ARBUTHNOT COMMERCIAL | Asset Based Lending

Arbuthnot Commercial Asset Based Lending Limited

Annual Report for the year ended 31 December 2021

Registered Number 10915339

Contents

Company Information

Directors

Andrew A Salmon

Steven G Cantlin

James R Cobb

Stephen J Fletcher

Timothy J Hawkins

Andrew P Rutherford

James E R Shaw

Secretary

Nicholas Jennings

Registered Office

Arbuthnot House

7 Wilson Street

London

EC2M 2SN

Registered Number

10915339

Auditor

Mazars LLP

30 Old Bailey

London

EC4M 7AU

Strategic Report and Business Review

Key Performance Indicators	2021 £000	2020 £000
Total Facilities	384,246	243,824
Net Increase in Total Facilities	140,422	113.769
Drawn Funds	182,122	87,331
Interest Income	7.926	4.276
Fee Income	4.308	2,443
Profit before Tax	4,737	2,005
Expected credit loss rate on customer loans	0.04%	0.04%

Annual Review

Arbuthnot Commercial Asset Based Lending (ACABL) reported a profit of £4.7m (2020: £2.0m).

Following economic recovery from the global COVID-19 pandemic, as business activity increased in the wider economy ACABL continued to experience strong demand for its products and enjoyed success in the transactional MBO and acquisition market.

At the year end, the business reported drawn balances of £182.1m with a further £73m available for drawdown equating to an 82% increase from the prior year.

ACABL completed 33 new transactions with £160m of facilities written in the year ending 31 December 2021, representing a 74% increase on the previous year. The average deal size increased from £4.3m to £4.8m with a total client base of 76 at the year end. Facility limits increased 40% on the prior year to £384m (2020: £244m).

Following accreditation by the British Business Bank in 2020 to provide CBILs and then Recovery Loan Scheme (RLS) earlier in the year, ACABL wrote 25 CBILs loans totalling £25.9m and 10 RLS loans totalling £21.2m to both existing clients and as part of financing structures to attract new clients.

The business received £1.26bn in debtor receipts in the year, up from £740m for the prior year. The number of client payments processed during the year exceeded 9,000, totalling £1.3bn, resulting in an annual increase of 83%.

The company is a wholly owned subsidiary of Arbuthnot Latham and Co., Limited, a Private Bank which is a subsidiary of the AIM and AQSE 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.

Russia Ukraine Conflict
On 24th February 2022 Russia initiated an invasion of neighbouring Ukraine. The global community reacted with a series of severe sanctions against Russia. As a global supplier of commodities the effects of the sanctions and war in the region is underdetermined, however it is likely to have a knock on effect to global economies and specifically European nations with a reliance on Russian exports. Global financial markets have reacted with falling stock markets along with significant rises in oil and gas prices. Inflation is expected to increase above previous expectation. The situation could have significant geopolitical implications, including economic, social and political repercussions on a number of regions that may impact the company and its customers.

Coronavirus
The COVID-19 pandemic continued to have, a significant impact on all businesses around the world and the markets in which they operate in 2021. The pandemic has also increased uncertainty for the longer-term economic outlook, adding to existing uncertainties stemming from Brexit.

The global economic impact from COVID-19 has improved with developed economies showing signs of recovery following the most recent wave due to the Omicron variant. The strength of further recovery depends crucially on the degree to which COVID-19 vaccines and treatments allow a return to pre-pandemic levels of economic activity.

Uncertainty remains around the impact of possible future variants on both domestic and global economies. As in the prior year the business continued to operate with staff working remotely, in line with Government guidelines for much of 2021.

Brexit
The Brexit transition period came to an end on 31 December 2020 and the EU and UK agreed the Trade and Cooperation Agreement on 24 December 2020. There is still some uncertainty around the long term consequences of Brexit.

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 2021 was £182.1m. The lending portfolio is secured against accounts receivables, stock, property, cash flows. Government Guarantees (through the CBILs and RLS schemes) 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.

Tim Hawkins (May 11, 2022 12:46 GMT+1)

T J Hawkins
Director
11 May 2022

Directors' Report

The Directors present their report and the audited financial statements of the Company for the year ended 31 December 2021.

