



ARBUTHNOT LATHAM

Bankers since 1833

Arbuthnot Latham & Co., Limited

Annual Report for the year ended 31 December 2021

Registered Number 00819519



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Company Information

Directors

Sir Henry Angest (Chairman)
Nigel PG Boardman (Deputy Chairman)
Andrew A Salmon (Chief Executive)
James R Cobb (Deputy Chief Executive)
Daniel P Dagg (Executive Director)
Stephen P Kelly (Executive Director)
Angela A Knight (Independent Non-Executive Director)
Richard K Gabbertas (Independent Non-Executive Director)
Paul Marrow (Independent Non-Executive Director)

Secretary

Nicholas Jennings

Registered Office

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Registered Number

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Auditor

Mazars LLP
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Strategic Report – Business Review

Business Review

The principal business of Arbuthnot Latham & Co., Limited (the “Bank” or the “Company”) and its subsidiaries (together referred to as the “Group”) is Banking, Wealth Management, Asset Finance, Asset Based Lending, Specialist Lending and Commercial Vehicle Finance. The Bank’s strategy is to grow its existing business units, and continue to diversify its income streams.

Group Key Metrics	2021 £m	2020 £m
Operating income	84.8	75.1
Other income	4.4	1.5
Operating expenses	96.5	75.0
Profit/(Loss) before tax	4.6	(1.2)
Customer loans	1,882.5	1,599.3
Assets Available for lease	121.7	-
Customer deposits	2,856.9	2,391.9
Total Assets	3,373.4	2,855.0
Term Funding Scheme*	225.0	225.0
Key Performance Indicators		
Assets under management	1,355.6	1,147.5
Loan to deposit ratio	65.9%	66.9%
Loan to total funding ratio**	61.1%	61.1%
Average net margin	4.1%	4.1%
Impairment loss rate on customer loans	0.19%	0.18%
Average LTV on property backed loans	51.7%	53.4%
Liquidity Coverage Ratio	183%	234%
Tier 1 capital ratio	12.8%	14.3%
Total capital ratio	14.5%	16.4%

* (2021: TFSME, 2020: TFS)

** Total funding includes deposits and Bank of England Term Funding Scheme

Arbuthnot Latham & Co., Ltd has reported a profit before tax and Group recharges of £15.3m (2020: £8.3m). Included in the result are a number of individual items worthy of noting. Firstly, the Group acquired the Asset Alliance Group (AAG), a business which provides vehicle finance and related services, predominantly in the truck & trailer and bus & coach markets. Operating from five locations, it is the UK's leading independent specialist in commercial vehicle financing with over 4,000 vehicles available to lease. The transaction completed in April 2021 for a purchase price of £10.0m. The discount against the net assets resulted in a bargain purchase credit to the income statement of £8.6m.

The most significant fair value adjustment arose from the valuation of the leased truck fleet. The global shortage of computer chips which are used in the manufacture of vehicles has curtailed the supply of new trucks and so has increased the market value for second hand trucks. Upon acquisition the adjustment to the asset values was an overall average increase of 15.95% on the carrying value resulting in an uplift totalling £19.2m.

The acquisition of AAG is a significant addition and complements the Group’s continued diversification away from consumer finance to specialist commercial finance as part of the “Future State” vision. The “future state” forms the Group’s key objective of generating sufficient profits and capital whilst making sure employees and shareholders are suitably rewarded.

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Secondly, during the year the Group completed the sale of one of its residential mortgage portfolios known as Tay Mortgages to 5D Finance Limited, a member of OneSavings Bank plc. The portfolio consisted of the remaining mortgage accounts from an acquisition made in December 2014 from the administrators of the Dunfermline Building Society. At the time of sale customer loan balances totalled £54.9m, which were sold for £53.8m, representing 97.9% of the outstanding loans. Upon sale the Group released a credit to the profit and loss account for the remaining original discount resulting in a gain on sale of £2.2m.

Despite the sale of the Tay portfolio the Group's client assets (Customer Loans and Assets Available for Lease) grew 18% to finish the year at £2.0bn, with loan book growth from Banking and by the specialist lending businesses. The Group continued its long established strategy to hold high levels of liquidity with lending growth matched with growth in deposits of 19% to finish the year at £2.9bn.

Credit provisions were £3.2m for the year (2020: £2.8m). As a result of the UK economy emerging from the pandemic and showing signs of economic recovery the Bank's future economic scenarios as part of its IFRS9 expected credit loss assessment resulted in a release of provisions. This release was largely attributable to assumptions on the UK Property market compared to the view at the previous year end. The Bank has applied average growth of 1.2% compared to a 5.5% decline in 2020 for its UK property based lending.

Also included in credit provisions is a net £2.1m charge for Arena TV Limited, an outside broadcast facilities provider that collapsed in November 2021 and is currently under investigation for an alleged sophisticated fraud which saw 54 other lenders affected. Through its specialist lender Renaissance Asset Finance the Group had financed a portfolio of filming equipment. This charge represented the Group's total exposure to the company and no further impairments are expected.

The Bank welcomed the increase in the Bank of England base rate in December, however, this had limited effect on the 2021 results with the rate remaining at the historically low rate of 0.1% for most of the year. Arbuthnot Latham's cautious approach to liquidity, by maintaining high levels of cash reserves at the Bank of England, as opposed to placing them in the higher yielding wholesale money markets or operating at higher loan to deposit ratios, meant that the Bank had substantially lower revenues. However, this approach has protected the Bank during periods of economic uncertainty.

Following a strategic review of its international business in the prior year the Bank closed its Dubai office in the year, with operations ceasing in May 2021. Where the client relationship has been retained, the assets continue to be held in London, but where the client has decided to seek alternative providers, the business worked to ensure a smooth transfer of their assets and business.

Following a return to profitability of the Group, it has been possible to reward staff by awarding discretionary bonuses to high performing staff with payments totalling £5.2m for the period.

In December 2021 the Bank of England announced an increase to the Counter Cyclical Capital Buffer to 1% effective from December 2022 and also indicated that a further increase of 1% will be introduced in June 2023. The Bank is currently reviewing its strategy and asset allocation in order to maximise returns on its deployed capital.

Banking

The Banking business, including Private & Commercial Banking, recorded strong growth across client acquisition, deposits and lending in 2021.

The Bank's deposits grew £465m to finish the year at £2.9bn, equating to a 19% increase year on year, with a continued emphasis on attracting and generating high quality client relationships. The cost of deposits reduced as older higher priced deposits matured and were replaced at current lower market rates.

Net loan growth for the year was £263m resulting in a 23% increase year on year, with a year end loan book of £1.4bn. During the period the Bank intentionally repositioned its lending strategy towards more capital efficient lending. The Bank also

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participated in the Government sponsored lending schemes: the, (now closed) Coronavirus Business Interruption Lending Scheme (CBILS) and more lately the Recovery Loan Scheme (RLS). The amount issued under these schemes represented a small proportion of the overall lending in the year, but allowed the Bank to support additional businesses through the pandemic. The Bank has also been approved to participate in the extension to the RLS in 2022.

During the year the Bank agreed terms to originate and sell loans to a third party. The majority of the loans will be 100% risk weighted commercial investment loans. The strategy leverages the Bank's expertise in the specialist commercial lending sector. However, it also enables the bank to continue to provide funding to clients where it would not otherwise be attractive due to capital consumption as part of the "future state" vision.

The ongoing strategy to not compromise its credit risk appetite for the sake of growth continued to minimise loss rates. New lending showed signs of downward pressure on pricing in certain asset classes namely residential investment lending, however the Bank continued to support clients who valued the service-led proposition over low rates.

Wealth Management

Assets under Management ("AUM") increased to £1.4bn with record gross inflows, 67% higher than the prior year and contributed to 18% growth in AUMs year on year.

The portfolio strategies benefited from equity market returns and active management that tilted portfolios toward sectors benefiting from the reopening of the economy. At the year end all model portfolios were positive in absolute terms, with double digit returns observed for medium and higher risk level core services.

Wealth planning continued its strategy for event based financial planning with clients paying for advice on a transactional basis with no ongoing fees attached. The proposition generated revenue of £0.4m. The business continued to offer bespoke advice delivered through a combination of face to face and virtual client meetings.

Mortgage Portfolios

After the sale of the Tay Portfolio in February 2021, balances for the Santiago Portfolio were £178.1m at the year end. The portfolio continues to perform to expectations, with no active COVID payment holidays at the year end.

Arbuthnot Commercial Asset Based Lending (ACABL)

ACABL reported a profit of £4.7m (2020: £2.0m).

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 ended 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 £1.3bn 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%.

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Renaissance Asset Finance (RAF)

RAF reported a loss of £0.06m (2020: profit of £2.1m), with balances as at the year end of £97.1m (2020: £91.9m).

The business experienced strong demand for its asset finance facilities with new business advances totalling £55m for the year, along with new business proposals and acceptances operating at pre pandemic levels as confidence returned to the economy. However supply chain issues for business assets as a result of Brexit and Covid-19 continued to prolong the deal origination process.

