------------------------|--------------|--------------|
| Amount due from parent         | -            | 1,973        |
| Prepayments and accrued income | 13           | 16           |
| Other debtors                  | 12           | 3            |
|                                | 25           | 1,992        |

As allowed by IFRS 9, the Company utilises the practical expedient for the stage allocation of particular financial instruments which are deemed 'low credit risk'. This practical expedient permits the Company to assume, without more detailed analysis, that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have 'low credit' at the reporting date. The Company allocates such assets to Stage 1.

The low credit risk exemption is applied to amounts due from parent and other debtors. ECL has been assessed to be immaterial.

## 16. Deferred taxation

The deferred tax asset comprises:

|  | 2019<br>£000 | 2018<br>£000 |
|--|--------------|--------------|
| Unutilised tax losses  | -            | 122          |
| Deferred tax asset   | -            | 122          |
| At 1 January   | 122          | -            |
| Profit and loss account - accelerated capital allowances and other short-term timing differences | -            | 122          |
| Group relief to other entities within the group  | (122)        | -            |
| Deferred tax asset at 31 December  | -            | 122          |

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.



# Notes to the Financial Statements

## 17. Intangible Assets

|                     | Computer<br>Software<br>£000 | Total<br>£000 |
|---------------------|------------------------------|---------------|
| Cost or valuation   |                              |               |
| Additions           | 68                           | 68            |
| At 31 December 2018 | 68                           | 68            |
| At 31 December 2019 | 68                           | 68            |
| Amortisation charge | (15)                         | (15)          |
| At 31 December 2018 | (15)                         | (15)          |
| Amortisation charge | (23)                         | (23)          |
| At 31 December 2019 | (38)                         | (38)          |
| Net book amount     |                              |               |
| At 31 December 2018 | 53                           | 53            |
| At 31 December 2019 | 30                           | 30            |

## 18. Amounts due to Parent

|                       | 2019<br>£000 | 2018<br>£000 |
|-----------------------|--------------|--------------|
| Amounts due to Parent | 71,905       | 24,411       |

## 19. Other liabilities

|                              | 2019<br>£000 | 2018<br>£000 |
|------------------------------|--------------|--------------|
| Amounts due to parent        | 1,162        | -            |
| Accruals and deferred income | 354          | 349          |
| Other creditors              | 61           | 115          |
|                              | 1,577        | 464          |

# Notes to the Financial Statements

## 20. Contingent liabilities and commitments

### Capital commitments

At 31 December 2019, the Company had capital commitments of £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:

|   | 2019<br>£000  | 2018<br>£000  |
|---|---------------|---------------|
| Commitments to extend credit:                   |               |               |
| - Original term to maturity of one year or less | 53,494        | 17,950        |
|   | <b>53,494</b> | <b>17,950</b> |

### Operating lease commitments

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

|               | 2019<br>£000 | 2018<br>£000 |
|---------------|--------------|--------------|
| Expiring:     |              |              |
| Within 1 year | 57           | 45           |
|               | <b>57</b>    | <b>45</b>    |

## 21. Share capital

|                                    | 2019<br>£000 | 2018<br>£000 |
|------------------------------------|--------------|--------------|
| 500,001 Ordinary shares of £1 each | 500          | 500          |
| Total ordinary capital             | <b>500</b>   | <b>500</b>   |

## 22. Reserves and retained earnings

|                               | 2019<br>£000 | 2018<br>£000 |
|-------------------------------|--------------|--------------|
| Retained earnings             | (1,065)      | (1,080)      |
| Capital contribution reserve  | 3,000        | 3,000        |
| Total reserves at 31 December | <b>1,935</b> | <b>1,920</b> |

# Notes to the Financial Statements

## 23. Cash and cash equivalents

The company is funded by the parent company Arbuthnot Latham and Co., Limited and operates an inter-company revolving facility, disclosed as cash flows from financing activities. For the purposes of the Statement of Cash Flows, there are no cash and cash equivalents.

## 24. Related party transactions

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

|   | 2019   | 2018    |
|---|--------|---------|
|   | £000   | £000    |
| Loan from parent                          |        |         |
| Balance at 1 January                      | 24,411 | -       |
| Amounts drawn during the year             | 47,494 | 24,411  |
| Balance at 31 December                    | 71,905 | 24,411  |
| Interest expense on deposits              | 1,358  | 263     |
|   |        |         |
|   | 2019   | 2018    |
|   | £000   | £000    |
| Amounts paid to parent                    |        |         |
| Amounts recharged from the parent company | 263    | 263     |
|   | 263    | 263     |
|   |        |         |
|   | 2019   | 2018    |
|   | £000   | £000    |
| Intergroup balances                       |        |         |
| Balances due to/(from) the parent company | 1,162  | (1,973) |

There were no loans made to directors during the year or outstanding at the year end.

# Notes to the Financial Statements

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

|                       | Year ended<br>31 December | 17 Month<br>period ended<br>31 December |
|-----------------------|---------------------------|---|
|                       | 2019                      | 2018                                    |
|                       | £000                      | £000                                    |
| Salary payments       | 765                       | 489                                     |
| Social security costs | 102                       | 63                                      |
| Pension contributions | 20                        | 11                                      |
| Fees                  | 105                       | 50                                      |
|                       | 992                       | 613                                     |

Pension contributions are being accrued under money purchase schemes for 1 director in respect of qualifying service.

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

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

|                       | Year ended<br>31 December | 17 Month<br>period ended<br>31 December |
|-----------------------|---------------------------|---|
|                       | 2019                      | 2018                                    |
|                       | £000                      | £000                                    |
| Salary payments       | 293                       | 219                                     |
| Social security costs | 39                        | 29                                      |
|                       | 332                       | 248                                     |

## 25. 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 56.1% of the issued 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.

## 26. Non-adjusting events after the balance sheet date

The global economy has been significantly impacted by the spread of coronavirus, this has had a dramatic effect on financial markets around the world.

The Government along with the Bank of England have implemented a number of measures to boost the economy. The extent to which these prevent the emergence of credit impairments in the Company is unknown.