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

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

Andrew A Salmon (Chairman)
Steven G Cantlin
James R Cobb
Stephen J Fletcher
Timothy J Hawkins
Andrew P Rutherford
James E R Shaw

All the Directors were directors of the Company throughout the year.

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 5 and the risk management note on page 25.

Proposed Dividend
No dividends were paid during the year and the Directors have decided not to declare 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 period of at least 12 months from the signing date of these financial statements.

The Company had net current assets of £101.9m as at the year end (2020: £40.4m). The Company is largely funded through intercompany parental facilities. The parent has pledged to provide funding to the Company to match the duration of its issued lending facilities.

The directors consider that the existence of demonstrable profitability, net current assets and funding from the parent should enable the Company to continue in operational existence for the period of at least 12 months from the signing date of these financial statements by meeting its liabilities as they fall due for payment. As with any company placing reliance on the parent for financial support, the directors acknowledge that there is a reliance on the ultimate parent's ability to continue as a going concern. Details of the parent company's going concern assessment can be found in the directors' report on page 36 of the Arbuthnot Banking Group Annual Report and Accounts.

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

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

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.

Directors' Report

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 4.

Auditor

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

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 accounting standards in conformity with the requirements of the Companies Act 2006.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss 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 in conformity with the requirements of the Companies Act 2006;
- assess the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate 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

Tim Hawkins (May 11, 2022 12:46 GMT+1)

T J Hawkins
Director
11 May 2022

Independent Auditor's Report

to the members of Arbuthnot Commercial Asset Based Lending Ltd

Opinion

We have audited the financial statements of Arbuthnot Commercial Asset Based Lending Limited (the 'company') for the year ended 31 December 2021 which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity, the Statement of Cash Flows, and notes to the financial statements, including a summary of significant accounting policies.

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

In our opinion, the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2021 and of its profit for the year then ended; and
- have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006.

Basis for opinion

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

Conclusions relating to going concern

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

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

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

Other information

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

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

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

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

Matters on which we are required to report by exception

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

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

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of Directors

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

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

- Inquiring of management and, where appropriate, those charged with governance, as to whether the company is in compliance with laws and regulations, and discussing their policies and procedures regarding compliance with laws and regulations;
- Inspecting correspondence, if any, with relevant licensing or regulatory authorities;

Independent Auditor's Report

to the members of Arbuthnot Commercial Asset Based Lending Ltd

- Communicating identified laws and regulations to the engagement team and remaining alert to any indications of non-compliance throughout our audit; and
- Considering the risk of acts by the company which were contrary to applicable laws and regulations, including fraud.

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

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

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

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

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

Use of the audit report

This report is made solely to the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body for our audit work, for this report, or for the opinions we have formed.

GRSimpson

Greg Simpson (Senior Statutory Auditor) for and on behalf of Mazars LLP
Chartered Accountants and Statutory Auditor
30 Old Bailey
London, EC4M 7AU
11 May 2022

Statement of Comprehensive Income

	Note	Year ended 31 December 2021 £000	Year ended 31 December 2020 £000
Interest income	7	7,926	4,276
Interest expense	7	(2,699)	(1,584)
Net interest income	7	5,227	2,692
Fee and commission income	8	4,308	2,443
Net fee and commission income		4,308	2,443
Operating income		9,535	5,135
Impairment credit/(loss)	9	(50)	1
Operating expenses	10	(4,748)	(3,131)
Profit before tax		4,737	2,005
Income tax expense	12	(903)	(383)
Profit for the year		3,834	1,622

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 17 to 39 are an integral part of these consolidated financial statements

Statement of Financial Position

	Note	At 31 December 2021 £000	2020 £000
ASSETS			
Customer loans and receivables	13	182,122	87.331
Other assets	15	38	49
Intangible assets	16	-	7
Total assets		182.160	87,387
EQUITY AND LIABILITIES			
Equity attributable to owners of the parent			
Share capital	20	500	500
Retained earnings	21	4,391	557
Other reserves	21	3,000	3,000
Total equity		7,891	4,057
LIABILITIES			
Amounts due to parent	17	170,478	76,796
Other liabilities	18	3,791	6,534
Total liabilities		174,269	83,330
Total equity and liabilities		182,160	87.387