Loans under forbearance measures fell from their peak in 2020 and were confined to the London purpose-built taxi market. These exposures continue to fall as taxi operators report improving business conditions.

Included in the result for RAF is a net £2.1m impairment charge for Arena TV, an outside broadcast facilities provider that collapsed in November, and is currently the subject of an investigation for an alleged fraud. The business was part of a group of 55 lenders where industry wide losses have been estimated to be £282m. The charge represents the total exposure to the borrower.

Arbuthnot Specialist Finance (ASFL)

As at the year end the loan book exceeded £10.1m compared to £6.0m for the prior year. The business reported a loss of £1.0m (2020:£1.0m).

Following a restructure of the management team in the first half, the business made progress towards its relaunch planned for the first half of 2022, where it will complement the Groups “Future State” strategy as a specialist commercial lender. At the year end business flow was positive with a strong pipeline of business building for 2022.

Asset Alliance Group (AAG)

AAG was acquired by the Group on 1 April 2022 with assets available to lease totalling £136.9m.

As at 31 December AAG had client assets on lease totalling £121.6m. The total value of own book lending since acquisition amounted to £33.8m, with brokered lending of £30.0m.

The worldwide computer chip shortage resulted in an industry-wide reduction in the availability of new vehicles, which has curtailed AAG’s ability to grow in 2021. In the absence of new assets, the business continued to support its customers via contract extensions. This has however resulted in an increase to the average age of the fleet and consequently an additional cost to maintaining the assets. Where mutually acceptable, the business has negotiated with its clients to share the increased running costs. However the shortage of new assets has resulted in an increased demand for good quality, second-hand assets, driving strong performance from the truck sales division with an underlying profit of £6.7m from the sale of trucks since acquisition. This profit has already been included in the opening bargain purchase calculation and so is therefore reversed in the consolidated accounts.

In the second half of 2021 the business engaged in positive dialogue with the vehicle manufacturers to secure orders for 2022 and 2023 which will allow a significant refresh of the fleet.

Owned Properties

The Group continues to hold a small number of commercial and residential properties both in the UK and Europe. Most notably the refurbishment of the King Street property to a Prime Grade A standard was completed in the year with a marketing campaign to fully let the property already underway in 2022.

Of the Group’s three remaining overseas properties that were acquired as a result of bad debts, two are in late stage negotiations with sales expected to complete in 2022. Included in the result is a write down of £3.8m relating to the Majorcan property, following an agreement to sell.

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Operations

Throughout 2021 the Bank continued to operate through a mixture of remote working and office-based working, while adapting to the changing environment as a result of the pandemic. Over this time the bank continued to invest in technologies to provide colleagues with the ability to work effectively and collaborate in a hybrid working model.

During the year the Financial Conduct Authority (FCA), Prudential Regulation Authority (PRA) and Bank of England (BoE) published their final policy papers on building operational resilience, with the overarching assumption that disruptions will occur. In line with the guidance issued, the Bank continued to focus on ensuring that the design of systems and operational plans were robust to maintain operational resilience in the face of unexpected incidents. During 2021 the Bank continued to review these plans and undertook tests to ensure backup and recovery processes were effective even when working in a hybrid working model.

New accounts opened in 2021 continued to see strong growth, with customer transaction volumes recovering following the reduced activity in 2020. Non card related payment transaction volumes exceeded 520,000, 34% higher than 2020 and the number of cards in circulation increased by 19% in 2021, whilst the number of card transactions increased by 22% to over 647,000, returning to pre pandemic levels.

During the year the Bank continued to invest in technology focused on enhancing the client experience, increasing access to services through improved digital channels. Following the successful launch of the Arbuthnot Card App in 2020, the bank launched Applepay in November 2021, with a subsequent launch of GooglePay in January 2022.

Sustainability

The business has made a commitment to reduce its environmental impact and to improve its environmental performance as an integral part of its business strategy. In 2021 the business launched its sustainability project with a cross section of staff from the organisation involved in the project.

Non-Financial Information Statement

The requirement to include a non-financial statement in the Strategic Report has been met by the parent company, ABG, and is therefore not included in this report.

Stakeholder Engagement and S. 172 (1) Statement

This section of the Strategic Report describes how the Directors have had regard to the matters set out in section 172 (1) (a) to (f) of the Companies Act 2006 when making decisions. It forms the Directors' statement required by Arbuthnot Latham as a large-sized company under section 414CZA of the Act.

The Directors have acted in a way that they considered, in good faith, to be most likely to promote the success of the Company for the benefit of its members as a whole, and in doing so had regard, amongst other matters, to:

- the likely consequences of any decision in the long term
- the interests of the Company's employees
- the need to foster the Company's business relationships with suppliers, customers and others
- the impact of the Company's operations on the community and the environment
- the desirability of the Company maintaining a reputation for high standards of business conduct and
- the need to act fairly as between members of the Company.

The Arbuthnot Principles set out on page 1 of the Annual Report of ABG, the Company's holding company explain the Board's approach to its stakeholders. Details of how the Directors had regard to the interests of its key stakeholders during the year are set out below, and in the Group Directors Report on page 24.

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The Directors are conscious that their decisions and actions have an impact on stakeholders. The stakeholders we consider in this regard are our shareholder, Arbuthnot Banking Group PLC (ABG), of which the Company is a wholly owned subsidiary, and its shareholders, our employees, customers, suppliers, regulators and the environment in which we operate.

Likely consequences of any decision in the long term

The Directors make their decisions to ensure that long-term prospects are not sacrificed for short term gain, reflecting the values and support of Sir Henry Angest, Chairman of the Board and ABG's majority shareholder, which have proved successful in creating and maintaining shareholder value over many years. This was demonstrated in the year by a number of Board decisions.

In March 2021 the Board resolved that the Company should pay a special dividend to replace the final dividend that was withdrawn at the request of the regulators at the outset of the pandemic. This reflected new PRA guidance on the suitability and appropriate level of distributions. The Board also determined that no dividend should be paid in respect of earnings for 2020. This seemed an equitable share of the risks and rewards as the employees of the Group received no bonuses or pay rises in the same year. In seeking to restore this equilibrium in July 2021, by which time the future prospects of the business were more positive, the Board declared a further interim dividend of £2.4m, being broadly equal to that paid in 2019.

The Board decided to maintain significant investment in modern technology in order to grow the Group's businesses. During the year, it approved further investment in the Bank's core banking system to ensure that the platform is capable of supporting its future growth and development.

A further illustration of the balancing of the interests of our stakeholders in their long-term interest was the decision in October 2021 to approve an arrangement with a third party, unlocking capital used in both the Bank's 100% risk-weighted assets and in new commercial investment loans secured on real estate in order to grow towards the "Future State" vision. The Future State is the name given to the Board's key objective of generating sufficient profits and capital to keep the Bank growing at a good pace whilst making sure employees and shareholders are suitably rewarded, once our capital has been deployed.

Interests of the Company's employees

Employees are able to raise concerns in confidence with the HR Team, with grievances followed up in line with a specified process which satisfies all legal requirements. As explained in the Directors Report on page 23, Paul Marrow, a non-executive director and chairman of the Risk Committee, has been designated by the Board as the Director to engage with the workforce. He is also the Group's Whistleblowing Champion and there is an anonymous whistleblowing service via an external provider. There is also protection for employees deriving from the Public Interest Disclosure Act 1998. Any whistleblowing events are reported annually to the Risk Committee and, where material, notified to the Board and to the applicable regulator.

The Board receives an update on human resource matters at each of its meetings. Early on in the pandemic, the decision was taken to prioritise job retention and not to furlough any employees, whilst awarding no bonuses for 2020, in order to protect the business. There were regular communications with staff during the year in order to check on their wellbeing and to communicate the intention to reward them for their hard work and dedication over the period with a resumption of bonuses for 2021, following the return to profitability, and on plans for a return to the office. The results of an employee engagement survey conducted over the summer were reported to the Board: this achieved an 89% response rate, 91% of whom were proud to work for the business. The Board also endorsed a new Agile Working Policy, implemented from October, to enable the business and its employees to benefit from a practical combination of office and remote working.

Company's business relationships with suppliers, customers and others

The Directors attach great importance to good relations with customers and business partners. In particular, our clients are integral to our business and forging and maintaining client relationships are core to Arbuthnot Latham's business and crucial for client retention. Regular contact was maintained with clients during the year providing support where possible, including with a return to meetings in the office between October and mid-December and again since February 2022.

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The Company is committed to following agreed supplier payment terms. There is a Supplier Management Framework in place covering governance around the Company's procurement and supplier management activities. For due diligence and compliance purposes, suppliers are assessed through an external registration system. The Modern Slavery Statement, approved by the Board in March as part of its annual review of the Company's stance and approach to the Modern Slavery Act, explains the risk-based approach that the Company has taken to give assurance that slavery and human trafficking are not taking place in its supply chains or any part of its business.