The financial statements on pages 13 to 39 were approved and authorised for issue by the Board of directors on 11 May 2022 and

Steven Cantlin (May 11, 2022 13:17 GMT+1)

S G Cantlin, Director

Registered Number: 10915339

The notes on pages 17 to 39 are an integral part of these consolidated financial statements

Statement of Changes in Equity

	Share capital	Capital contribution reserve	Retained earnings	Total
	£000	£000	£000	£000
Balance at 1 January 2020	500	3,000	(1,065)	2,435
Total comprehensive income for the year				
Profit for the year to 31 December 2020	-	-	1,622	1,622
Total comprehensive income for the year	-	-	1,622	1,622
Balance at 31 December 2020	500	3,000	557	4,057

	Share capital	Capital contribution reserve	Retained earnings	Total
	£000	£000	£000	£000
Balance at 1 January 2021	500	3,000	557	4,057
Total comprehensive income for the year				
Profit for Current Year	-	-	3,834	3,834
Total comprehensive income for the year	-	-	3,834	3,834
Balance at 31 December 2021	500	3,000	4,391	7,891

The notes on pages 17 to 39 are an integral part of these consolidated financial statements

Statement of Cash Flows

	Note	Year ended 31 December 2021 £000	Year ended 31 December 2020 £000
Cash flows from operating activities			
Interest received		7,523	3,774
Interest paid		(2,699)	(1,584)
Fees and commissions received		4,308	2,443
Cash payments to employees and suppliers		(4,338)	(2,604)
Taxation paid		(903)	(392)
Cash flows from operating profits before changes in operating assets and liabilities		3,891	1,637
Changes in operating assets and liabilities:			
- net increase in loans and advances to customers		(94,841)	(11,461)
- net decrease/(increase) in other assets		11	(24)
- net (decrease)/increase in other liabilities		(2,743)	4,957
Net cash outflow from operating activities		(93,682)	(4,891)
Cash flows from investing activities			
Cash flows from financing activities			
Increase in borrowings		93,682	4,891
Net cash inflow from financing activities		93,682	4,891
Net movement in cash and cash equivalents		-	-
		-	-
Cash and cash equivalents at 31 December	22	-	-

The notes on pages 17 to 39 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 Accounting Standards in conformity with the requirements of the Companies Act 2006.

(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 period of at least 12 months from the signing date of these financial statements.

The Company had net current assets of £101.9m as at the year end (2020: £40.4m). The Company is largely funded through intercompany parental facilities. The parent has pledged to provide funding to the Company to match the duration of its issued lending facilities.

The directors consider that the existence of demonstrable profitability, net current assets and funding from the parent should enable the Company to continue in operational existence for the period of at least 12 months from the signing date of these financial statements by meeting its liabilities as they fall due for payment. As with any company placing reliance on the parent for financial support, the directors acknowledge that there is a reliance on the ultimate parent's ability to continue as a going concern. Details of the parent company's going concern assessment can be found in the directors' report on page 36 of the Arbuthnot Banking Group Annual Report and Accounts.

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

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

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

(f) Accounting developments
The accounting policies adopted are consistent with those of the previous financial year.

Notes to the Financial Statements

3. Significant accounting policies

The accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied, 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.

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.

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.

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 financial statements. Deferred tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the Statement of Financial Position date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to taxes levied by the same tax authority on the same taxable entity, or on different tax entities, when they intend to settle current tax liabilities and assets on a net basis or the tax assets and liabilities will be realised simultaneously.

Deferred tax assets are recognised where it is probable that future taxable profits will be available against which the temporary differences can be utilised.

3.11. 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. Adoption of new and revised reporting standards

There are no standards, interpretations and amendments to existing standards that have been published and are mandatory for the Company's accounting periods beginning on or after 1 January 2021 or later periods, that will have any material impact on the Company's financial statements.

3.13. Standards issued but not yet effective

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2022 and earlier application is permitted; however, the Company has not early adopted the new and amended standards in preparing these financial statements.

Other standards

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

- Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37, effective for annual periods beginning on or after January 1, 2022).
- *Annual Improvements to IFRS Standards 2018–2020.*
- Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16, effective for annual periods beginning on or after January 1, 2022).
- Reference to Conceptual Framework (Amendments to IFRS 3, effective for annual periods beginning on or after January 1, 2022).
- Classification of Liabilities as Current or Non-current (Amendments to IAS 1, effective for annual periods beginning on or after January 1, 2023).
- IFRS 17 Insurance Contracts and amendments to IFRS 17 Insurance Contracts. (effective for annual reporting periods beginning on or after January 1, 2023)
- Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2).
- Definition of Accounting Estimates (Amendments to IAS 8, effective for annual periods beginning on or after January 1, 2023)

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 £65k (2020: £27k), and if collateral values were increased by 10% the provision charge would be reduced by £25k (2020: £12k).

Probability of Default
If the probability of default increased by 10% the provision charge would increase by £8k (2020: £4k). A reduction in the probability of default by 10% would result in a positive impact to the profit of loss of £8k (2020: £4k).

Time to Collect
If time to collect was increased by 6 months the provision charge would increase by £20k (2020: £12k), and if time to collect was reduced by 6 months there would be a £11k (2020: £7k) favourable impact on the profit or loss.

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

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

- Severe decline
- Moderate decline
- Decline
- Baseline (2020: No change)
- Upside (2020: Growth)

The Company considered the impact of various assumptions on the calculation of ECL (changes in GDP, unemployment rates, inflation, interest rates and collateral values) and concluded that collateral values and UK GDP (2020: collateral values) are key drivers of credit risk and credit losses for each portfolio of financial instruments.

The table below lists the macroeconomic assumptions at 31 December 2021 used in the base, upside and downside scenarios over the five-year forecast period. The assumptions represent the year-on-year percentage change for GDP.

UK GDP – annual growth
At 31 December 2021

Year	Upside	Baseline	Decline	Moderate Decline	Severe Decline
2022	8.1%	4.7%	0.8%	-1.9%	-4.7%
2023	3.8%	2.2%	1.7%	1.2%	0.7%
2024	2.8%	1.6%	1.4%	1.2%	0.9%
5-year average	3.9%	2.3%	1.3%	0.6%	-0.1%

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

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

	Probability weighting		Change in asset values	
	2021	2020	2021	2020
Economic Scenarios				
Severe Decline	2.0%	2.0%	-10% to -50%	-10% to -50%
Moderate Decline	5.0%	15.0%	-5% to -25%	-5% to -25%
Decline	16.0%	70.0%	-2% to -15%	-2% to -15%
Baseline (2020: No Change)	52.0%	9.0%	0% to +2%	0%
Upside (2020: Growth)	25.0%	4.0%	0% to +6%	0% to +5%
Weighted average change in asset values			-1.8%	-6.7%

Each scenario is probability weighted to assess expected losses. If the likelihood of a severe scenario doubled, an additional provision of £5k would be required. If the likelihood of a severe scenario was halved there would be a positive impact to profit or loss of £2k. If a 100% probability was assigned to the each of the scenarios the effect on the impairment charge would be:

		2021	2020
Scenario	Impact on Profit or Loss	£000	£000
Severe decline	Increased charge	598	1,033
Moderate decline	Increased charge	192	80
Decline	Increased charge	26	12
Baseline (2020: No change)	Reduced charge	11	19
Upside (2020: Growth)	Reduced charge	24	21

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 2021:

At 31 December 2021	Due within one year £000	Due after more than one year £000	Total £000
ASSETS			
Loans and advances to customers	105,631	76.491	182,122
Other assets	38	-	38
	105.669	76,491	182.160
LIABILITIES			
Amounts due to parent	-	170,478	170,478
Other liabilities	3,791	-	3,791
	3.791	170,478	174.269

The table below shows the maturity analysis of assets and liabilities of the Company as at 31 December 2020:

At 31 December 2020	Due within one year £000	Due after more than one year £000	Total £000
ASSETS			
Loans and advances to customers	46,934	40.397	87,331
Other assets	49	-	49
Intangible assets	-	8	8
	46,983	40,405	87,388
LIABILITIES			
Liabilities classified as held for sale	-	76,796	76,796
Deferred tax liability	6,536	-	6.536
	6,536	76,796	83,332

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 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.