Other stakeholders include the Company's Regulators, the PRA and the FCA, with whom open and regular dialogue is maintained.

Balancing stakeholder interests

Following a strategic review of its international representation, the Board concluded that the Dubai office no longer fitted with its future growth plans and so took the decision to close the branch on 31 May 2021. When the office opened in 2013, it represented a good opportunity for the business to build assets under management, but over time opportunities were realised to grow the Company by deploying capital through lending in the UK. The Dubai business generated a good volume of client relationships for the Bank, but its contribution versus its high cost base made it unviable for the Bank's future growth aspirations. Existing relationships were successfully migrated to the Bank's London based teams for continued client servicing and our employees were offered equivalent jobs in London.

Impact of the Company's operations on the community and the environment

In September 2021, the Board reviewed a Climate Change Spotlight, noting the initiatives being taken including an Environmental Social and Governance (ESG) project. This was established, given the Bank's exposure to climate change transition risk as the UK evolves to a low carbon economy through political, regulatory and legal pressure with clients and investors in ABG increasingly interested in the Group's ESG stance.

Desirability of the Company maintaining a reputation for high standards of business conduct

The Directors believe that the Arbuthnot culture set out in the Arbuthnot Principles on page 1 of ABG's Annual report manifests itself at Board level and in the external view of the Group as a whole. The critical importance of the Company's continuing good reputation is considered at each Board meeting. These Principles are encapsulated in five Group cultural values, themselves embedded into day-to-day activities. These values are integrity, respect, empowerment, energy and drive, and collaboration.

Sustainability Report

The Group is committed to ensuring its business activities have a positive impact not just for clients and shareholders, but also for colleagues, society, and the environment. Two of our key business principles, reciprocity and stability, rely on us recognising our own responsibility to make a positive societal impact.

The world is in the middle of a profound transition when it comes to sustainability, and we recognise the role we must play in that transition. This means operating with a strong emphasis on our environmental and societal impact, and on our governance procedures.

The Group approaches ESG by measuring the impact from our practices and outputs across five categories of sustainability - Governance, Employees, Community, Environment and Clients.

Governance

The Group has a solid system of governance in place, endorsing the principles of openness, integrity and accountability which underlie good corporate governance. The Group operates to high standards of corporate accountability with an effective Board and Board committees. This, together with the role and overall holding of the ultimate majority shareholder and compliance with PRA and FCA regulations, is fundamental to our success as a business.

Strategic Report – Business Review

Employees

Our colleagues and culture set us apart from others in our industry. Our high colleague engagement scores are a testament to this - 91% of colleagues state they are proud to work for the Group. As a relationship-led bank, our colleagues are at the centre of our consideration. Along with a range of structured internal wellbeing programmes, we have also introduced agile working, reflecting the Board's view that there are substantial benefits from balancing office working with working from home. The Agile Working Policy was introduced in October 2021 to enable the business and its employees to benefit from a practical combination of office and remote working. We also introduced revised the Personal Appearance Policy to reflect both the changing nature of the workplace and our broad and diverse client base. In November 2021, we conducted our first Diversity & Inclusion Survey, the results of which will be used to create an even better working environment for employees and to help attract the best talent.

As a rapidly growing business, we encourage career progression and seek to develop our people's skills to help them grow within the organisation. We strive to create a working environment that ensures people are treated fairly and that their wellbeing is supported.

Community

The Group is focused on philanthropy. We give back to our local communities and to causes we believe in as a group and locally. We have supported young entrepreneurs for six years via our Inspiring Innovators programme and promote fundraising throughout the group.

Environment

The Group takes a long-term view. We recognise as a business that our carbon footprint needs to move towards net-zero over time. This reduction is not just an environmental imperative, but a business one as well. We are committed to having net zero carbon emissions from our investment and lending activities by 2050. As a consequence, the Board has recently approved an Environmental Management policy which sets out the Group's high-level approach to managing environmental issues and provides requirements in helping the bank to achieve its commitments.

The Bank's Credit Policy sets out the Group's limited appetite for financial and reputational risk emanating from climate change, which includes physical risk (extreme weather, flooding etc.) and transitional risk (changes to law, policy, regulation, and culture). The Bank adopts a favourable stance towards a low carbon economy and lending propositions that have a neutral or positive impact on the environment / climate. The Bank will also consider the impact on public perception and potential impact on ongoing demand for clients' products and services, as well as any impact on its underlying security. These factors are assessed as part of the credit application process and at least once a year through the annual review process.

Streamlined Energy & Carbon Reporting (SECR)

The Group has worked again with a specialist energy management consultancy, Carbon Decoded, to gather the information required to be reported by ABG as a large unquoted company under the Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report). This has revealed a number of energy efficiency actions.

Energy Efficiency Actions

In 2021 the number of staff working in the Group's offices was restricted by the impact of the pandemic and the focus was on ensuring their safety and providing our clients with the best possible service. While this limited the opportunities for energy efficiency actions, we were able to save 45% of our baseline energy consumption during the first half of 2021 through the implementation of good energy management practices, such as ensuring that all non-essential equipment was switched off. This necessarily changed as staff returned to the office, initially on a voluntary basis, from 19 July 2021.

In November 2021 we identified that air conditioning fans coils at the Company's Head Office in Wilson Street, London, were staying on at night when the offices were unoccupied. A trial to manually switch off the fans identified a potential 36% saving on 2021 consumption figures. We are now investigating an automated solution. As a business the Group understands the importance of reducing its carbon emissions; in 2022 we are looking to install sub-metering at our Head Office. This should enable us to understand better where and when energy is being used and allow us to produce an energy saving strategy.

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Clients

Relationships with our clients are at the heart of what we do. We take the time to understand what is important to our clients so we can be confident that we are working in their best interests, for business, for family, for life. A relationship-led bank, every single one of our clients has a dedicated relationship manager there to guide and support them. This is supported by our strong net promoter scores (NPS).

Policies

The Group has adopted a wide range of policies that straddle the five pillars to ensure that staff and management are aware of their responsibilities towards our customers and comply with all regulatory requirements. Some of the key policies are set out below.

Our transition towards sustainability

We are taking steps, guided by our five pillars, to help us to become more sustainable. Initiatives planned to be taken during 2022 and beyond will be set out on the Group's website in due course.

Pillar	Current status
Ensure responsible and transparent corporate governance which aligns to business goals while making a positive societal impact	<ul style="list-style-type: none">• We are developing a transparent framework for embedding sustainability into our business practices by recording, monitoring, and publishing performance against pre-defined targets.• We have policies in place, such as our• Anti-Money Laundering Policy, written to ensure a consistent approach across the Group to assist with the deterrence and detection of those suspected of laundering the proceeds of crime or those involved in the funding or execution of terrorism, and the disclosure to the relevant authorities.• We have a published Tax Strategy, which sets out the Group's commitment to compliance with tax law and practice in the UK, which includes paying the correct amount of tax at the right place and right time, and having a transparent and constructive relationship with the tax authority.
Creating a supportive and diverse workplace in which employees can thrive	<ul style="list-style-type: none">• We promote a working environment that seeks to develop employee skills, and ensures employees are treated fairly and supports their wellbeing.• We have been named a 5* employer by WorkBuzz for sustained high levels of employee engagement.• Arbuthnot Achievers employee recognition scheme• Annual and pulse employee surveys (conducted anonymously)• Agile and flexible working policies• We pay all colleagues a living wage and have market aligned job families. All employees are eligible for a bonus, pension contribution, health insurance, death in service critical

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<p>Having a positive impact on the community in which we operate</p>	<p>illness cover, sick pay and other benefits</p> <ul style="list-style-type: none"> • We publish details of our gender pay gap annually. <p>Diversity & Inclusion</p> <ul style="list-style-type: none"> • We are committed to the promotion of a workplace culture that provides an equitable, diverse, and inclusive environment. • First Diversity & Inclusion survey for employees in 2021 to understand the status quo. <p>Corporate Social Responsibility (CSR)</p> <ul style="list-style-type: none"> • We plan to review our CSR activities to ensure they are aligned with our ESG activity and the Bank's corporate principles and cultural values. <p>Suppliers</p> <ul style="list-style-type: none"> • We aim to engage suppliers with whom we can build mutually sustainable relationships in line with our values. • We currently screen suppliers with regard to ethical standards. • The Group's Modern Slavery Policy sets out our zero-tolerance approach to modern slavery, and any instance of modern slavery in our business or supply chain is a breach of the core values of our business.
<p>Ensuring that our business practices have a positive impact on the environment</p>	<p>We will set targets and progress against these with a view to reaching net-zero carbon emissions as a business by 2050.</p> <p>Energy</p> <ul style="list-style-type: none"> • Plan to review our working environment and practices to reduce our energy consumption. The introduction of agile working is having a positive impact on our energy usage. <p>Waste</p> <ul style="list-style-type: none"> • We have reduced paper usage in the office by issuing laptops to all employees. • We are reducing the printing of client communications and marketing materials. • We ensure the responsible disposal of computer equipment and have a waste recycling programme in place. <p>Transport</p> <ul style="list-style-type: none"> • Our carbon footprint decreased substantially with the introduction of agile working. • We have developed our virtual meeting facilities and will continue to do this, reducing the need for travel between offices. • Our benefits include a cycle to work scheme and season ticket loan.