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

	2021 £000	2020 £000
Credit risk exposures relating to on-balance sheet assets are as follows:		
Loans and advances to customers - Stage 1	182,122	87,331
Other assets	12	12
Credit risk exposures relating to off-balance sheet assets are as follows:		
Loan commitments and other credit related liabilities	200,478	155,300
At 31 December	**382,612**	**242,643**

The above tables represent the maximum credit risk exposure (net of impairment) to the Company at 31 December 2021 without taking account of any collateral held or other credit enhancements attached. For on-balance-sheet assets, the exposures are based on the net carrying amounts as reported in the Statement of Financial Position.

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 2021, lending facilities for which forbearance measures were in place were nil (2020: nil).

Notes to the Financial Statements

Concentration risk

The tables below show the concentration in the loan book by the type of collateral and industry sector.

	2021 £000	2020 £000
Concentration by Product		
Receivables Finance	46,955	22,785
Inventory	15,504	8,678
Plant & Machinery	26,069	21,260
Cash Flow	19.735	11.980
Property	10,223	7,834
CBILs/RLS	63,636	14,793
At 31 December	182,122	87,331

	2021 £000	2020 £000
Concentration by Sector		
Manufacturing	84,222	31,290
Construction	33,596	13,570
Services	27,720	11,167
Retail	7.645	8.300
Healthcare & Pharma	7,291	6,443
Metals & Mining	7.061	1,618
Distribution	6,164	6.479
Chemicals, Plastics and Rubber	-	5,142
Transport	4.848	2.363
Other	3,574	959
At 31 December	182,122	87,331

(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 2021. Included in the table below are the Company's assets and liabilities at carrying amounts, categorised by currency.

At 31 December 2021	GBP (£) £000	USD ($) £000	Euro (€) £000	Other £000	Total £000
ASSETS					
Loans and advances to customers	174,345	2,979	4,838	(40)	182,122
Other assets	38	-	-	-	38
	174,383	**2,979**	**4,838**	**(40)**	**182,160**
LIABILITIES					
Amounts due to parent	162,865	2,974	4,679	(40)	170,478
Other liabilities	3,791	-	-	-	3,791
	166,656	**2,974**	**4,679**	**(40)**	**174,269**
Net on-balance sheet position	7,727	5	159	-	7,891
Credit commitments	200,478	-	-	-	200,478

The table below summarises the Company's exposure to foreign currency exchange risk at 31 December 2020:

At 31 December 2020	GBP (£) £000	USD ($) £000	Euro (€) £000	Other £000	Total £000
ASSETS					
Loans and advances to customers	89,238	(1,747)	(109)	(51)	87,331
Other assets	49	-	-	-	49
Intangible asset	7	-	-	-	7
	89,294	**(1,747)**	**(109)**	**(51)**	**87,387**
LIABILITIES					
Amount due to parent	78,735	(1,755)	(133)	(51)	76,796
Other liabilities	6,534	-	-	-	6,534
	85,269	**(1,755)**	**(133)**	**(51)**	**83,330**
Net on-balance sheet position	4,025	8	24	-	4,057
Credit commitments	155,300	-	-	-	155,300

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

At 31 December 2021	Carrying amount £000	Gross nominal inflow/ (outflow) £000	Not more than 3 months £000	More than 3 months but less than 1 year £000	More than 1 year but less than 5 years £000	More than 5 years £000
Financial liability by type						
Non-derivative liabilities						
Amounts due to parent	170.478	(181,996)	(946)	(2,890)	(178,160)	-
Other liabilities	2.275	(2,275)	(2,275)	-	-	-
Unrecognised loan commitments	-	(200.478)	(200,478)	-	-	-
	172,753	(384.749)	(203.699)	(2.890)	(178.160)	-

At 31 December 2021	Carrying amount £000	Gross nominal inflow/ (outflow) £000	Not more than 3 months £000	More than 3 months but less than 1 year £000	More than 1 year but less than 5 years £000	More than 5 years £000
Financial asset by type						
Non-derivative assets						
Customer loans and receivables	182,122	197.789	82,017	23.615	81,494	10.664
Other assets	12	12	12	-	-	-
	182,134	197,801	82,029	23,615	81,494	10,664

At 31 December 2020	Carrying amount £000	Gross nominal inflow/ (outflow) £000	Not more than 3 months £000	More than 3 months but less than 1 year £000	More than 1 year but less than 5 years £000	More than 5 years £000
Financial liability by type						
Non-derivative liabilities						
Amounts due to parent	76,796	(81,634)	(398)	(1,215)	(80,021)	-
Other liabilities	6,135	(6,135)	(6,135)	-	-	-
Unrecognised loan commitments	-	(155,300)	(155,300)	-	-	-
	82,931	(243,069)	(161,832)	(1,215)	(80,021)	-

At 31 December 2020	Carrying amount £000	Gross nominal inflow/ (outflow) £000	Not more than 3 months £000	More than 3 months but less than 1 year £000	More than 1 year but less than 5 years £000	More than 5 years £000
Financial asset by type						
Non-derivative assets						
Customer loans and receivables	87,331	96,967	36,295	10,639	41,157	8,876
Other assets	12	12	12	-	-	-
	87,343	96,979	36,307	10,639	41,157	8,876

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 2021.

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:

At 31 December 2021	Amortised cost £000	Total carrying amount £000
ASSETS		
Loans and advances to customers	182,122	182,122
Other assets	12	12
	182,134	182,134
LIABILITIES		
Amounts due to parent	170,478	170,478
Other liabilities	2,275	2,275
	172,753	172,753

At 31 December 2020	Amortised cost £000	Total carrying amount £000
ASSETS		
Loans and advances to customers	87,331	87,331
Other assets	12	12
	87,343	87,343
LIABILITIES		
Amounts due to parent	76,796	76,796
Other liabilities	6,135	6,135
	82,931	82,931

7. Net interest income

	Year ended 31 December 2021 £000	Year ended 31 December 2020 £000
Loans and advances to customers	7,926	4,276
Total interest income	7,926	4,276
Intercompany loan interest	(2,699)	(1,584)
Total interest expense	(2,699)	(1,584)
Net interest income	5,227	2,692

8. Fee and commission income

	Year ended 31 December 2021 £000	Year ended 31 December 2020 £000
Invoice service fees	3,148	1,775
Monitoring fees	693	446
Other fees	467	222
	4,308	2,443

9. Impairment loss

	Year ended 31 December 2021 £000	Year ended 31 December 2020 £000
Net Impairment loss on loans and advances to customers - stage 1	(50)	1
	(50)	1

10. Operating expenses

Operating expenses comprise:	Year ended 31 December 2021 £000	Year ended 31 December 2020 £000
Staff costs, including Directors:		
Wages, salaries and bonuses	3,419	2,118
Social security costs	474	246
Pension costs	143	111
Amortisation of intangibles (note 16)	7	23
Operating lease rentals	82	128
Parent company management charge	365	263
Other administrative expenses	258	242
Total operating expenses from continuing operations	4,748	3,131

Notes to the Financial Statements

Remuneration of the auditor and its associates, excluding VAT, was as follows:	Year ended 31 December 2021 £000	Year ended 31 December 2020 £000
Fees payable to the Company's auditor for the audit of the Company's annual accounts	43	30
Total fees payable	43	30

11. Average number of employees

	Year ended 31 December 2021	Year ended 31 December 2020
Directors	3	3
Employees	21	15
	24	18

12. Income tax expense

United Kingdom corporation tax at 19% (2020: 19%)	Year ended 31 December 2021 £000	Year ended 31 December 2020 £000
Corporation tax charge - current year	903	382
Corporation tax charge - adjustments in respect of prior years	-	1
Current taxation	903	383

Tax reconciliation		
Profit before tax	4,737	2,005
Tax at 19% (2020: 19%)	900	381
Permanent differences	3	1
Adjustments in respect of prior years	-	1
Corporation tax charge for the year	903	383

The UK corporation tax rate for 2021 was enacted on 17 March 2020, remaining at 19%, rather than reducing to the previously enacted 17%.