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Ensuring best outcomes for our clients	<ul style="list-style-type: none">• We seek regular feedback from our clients to reinforce our proposition and service.• We also have a robust complaints process and take dissatisfaction seriously, remediating issues promptly.• We take the protection of our client data very seriously and have robust measures in place to protect client data in line with our legal and regulatory requirements.• In 2021 we launched a Sustainable Investment Service which incorporates environmental, social, and governance factors to achieve a positive impact without sacrificing long-term financial returns.• We completed a vulnerable clients review project which gave actionable insight into the challenges faced and the necessary actions required in order to protect them.
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Strategic Report – Financial Review

Arbuthnot Latham & Co adopts a pragmatic approach to risk taking and seeks to maximise long term revenues and returns. Given its relative size, it is nimble and able to remain entrepreneurial and capable of taking advantage of favourable market opportunities when they arise.

The Group provides a range of financial services to clients and customers in its chosen markets of Banking, Wealth Management, Asset Finance, Asset Based Lending, Specialist Lending and Commercial Vehicle Finance. The Group's revenues are derived from a combination of net interest income from lending, deposit taking and treasury activities, fees for services provided and commission earned on the sale of financial products. The Group also earns rental income on its properties and holds financial investments for income.

	2021 £000	2020 £000
Summarised Income Statement		
Net interest income	66,718	60,668
Net fee and commission income	18,123	14,442
Leasing Income	6,473	-
Operating income	91,314	75,110
Bargain Purchase on Acquisition of AAG	8,626	-
Other income	4,402	1,518
Operating expenses	(96,512)	(75,000)
Impairment losses - loans and advances to customers	(3,196)	(2,849)
Profit before tax	4,634	(1,221)
Income tax expense	2,157	979
Profit/(Loss) for the year	6,791	(242)

The Group has reported a profit before tax of £4.6m (2020: loss of £1.2m).

There are a number of specific one off items which are included in the result for the year that should be noted. These are detailed and compared to the equivalent adjusted amount for the prior year in the tables below. This results in an adjusted underlying profit before tax of £27.6m (2020: profit of £16.2m).

Strategic Report – Financial Review

	2021	2020
	£000	£000
Underlying profit reconciliation		
Profit before tax	4,634	(1,221)
Exceptional reduction in BoE Base Rate	11,492	10,335
Parent recharge	10,632	9,537
Write down of Repossessed Majorcan Property	3,835	-
Arena TV Limited Impairment	2,055	-
Gain on sales of Tay mortgage portfolio	(2,239)	-
Non-payment of discretionary bonus payments	-	(4,498)
Cost of establishing AL new ventures	-	1,012
Bargain Purchase on Acquisition of AAG	(8,626)	-
Profits earned on sale of trucks included in bargain purchase	5,831	-
Costs relating to acquisition of Asset Alliance	-	991
Underlying profit	27,614	16,156

In the prior year underlying profit was adjusted by £1.494k for loss of rental income during refurbishment work and £168k for loss of STB dividend.

As per 2020 no rental income was earned whilst the refurbishment continued and the business does consider the rental income as part of its future strategy. The STB dividend related to an event in 2019 and the shares were sold in 2021 so the adjustment. Therefore these adjustments are not presented for 2021 and 2020 comparison.

The Bank of England Base Rate which was at 0.1% for much of the year continued to have an adverse effect on the Group's profit. The historically low rate is estimated to have cost the Group £11.5m, with the majority of loans to customers yielding reduced interest income. Despite the reduction in revenues the Group continued its cautious approach to liquidity, maintaining low loan to deposit ratios and keeping high levels of cash reserves at the Bank of England. Surplus liquidity resources above the minimum Regulatory requirement operated between £525m and £687m throughout the year resulting in £2.2m of lost revenue.

During the year the Group acquired Asset Alliance Group Holdings Limited, which completed on 1 April 2022. The business was acquired at a discount to its fair valued net assets resulting in a bargain purchase gain of £8.6m.

Total credit provisions for the year were £3.2m. However, the majority of the charge for the year was to one case of £2.1m incurred by one of the Group's specialist businesses: Renaissance Asset Finance. The provision was against the total exposure to Arena TV, a highly publicised business collapse, which reportedly had up to £285m of outstanding debt to 55 lenders.

The Bank revised its future economic scenarios modelled for its expected credit losses. In the prior year a decline in UK property of 5.5% was modelled as part of the expected credit loss assessment. For the year ending 2021 the equivalent assumption was an increase of 1.2%, this resulted in a release of provisions totalling £0.3m.

In the previous financial year, as a result of the Group reporting a loss, no discretionary bonuses were awarded to staff. However, for 2021 with a return to profitability, management intend to recognise and reward its high performing staff by awarding discretionary bonuses. The total charge for the year was £5.2m (2020: £nil).

Total operating income earned by the Group was £91.3m compared to £75.1m for the prior year. The average net margin on client assets remained flat at 4.1% (2020: 4.1%). Included in operating income is revenue from AAG leased assets. This has contributed 0.5% to the average yield generated from the Group's assets.

The Group's operating expenses increased to £96.5m compared to £75.0m for the prior year. This was due to three factors. Firstly, staff costs increased by £7.8m including £5.2m as noted above, for accrued discretionary bonus payments to staff. Secondly, £3.8m was due to the write down of the Majorcan property and lastly £7.8m was due to 9 months of costs for the Assets Alliance Group following its acquisition in April.

Strategic Report – Financial Review

Balance Sheet Strength

	2021	2020
Summarised Balance Sheet	£000	£000
Assets		
Loans and advances to customers	1,882,461	1,599,349
Liquid assets	1,189,174	1,091,743
Other assets	301,736	163,946
Total assets	3,373,371	2,855,038
Liabilities		
Customer deposits	2,856,949	2,391,861
Other liabilities	306,398	280,533
Total liabilities	3,163,347	2,672,394
Equity	210,024	182,644
Total equity and liabilities	3,373,371	2,855,038

Total assets increased by £0.5bn to £3.4bn (2020: £2.9bn), £282m was due to loan book growth from both the Core Bank and the Specialist Lending Subsidiaries with the remaining growth as a result of the acquisition of AAG which contributed £122m of leased assets. The Group maintained its conservative funding policy of relying only on retail deposits and targeting a loan to deposit ratio of between 65-80%. Included in other assets is the Group's investment property, which is held at fair value of £6.6m (2020: £6.6m). Also included in other assets are £87.1m of properties classified as inventory (2020: £84.7m). These properties have been fully refurbished with a view to sell in 2022.

Segmental Analysis

The Group is organised into eight operating segments as disclosed below:

- 1) Banking – Includes Private and Commercial Banking. Private Banking – Provides traditional private banking services. Commercial Banking – Provides bespoke commercial banking services and tailored secured lending against property investments and other assets.
- 2) Wealth Management – Financial planning and investment management services.
- 3) Mortgage Portfolios – Acquired mortgage portfolios.
- 4) RAF – Specialist asset finance lender mainly in high value cars but also business assets.
- 5) ACABL – Provides finance secured on either invoices, assets or stock of the borrower.
- 6) ASFL – Provides short term secured lending solutions to professional and entrepreneurial property investors.
- 7) AAG – Provides leases and financing for commercial vehicles
- 8) All Other Divisions – All other smaller divisions and central costs in Arbuthnot Latham & Co., Ltd (Investment property and Central unallocated items)

The analysis presented below, and in the business review, is before any consolidation adjustments to reverse the impact of the intergroup operating activities and also intergroup recharges and is a fair reflection of the way the Directors manage the Group.

Strategic Report – Financial Review

Banking

	2021	2020
	£000	£000
Summarised Income Statement		
Net interest income	45,011	42,039
Net fee and commission income	2,482	2,053
Operating income	47,493	44,092
Operating expenses	(41,315)	(38,411)
Impairment losses - loans and advances to customers	354	(1,576)
Profit before tax	6,532	4,105
Loans and advances to customers	1,396,048	1,133,799
Customer deposits	2,655,454	2,159,160

Banking reported a profit before tax of £6.5m (2020: £4.1m). This equated to a 59% increase from the prior year. Net interest income grew by 7% due to increased lending and deposit balances, both growing 23%.

There was a net release of provisions of £0.4m compared to a charge of £1.6m for the prior year. This was due to revised economic scenarios applied in the expected credit loss models due to a more positive future outlook. The most significant and relevant to the Banking book was a net growth rate of 1.2% for property compared to a decline of 5.5% for the prior year.

Operating costs increased by £2.9m largely due to bonus accruals awarded after the year end in recognition of the contributions and achievements of the business's high performing staff.

Customer loan balances increased by £262.3m to £1,396.0m and customer deposits also increased to £2,655.5m (2020: £2,159.2m). The average loan to value was 51.7% (2020: 53.4%).

Wealth Management

	2021	2020
	£000	£000
Summarised Income Statement		
Net fee and commission income	10,563	9,316
Operating income	10,563	9,316
Operating expenses	(12,684)	(11,096)
Loss before tax	(2,121)	(1,780)
Assets under management	1,355,560	1,147,466

Wealth Management reported a loss before tax of £2.1m (2020: loss of £1.8m). Fee income grew by 13.4% largely due to a year on year increase in AUMs of 18%, which finished the year at £1,355.6m (2020: £1,147.5m).

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RAF

	2021 £000	2020 £000
Summarised Income Statement		
Net interest income	5,929	6,021
Net fee and commission income	166	130
Operating income	6,095	6,151
Other income	78	73
Operating expenses	(3,943)	(2,975)
Impairment losses - loans and advances to customers	(2,292)	(1,154)
(Loss)/Profit before tax	(62)	2,095
Loans and advances to customers	97,113	91,926

Renaissance Asset Finance recorded a loss before tax of £0.1m (2020: Profit £2.1m).

Net interest income remained flat at £5.9m (2020: £6.0m). Operating expenses increased due to increased staff costs by £1.0m.

Impairment charges against the London purpose-built taxi market reduced as taxi operators reported improving business conditions and loans under forbearance measure reduced, along with the more favourable economic outlook as part of the IFRS9 expected credit loss assessment, however the net impairment charge for the year increased to £2.3m (2020: 1.2m) largely due to a charge for Arena TV Limited, an outside broadcast facilities provider that collapsed in November. The charge represents the total exposure to the borrower.

Customer loan balances increased £5.2m or 6% with the majority of the growth in the second half of the year. The average yield for 2021 remained flat at 8.9% (2020: 8.9%).

Asset Based Lending

	2021 £000	2020 £000
Summarised Income Statement		
Net interest income	5,311	2,729
Net fee and commission income	4,224	2,406
Operating income	9,535	5,135
Operating expenses	(4,748)	(3,130)
Impairment losses - loans and advances to customers	(50)	-
Profit before tax	4,737	2,005
Loans and advances to customers	182,122	87,331

ACABL recorded a £4.7m profit before tax (2020: 2.0m).

Client loan balances increased 109% to £182.1m at the end of the year (2020: £87.3m), with issued facilities increasing to £384m (2020: £244m). The higher client balances throughout the year resulted in an increase in operating income of £4.4m. Operating expenses increased by £1.6m as staff were hired to support the growing business.

Included in the year end loan balance were government back CBIL and RLS loans totalling £62.8m.

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Arbuthnot Specialist Finance

	2021	2020
Summarised Income Statement	£000	£000
Net interest income	578	536
Net fee and commission income	7	3
Operating income	585	539
Operating expenses	(1,590)	(1,547)
Impairment losses - loans and advances to customers	(21)	(4)
Loss before tax	(1,026)	(1,012)
Loans and advances to customers	10,096	5,964

ASFL recorded a loss before tax of £1.0m (2020: loss of £1.0m).

The management team was restructured in the first half of the year, and progresses towards its relaunch, planned for the first half of 2022.

Customer loan balances closed the year at £10.1m (2020: £6.0m).

Asset Alliance Group

	2021
Summarised Income Statement	£000
Net interest income	(2,401)
Revenue	68,673
Cost of goods sold	(62,196)
Operating income	4,076
Gain from bargain purchase	8,626
Operating expenses	(7,872)
Impairment losses - loans and advances to customers	(1,001)
Profit before tax	3,829
Assets available for Lease	121,563

AAG results are based on the nine months since acquisition. The business generated a profit before tax of £3.8m for the period.

The acquisition of AAG completed on 1 April 2021 for a purchase price of £10.0m. The discount against the net assets resulted in a bargain purchase credit to the income statement of £8.6m.

The most significant fair value adjustment arose from the valuation of the leased truck fleet. The global computer chips shortage, used in the manufacture of vehicles, has curtailed the supply of new trucks and therefore increased the market value for second-hand vehicles. Upon acquisition the adjustment to the asset values was an overall average increase of 15.95% on the carrying value of the truck fleet resulting in an uplift totalling £19.2m. Since acquisition £5.5m of this uplift has been realised through sales.

As at 31 December 2021 the business had £121.6m of assets available for lease, compared to £136.3m at acquisition.

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Mortgage Portfolios

	2021	2020
Summarised Income Statement	£000	£000
Net interest income	4,735	5,951
Operating income	4,735	5,951
Other Income	2,239	-
Operating expenses	(1,154)	(1,624)
Impairment losses - loans and advances to customers	(186)	(115)
Profit before tax	5,634	4,212
Loans and advances to customers	178,082	268,827

The Mortgage Portfolios reported a profit of £5.6m (2020: £4.2m). The increase against the prior year is due to £2.2m of other income which related to the net profit on sale of the Tay Portfolio in February 2021, however as a consequence of the sale net interest income for the business unit fell 20% compared to the prior year.

The remaining Santiago mortgage portfolio performed as expected generating a gross yield of 2.8%. The year end balance of the portfolio was £178.1m.

Other Divisions

	2021	2020
Summarised Income Statement	£000	£000
Net interest income	7,555	3,389
Net fee and commission income	681	537
Operating income	8,236	3,926
Other income	2,081	1,445
Operating expenses	(12,570)	(6,680)
Profit before tax	(2,253)	(1,309)
Loans and advances to customers	19,000	11,501
Treasury Assets	1,115,744	981,491
Investment Property	6,550	6,550
Other Assets	80,340	67,203
Total Assets	1,221,634	1,066,745
Customer deposits	201,495	232,701
Term Funding Scheme	225,000	225,000
Other liabilities	19,598	770
Total Liabilities	446,093	458,471

Group costs have increased by £5.9m largely due to staff costs including expenses associated with bonus awards for 2021.

Included in other income is an adjustment to the RAF deferred consideration of £0.6m, along with dividends received totalling £0.1m.

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	2021 £000	2020 £000
Capital ratios		
Common Equity Tier 1 Capital	211,340	184,316
Deductions	(29,682)	(18,830)
Common Equity Tier 1 capital after deductions	181,658	165,486
Tier 2 capital	24,367	24,308
Own Funds	206,025	189,794
Common Equity Tier 1 capital ratio (Common Equity Tier 1 capital/Total Risk Exposure)	12.8%	14.3%
Total Capital Ratio (Own Funds/Total Risk Exposure)	14.5%	16.4%

Liquidity

The Group's prudent approach to liquidity management continued with client loans at 61.1% (2020: 61.1%) of the Group's funding base which consists of client deposits and Bank of England Term Funding Scheme ("TFSME") borrowings. The Group's TFSME drawings were £225m at the year end (2020: TFS, £225m). The TFSME funding has a duration of four years, and is supported by property backed loan collateral and debt securities.

The LCR decreased to 183% as the year end (2020: 234%) against a regulatory requirement of 100%.

The Group regards the monitoring and controlling of risks and uncertainties as a fundamental part of the management process. Consequently, senior management are involved in the development of risk management policies and in monitoring their application. A detailed description of the risk management framework and associated policies is set out in note 6.

The principal risks inherent in the Group's business are reputational, macroeconomic and competitive environment, strategic, credit, market, liquidity, operational, cyber, conduct and regulatory and capital.

Reputational risk

Reputational risk is the risk to the Group from a failure to meet reasonable stakeholder expectations as a result of any event, behaviour, action or inaction by the Group itself, its employees or those with whom it is associated. This includes the associated risk to earnings, capital or liquidity.

The Group seeks to ensure that all of its businesses act consistently with its seven corporate principles. This is achieved through a central Risk Management frameworks and supporting policies, the application of a three lines of defence model across the Group and oversight by various committees. Employees are supported in training, studies and other ways and encouraged to live out the cultural values within the Group of integrity, energy and drive, respect, collaboration and empowerment. In applying the seven corporate principles, the risk of reputational damage is minimised as the Group serves its shareholders, customers and employees with integrity and high ethical standards.

Macroeconomic and competitive environment

The Group 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 Group 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.

Strategic Report – Financial Review

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. Following the closure of the Dubai office during the year, all the Group's income and expenditure is now based in the UK.

Climate change

Climate change presents financial and reputational risks for the banking industry. The Board consider Climate change a material risk as per the Board approved risk appetite framework which provides a structured approach to risk taking within agreed boundaries. The assessment is proportional at present but will develop over time as the Group generates further resources and industry consensus emerges. The assessment is maintained by the Chief Risk officer and has been informed by the ICAAP review and workshops for employees.