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

Notes to the Financial Statements

13. Customer loans and receivables

	2021	2020
	£000	£000
Gross loans and advances	182,213	87,372
Less: allowances for impairment on loans and advances (note 14)	(91)	(41)
	182,122	87,331

All customer loans and receivables at the year and 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 (2020: £nil).

14. Allowances for impairment of loans and advances

Reconciliation of allowance for impairments:

	2021	2020
	£000	£000
At 1 January	41	40
Impairment losses	50	(21)
Change in assumptions	-	22
At 31 December	91	41

15. Other Assets

	2021	2020
	£000	£000
Prepayments and accrued income	26	37
Other debtors	12	12
	38	49

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.

Notes to the Financial Statements

16. Intangible Assets

	Computer Software £000	Total £000
Cost or valuation		
At 1 January 2020	68	68
At 31 December 2020	68	68
At 31 December 2021	68	68
At 1 January 2020	(38)	(38)
Amortisation charge	(23)	(23)
At 31 December 2020	(61)	(61)
Amortisation charge	(7)	(7)
At 31 December 2021	(68)	(68)
Net book amount		
At 31 December 2020	7	7
At 31 December 2021	-	-

17. Amounts due to Parent

	2021 £000	2020 £000
Amounts due to Parent	170.478	76.796

18. Other liabilities

	2021 £000	2020 £000
Amounts due to parent	2.065	5,927
Accruals and deferred income	1,516	399
Other creditors	210	208
	3.791	6,534

Notes to the Financial Statements

19. Contingent liabilities and commitments

Capital commitments

At 31 December 2021, the Company had capital commitments of £nil in respect of equipment purchases (2020: £nil).

Credit commitments

The contractual amounts of the Company's off-balance sheet financial instruments that commit it to extend credit to customers are:

	2021 £000	2020 £000
Commitments to extend credit:		
- Original term to maturity of one year or less	200,478	155,300
	200,478	155,300

Operating lease commitments

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

	2021 £000	2020 £000
Expiring:		
Within 1 year	-	57
	-	57

20. Share capital

	2021 £000	2020 £000
500,001 Ordinary shares of £1 each	500	500
Total ordinary capital	500	500

21. Reserves and retained earnings

	2021 £000	2020 £000
Retained earnings	4,391	557
Capital contribution reserve	3,000	3,000
Total reserves at 31 December	7,391	3,557

The capital contribution reserve relates to contributions from the parent company that are realised and available for distribution.

22. 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.

23. 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.

	2021	2020
Loan from parent	£000	£000
Balance at 1 January	76,796	71,905
Amounts drawn during the year	93,682	4,891
Amounts repaid during the year		
Balance at 31 December	170,478	76,796
Interest expense on deposits	2,699	1,584

	2021	2020
Amounts paid to parent	£000	£000
Amounts recharged from the parent company	365	263
	365	**263**

	2021	2020
Intergroup balances	£000	£000
Balances due to/(from) the parent company	2,065	5,927

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

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

	Year ended 31 December 2021 £000	Year ended 31 December 2020 £000
Salary payments	875	835
Social security costs	116	111
Pension contributions	25	22
Fees	105	105
	1,121	1,073

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 31 December 2021 £000	Year ended 31 December 2020 £000
Salary payments	322	306
Social security costs	43	41
	365	347

24. 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 ordinary share capital of Arbuthnot Banking Group PLC and is regarded by the Directors as the controlling entity.

The consolidated financial statements of Arbuthnot Banking Group PLC are available on its website http://www.arbuthnotgroup.com. A copy may be obtained from the Secretary, Arbuthnot Banking Group PLC, Arbuthnot House, 7 Wilson Street, London, EC2M 2SN, when practicable.

25. Events after the balance sheet date

There were no events after the balance sheet date.