Whilst it is difficult to assess how climate change will unfold, the Group is continually assessing various risk exposures. The UK has a legally binding target to cut its greenhouse gas emissions to "net-zero" by 2050. There is growing consensus that an orderly transition to a low-carbon economy will bring substantial adjustments to the global economy which will have financial implications while bringing risks and opportunities.

The risk assessment process has been integrated into existing risk frameworks and will be governed through the various risk governance structures including review and recommendations by the Arbuthnot Latham Risk Committee. Arbuthnot Latham has been assessed against the Task Force on Climate-related Financial Disclosures' ("TCFD") recommended disclosures and where appropriate the FCA/PRA guidance as per the Supervisory Statements.

In accordance with the requirements of the PRA's Supervisory Statement 'Enhancing banks' and insurers' approaches to managing the financial risks from climate change', the Group has allocated responsibility for identifying and managing the risks from climate change to the relevant existing Senior Management Function. The Bank is continuously developing a suitable strategic approach to climate change and the unique challenges it poses.

The FCA have issued 'Climate Change and Green Finance: summary of responses and next steps'. In addition to the modelling of various scenarios and various governance reviews, the Group will continue to monitor requirements through the relationship with UK Finance.

Strategic risk

Strategic risk is the risk that the Group's ability to achieve its corporate and strategic objectives may be compromised. This risk is particularly important to the Group as it continues its growth strategy. However, the Group seeks to mitigate strategic risk by focusing on a sustainable business model which is aligned to the Group's business strategy. Also, the Board of Directors usually meets once a year to hold a two day board meeting to ensure that the Group's strategy is appropriate for the market and economy.

Credit risk

Credit risk is the risk that a counterparty (borrower) will be unable to pay amounts in full when due. This risk exists in Arbuthnot Latham, which currently has a loan book of £1,883m (2020: £1,599m). The majority of Arbuthnot Latham's lending portfolio is secured against cash, property or other high quality assets. Credit risk is managed through the Credit Committee.

Market risk

Market risk arises in relation to movements in interest rates, currencies, property and equity markets. The Group's treasury function operates mainly to provide a service to clients and does not take significant unmatched positions in any market for its own account. As a result, the Group's exposure to adverse movements in interest rates and currencies is limited to interest earnings on its free cash and interest rate re-pricing mismatches. The Group actively monitors its exposure to future changes in interest rates.

The Group is exposed to changes in the market value of its properties. The current carrying value of Investment Property is £6.6m and properties classified as inventory are carried at £87m. Any changes in the market value of the property will be accounted for

Strategic Report – Financial Review

in the Income Statement for the Investment Property and could also impact the carrying value of inventory, which is at the lower of cost and net realisable value. As a result, it could have a significant impact on the profit or loss of the Group.

Liquidity risk

Liquidity risk is the risk that the Group, although solvent, either does not have sufficient financial resources to enable it to meet its obligations as they fall due or can only secure such resources at an excessive cost. The Group takes a conservative approach to managing its liquidity profile. Retail client deposits and drawings from the Bank of England Term Funding Scheme fund the Group. The loan to deposit ratio is maintained at a prudent level, and consequently the Group maintains a high level of liquidity. The Arbuthnot Latham Board annually approves the Internal Liquidity Adequacy Assessment Process (ILAAP). The Directors model various stress scenarios and assess the resultant cash flows in order to evaluate the Group's potential liquidity requirements. The Directors firmly believe that sufficient liquid assets are held to enable the Group to meet its liabilities in a stressed environment.

Operational risk

Operational risk is the risk that the Group may be exposed to financial losses from conducting its business. The Group's exposures to operational risk include Information Technology and Operations platforms. There are additional internal controls in these processes that are designed to protect the Group from these risks. The Group's overall approach to managing internal control and financial reporting is described in the Corporate Governance section of the Annual Report.

During the year there was significant focus on the potential operational risks arising from the change in working practices due to the pandemic, particularly the move to home-working in order to protect employees and support clients through the crisis. Management attention also focused heavily on operational resilience to ensure that planning, controls and operational activities remained robust and appropriate. The Bank ensured that all employees had access to equipment to complete their work with all employees working from home for the majority of the year.

The Group's control environment was continually monitored to ensure that the challenges posed by adapting to the impact of COVID-19 were safely addressed. There was also continued oversight of the Group's preparations for the end of the transition period, following the UK's exit from the EU, to ensure that processes and systems are appropriate to ensure continuity of service for customers.

During the year the Financial Conduct Authority (FCA), Prudential Regulation Authority (PRA) and Bank of England (BoE) published their final policy papers on building operational resilience. The Bank is on track to comply with the initial requirements prior to the implementation date of 31 March 2022.

Cyber risk

Cyber risk is an increasing risk for the Group within its operational processes. It is the risk that the Group is subject to some form of disruption arising from an interruption to its IT and data infrastructure. The Group regularly tests the infrastructure to ensure that it remains robust to a range of threats and has continuity of business plans in place, including a disaster recovery plan.

Conduct risk

As a financial services provider we face conduct risk, including selling products to customers which do not meet their needs, failing to deal with clients' complaints effectively, not meeting clients' expectations, and exhibiting behaviours which do not meet market or regulatory standards.

The Group adopts a zero risk appetite for any unfair customer outcomes. It maintains clear compliance guidelines and provides ongoing training to all employees. Periodic spot checks, compliance monitoring and internal audits are performed to ensure these guidelines are followed. The Group also has insurance policies in place to provide some cover for any claims that may arise.

Regulatory and capital risk

Regulatory and capital risk includes the risk that the Group will have insufficient capital resources to support the business and/or does not comply with regulatory requirements. The Group adopts a conservative approach to managing its capital. The Board approves an Internal Capital Adequacy Assessment Process (ICAAP) annually, which includes the performance of stringent stress tests to ensure that capital resources are adequate over a three year horizon. Capital and liquidity ratios are regularly monitored against the Board's approved risk appetite as part of the risk management framework.

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Regulatory change also exists as a risk to the Group's business. Notwithstanding the assessments carried out by the Group to manage regulatory risk, it is not possible to predict how regulatory and legislative changes may alter and impact the business. Significant and unforeseen regulatory changes may reduce the Group's competitive situation and lower its profitability.



JR Cobb
Finance Director
23 March 2022

Directors' Report

The Directors present their report for the year ended 31 December 2021.

Principal Activities and Review

The principal activities of the Group are banking and financial services. Arbuthnot Latham & Co., Limited is a banking institution which is authorised by the Prudential Regulation Authority ("PRA") and regulated by the Financial Conduct Authority ("FCA") and the PRA. It provides full banking, investment management and wealth planning services. The business review and information about future developments, key performance indicators and principal risks are contained in the Strategic Report on pages 1 to 22.

Results and Dividends

The results for the year are shown on page 43 of the financial statements. The profit after tax for the year of £6.8m (2020: loss of £0.2m) is included in reserves.

The Directors recommend the payment of a final dividend of £3,300,000 which will be paid after approval at the Annual General Meeting on 25 May 2022. This represents total dividends for the year of £8,850,000 including: a special dividend of £3,150,000 paid on 18 March 2021, being equal to and in lieu of the final dividend that was declared in March 2020 based on the profits reported in 2019 and which was subsequently withdrawn following the guidance issued by the PRA at that time; and a second interim dividend of £2,400,000 paid on 12 August 2021.

Going Concern

After making appropriate enquiries which assessed strategy, profitability, funding, risk management (see note 6) and capital resources (see note 7), the Directors are satisfied that the Company and the Group have adequate resources to continue in operation for the foreseeable future. The financial statements are therefore prepared on the going concern basis.

Financial Risk Management

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

Articles of Association

The Company's articles of association may only be amended by a special resolution of the shareholder. They were last amended in September 2018 and can be viewed at www.arbuthnotlatham.co.uk/important-information.

Directors

The Directors of the company during the year were as follows:

Sir Henry Angest	Chairman
AA Salmon	Chief Executive
JR Cobb	Finance Director
DP Dagg	Chief Operating Officer
SJ Fletcher (retired 23 September 2021)	
SP Kelly	Chief Risk Officer
RK Gabbertas	
AA Knight	
P Marrow	
Sir Michael Peat (retired 31 May 2021)	

All the other Directors, other than Sir Michael Peat and Mr. Fletcher, were directors of the Company throughout the year. On 1 January 2022, Mr. NPG Boardman was appointed to the Board as a non-executive director and Deputy Chairman.

None of the Directors has a direct share interest in the Bank. Sir Henry Angest is the ultimate controlling party of the holding company, Arbuthnot Banking Group PLC ("ABG").

Significant Contracts

No Director, either during or at the end of the financial year, was materially interested in any contract with the Company or any of its subsidiaries or associated companies, which was significant in relation to the Group's business, other than contracts of employment.

Directors' Report

At 31 December 2021, one Director had a loan from the Company amounting to £0.5m (2020 £0.5m) and six Directors had deposits amounting to £5.4m (2020 £4.3m), all on normal commercial terms as disclosed in note 42 to the financial statements.

Sir Henry Angest, Andrew Salmon and James Cobb are directors of the holding company, ABG, and information on their remuneration in that company is contained in its Directors' Report.

Board Committees

Information on the Audit, Nomination, Remuneration and Risk Committees is included in the Corporate Governance section of the Annual Report on pages 26 to 32.

The Group maintains insurance to provide liability cover for directors and officers of the Group.

Employee Engagement

The Group gives due consideration to the employment of disabled persons and is an equal opportunities employer. It also regularly provides employees with information on matters of concern to them, consults on decisions likely to affect their interests and encourages their involvement in the performance of the Group through staff meetings and in other ways. Mr. Marrow, the Group's Whistleblowing Champion, is the Director designated by the Board to engage with the workforce. Further information on employee engagement is given in the Strategic Report on page 6.

Engagement with Suppliers, Customers and Others

Information on engagement with suppliers, customers and other stakeholders is given in the Strategic Report on page 6.

Streamlined Energy & Carbon Reporting

The requirement to include a report on greenhouse gas emissions, energy consumption and energy efficiency action under SECR has been met by the parent company, ABG, which consolidates this data on behalf of the Group. It is therefore not included in this report. Please refer to the ABG Annual Report & Accounts for further information.

Political Donations

No political donations were made by the Company during the year (2020: £nil).

Branches outside of the UK

During the year, the Group operated a branch in Dubai which is regulated by the Dubai Financial Services Authority which was closed at the end of May 2021.

Events after the balance sheet date

Details of material post balance sheet events are given in Note 46.

Auditor

A resolution for the re-appointment of Mazars LLP as auditor will be proposed at the forthcoming Annual General Meeting in accordance with section 487 of the Companies Act 2006.

Statement of Disclosure of Information to the Auditor

The Director's confirm that:

- so far as each director is aware, there is no relevant audit information of which the Group'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 Group'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 and the Directors' Report and the Financial Statements

The directors are responsible for preparing the Strategic Report, the Directors' Report and the Group and parent Company financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare Group and parent Company financial statements for each financial year. Under that law they have elected to prepare the Group and parent Company 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 Group and parent Company and of their profit or loss for that period. In preparing each of the Group and parent Company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make 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 Group and parent 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 Group or the parent 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 parent Company's transactions to disclose with reasonable accuracy at any time the financial position of the parent Company and to enable the Directors to ensure that its financial statements comply with the Companies Act 2006. The Directors are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

By order of the Board



N D Jennings
Secretary
23 March 2022

Corporate Governance

Introduction and Overview

Arbuthnot Latham & Co., Limited is a bank authorised by the PRA and regulated by the FCA and the PRA. Its subsidiary, Renaissance Asset Finance Limited, is regulated by the FCA. As such, the Group operates to the high standards of corporate accountability and regulatory compliance appropriate for such a business.

Statement of Corporate Governance Arrangements

The Company has not adopted any corporate governance code for the financial year. Instead the Board endorses the principles of openness, integrity and accountability which underlie good corporate governance, taking into account both the provisions of the UK Corporate Governance Code, published by the Financial Reporting Council in July 2018, in so far as they are considered appropriate to the Group's size and circumstances, and the role and overall holding of the ultimate majority shareholder. This section of the Report and Accounts summarises key elements of the governance arrangements applicable to the Group.

Leadership and Purpose

The Company is led by the Board which since 1 January 2022 has comprised nine members: Sir Henry Angest, the executive Chairman; four other executive directors, Andrew Salmon, James Cobb, Stephen Kelly and Dan Dagg; and four independent non-executive directors, Nigel Boardman, the Deputy Chairman, Richard Gabbertas, Angela Knight and Paul Marrow. This means that 50% of the Board, excluding the Chairman, comprises independent non-executive directors.

The Board sets the long-term focus and customer-oriented culture of the Group. The responsibilities of Sir Henry Angest as Chairman include leading the Board, ensuring its effectiveness in all aspects of its role, setting its agenda and ensuring that all Directors are encouraged to participate fully in the activities and decision-making process of the Board. As a wholly-owned subsidiary, the Board has determined that there is no need for a Senior Independent Director.

The Board has for many years led a company which focuses on sustainability and growth over the longer-term with a culture to match. Investment in resources has been strong and has continued where and as appropriate (even during the COVID-19 pandemic for example), with the focus on the benefit this will bring to bear for stakeholders over time. The aim continues to be for a real culture of openness among the workforce which combines with the prudent and effective technological and individual controls in place across the business to ensure strong risk management in the Company's continued long-term success.

The Group's cultural values are reflected in a Board-approved brand values document which links the Arbuthnot Principles to its culture as a way of communicating culture across the business. These cultural Principles are encapsulated in five Group values, themselves embedded into day-to-day activities. These are integrity, respect, empowerment, energy and drive, and collaboration.

The Board

The Board has Terms of Reference which are reviewed annually and are published on the Company's website. The Board met regularly throughout the year, including until September 2021 via video conference. It held six scheduled meetings during the year five of which were held jointly with the Board of ABG with the other one being held to approve the Annual Report. Substantive agenda items have briefing papers, which are circulated in a timely manner before each formal meeting. It also held a separate strategy meeting. The Board ensures that it is supplied with all the information that it requires and requests, in a form and of a quality to fulfil its duties. Since February 2021, the Directors have participated in the regular Board meetings of Arbuthnot Latham as attendees. The Board was kept fully informed of the arrangements made by management to run the business remotely during the pandemic. The Chairman maintained regular contact with the Chief Executive who kept him fully informed of all material matters through the latter's regular discussions with senior management during the period of remote working to September 2021 which resumed from mid-December to the end of January 2022.

In addition to approving strategy and overseeing management of the Group, the Board has determined certain items that are reserved for decision by itself. These matters include the acquisition and disposal of businesses, changes in strategic direction, cessation of business streams and formation of new ones and approval of the annual budget. In addition, the ICAAP and ILAAP are key control documents that receive its detailed consideration and approval.

The Company Secretary is responsible for ensuring that the Board processes and procedures are appropriately followed and support effective decision-making. All directors have access to the Company Secretary's advice and services. There is an agreed procedure for directors to obtain independent professional advice in the course of their duties, if necessary, at the Group's expense.

New directors receive induction training prior to or upon joining the Board, with individual listed company training provided by ABG's AIM Nominated Adviser and AQSE Corporate Adviser. Regulatory and compliance training provided by the Head of

Corporate Governance

Compliance and/or an external firm of lawyers and accountants. Risk management training (including in relation to the ILAAP and ICAAP) is provided by the Chief Risk Officer (CRO) with an overview of credit and its associated risks and mitigation by the Chief Credit Officer.

Board Evaluation

The annual Board Effectiveness Review was conducted internally. The 2021 evaluation took the form of a confidential questionnaire which assessed the performance of the Board and its Committees. The questions were set to explore the themes developed over recent years, including Board effectiveness, Board composition, Board dynamics, alignment of the Board and the executive team, induction, performance and training, Board Committees and the Secretariat. The feedback was collated by the Company Secretary and discussed by the Board in November 2021 and proposed actions arising were considered in February 2022. The responses were positive, confirming that the Board was of the view that it receives the correct level of insight into and oversight of the Company, both directly to it and in terms of management information and oral updates provided during meetings. Directors also agreed that the Arbuthnot culture set out in the Arbuthnot Principles and Values manifests itself at Board level and in the external view of the Group as a whole. The 2021 evaluation was augmented by a question, seeking responses to the extent to which the Board understands the Group's obligations in relation to ESG matters (including for these purposes diversity, inclusion and climate change) and ensures that its discussions take these factors into account, together with statutory directors' duties. It was confirmed that there is a sensible and appropriate approach towards this developing area which will require future Board focus.

Internal Control and Financial Reporting

The Board of directors has overall responsibility for the Group's system of internal control and for reviewing its effectiveness. Such a system is designed to manage rather than eliminate risk of failure to achieve business objectives and can only provide reasonable, but not absolute, assurance against the risk of material misstatement or loss.

The Directors and senior management of the Group review and approve the Group's Risk Management Policy and Risk Appetite framework. The Risk Appetite framework sets out the Board's risk attitude for the principal risks through a series of qualitative statements and quantitative risk tolerance metrics. These guide decision-making at all levels of the organisation and form the basis of risk reporting. The key business risks and emerging risks are continuously identified, evaluated and managed by means of limits and controls at an operational level by management, and are governed through the Company's Committees.

There are well-established budgeting procedures in place and reports are presented regularly to the Board detailing the results, in relation to the Group, of each principal business unit, variances against budget and prior year, and other performance data. The Board receives reports on any risk matters that need to be brought to its attention, enabling it to assess the Group's principal and emerging risks. Material items are presented to the Board in the Risk Report from the CRO, an Executive Director which includes a risk dashboard. Significant risks identified in connection with the development of new activities are subject to consideration by the Board. The risk dashboard covers key management actions which have included the climate change agenda and its potential longer-term impact on property and other asset classes and on management's approach to sustainability.

Additionally in November 2021, the Board received a separate report from the CRO enabling it to monitor the Company's risk management and internal control systems and to carry out an annual review of the effectiveness of the Group's risk management and internal control systems. The report explained the Risk Management Policy, together with principal risks, risk appetite, policies, three lines of defence, systems, processes, procedures and controls and the risk board dashboard. Following its review, the Board confirms the effectiveness of the Company's risk management and internal control systems.

Shareholder Communications

The Group maintains regular dialogue with its shareholder, ABG, of which Sir Henry Angest, Andrew Salmon, and James Cobb are directors. Since February 2021, the Directors have participated in regular Board meetings of ABG as attendees.

Board Committees

The key Board governance committees are the Audit, Nomination, Remuneration, Risk, Assets and Liabilities and Policy Committees, each with formally delegated duties and responsibilities and with written terms of reference, which require consideration of the committee's effectiveness. The Board keeps the governance arrangements under review. Further information in relation to these committees is set out below. The Board also has a Credit Committee, primarily for the purposing and approving credit transactions.

Audit Committee

Membership and meetings

Corporate Governance

The Audit Committee has four members: Richard Gabbertas (as Chairman), Nigel Boardman (since 1 January 2022), Angela Knight and Paul Marrow. All of the Committee's members are therefore independent non-executive Directors. Sir Michael Peat was also a member until his retirement as a director on 31 May 2021. Mr. Gabbertas has recent and relevant financial experience and the Committee as a whole has competence relevant to the financial sector in which the Company operates. The Company Secretary acts as its Secretary.

The Audit Committee oversees on behalf of the Board the financial reporting, the appropriateness and effectiveness of systems and controls, the work of Internal Audit and the arrangements for and effectiveness of the external audit. To this end, Internal Audit provides the Audit Committee and the Board with detailed independent and objective assurance on the effectiveness of governance, risk management and internal controls. The ultimate responsibility for reviewing and approving the annual report and accounts rests with the Board. The Committee also reviews procedures for detecting fraud and preventing bribery, reviews whistleblowing arrangements for employees to raise concerns in confidence, and reviews, as necessary, arrangements for outsourcing significant operations. All internal audit reports include an assessment of culture.

External Audit

The external auditors, Mazars LLP, have held office since their appointment in 2019 following a competitive tender. The Committee assesses the independence and objectivity, qualifications and effectiveness of the external auditors on an annual basis as well as making a recommendation to the Board on their appointment. The Committee received a report showing the level of non-audit services provided by the external auditors during the year and members were satisfied that the extent and nature of these did not compromise auditor independence. The Committee concluded that Mazars are independent and that their audit is effective.

Activity in 2021

The Audit Committee met five times during the year including one meeting held solely for the purpose of reviewing the independent audit of Client Assets Sourcebook compliance.

Internal Audit

On behalf of the Board, the Audit Committee monitors the effectiveness of systems and controls. To this end, Internal Audit provides the Committee and the Board with detailed independent and objective assurance on the effectiveness of governance, risk management and internal controls. It additionally provides assurance to the Board that the culture throughout the business is aligned with the Group's values, incorporating within each internal audit a review of culture in the area under review.

The Audit Committee approves Internal Audit's risk-based programme of work and monitors progress against the annual plan. The Committee reviews Internal Audit resources and the arrangements that ensure Internal Audit faces no restrictions or limitations to conducting its work, that it continues to have unrestricted access to all personnel and information, and that Internal Audit remains objective and independent from business management.

The Head of Internal Audit reports directly to the Chairman of the Audit Committee. He provides reports on the outcomes of Internal Audit work directly to the Committee which monitors progress against actions identified in these reports.

The Committee received a self-assessment report on Internal Audit from the Head of Internal Audit in September 2021 and it is satisfied with Internal Audit arrangements during the year.

Integrity of Financial Statements and oversight of external audit

The Committee:

- Received and agreed the Audit Plan prepared by the external auditors;
- Considered and formed a conclusion on the critical judgements underpinning the Financial Statements, as presented in papers prepared by management. In respect of all of these critical judgements, the Committee concluded that the treatment in the Financial Statements was appropriate;
- Received reports from the external auditors on the matters arising from their work, the key issues and conclusions they had reached; and
- Reviewed closely the detailed work carried out by management in respect of Going Concern in light of the impact on the business of the continued pandemic.

The external auditors' reports include details of internal control matters that they have identified as part of the annual statutory Financial Statements audit. Certain aspects of the system of internal control are also subject to regulatory supervision, the results of which are monitored closely by the Committee and by the Board.

Corporate Governance

The Committee approved the terms of engagement and made a recommendation to the Board on the remuneration to be paid to the external auditors in respect of their audit services.

Significant areas of judgement and estimation

The Audit Committee considered the following significant issues and accounting judgements and estimates in relation to the Financial Statements:

Impairment of loans and advances to customers

The Committee reviewed presentations from management detailing the provisioning methodology across the Group as part of the full year results process. The Committee considered and challenged the provisioning methodology applied by management, including timing of cash flows, valuation and recoverability of supporting collateral on impaired assets. The Committee concluded that the impairment provisions, including management's judgements and estimates, were appropriate.

Property Portfolio

The Group owns three commercial office properties and four repossessed properties. Of these properties, five are held as inventory, one is held for sale and one as an investment property. The properties held as inventory and for sale are held at the lower of cost and net realisable value on the basis of internal discounted cash flow models. The investment property is held at fair value on the basis of an internal valuation, using yields, rental income and refurbishment costs. The Committee discussed the bases of valuation with management and with the auditors who had engaged an outside expert to review management's valuations.

As at 31 December 2021, Arbuthnot Latham's property investment totalled £96.8m. The disclosures relating to the carrying value of the properties held as inventory and for sale and to the fair value of the investment property are set out in Notes 4, 24 and 31 to the financial statements.

Residual Value Risk

The Committee discussed the acquisition accounting treatment of Asset Alliance Group where the area of focus for the completion accounts at 31 March 2021 had been the fair value adjustment for the leased assets and stock and a review of the maintenance provision. It established that the uplift in lease values at that date appeared to have been completely justified by the subsequent asset sales experience where no losses had been made on sales of trucks at the uplifted values.

Effective Interest rate

Interest earned on loans and receivables is recognised using the Effective Interest Rate ("EIR") method. The EIR is calculated on the initial recognition of a loan through a discounted cash flow model that incorporates fees, costs and other premiums or discounts. There have been no changes to the EIR accounting policies during the year.

The Committee considered and challenged the EIR methodology applied by management and specifically in relation to acquired loan portfolios. The Committee considered management assumptions, including expected future customer behaviours, and concluded that the EIR methodology was appropriate as at 31 December 2021.

The disclosures relating to EIR are set out in Note 4 to the financial statements.

Going Concern

The financial statements are prepared on the basis that the Group and Company are each a going concern. The Audit Committee reviewed management's detailed assessment, which incorporated analysis of the Board approved ICAAP, ILAAP and relevant metrics at the date of approval, focusing on liquidity, capital, and the stress scenarios. It is satisfied that the going concern basis is appropriate.

Other Audit Committee activities

During the year, the Audit Committee received a briefing from Mazars on the BEIS consultation on audit and governance reforms.

In November 2021, Committee members contributed to the review of the Audit Committee's effectiveness as part of its evaluation by the Board. The outcome of the review was positive and there were no issues or concerns raised by them in regard to discharging their responsibilities.

On behalf of the Board, the Committee reviewed the financial statements as a whole in order to assess whether they were fair, balanced and understandable. The Committee discussed and challenged the balance and fairness of the overall report with the

Corporate Governance

executive directors and also considered the views of the external auditor. The Committee was satisfied that the Annual Report could be regarded as fair, balanced and understandable and that it provides the information necessary for the Company's shareholder to assess the Company's position and performance, business model and strategy. It proposed that the Board approve the Annual Report in that respect.

In March 2022 the Committee met separately with each of the Head of Internal Audit and the Senior Statutory Auditor without any other executives present. There were no concerns raised by them in regard to discharging their responsibilities.

Nomination Committee

Membership and meetings

The Nomination Committee is chaired by Sir Henry Angest and its other members are Nigel Boardman (from 1 January 2022), Angela Knight and Paul Marrow, all non-executive directors. Sir Michael Peat was also a member until his retirement as a director on 31 May 2021. The General Counsel acts as its Secretary. The Committee meets at least once a year and otherwise as required. The Committee assists the Board in discharging its responsibilities relating to the composition of the Board. The Nomination Committee is responsible for and evaluates on a regular basis, the balance of skills, experience, independence and knowledge of the Board, along with its size, structure and composition, retirements and appointments of additional and replacement directors and will make appropriate recommendations to the Board on such matters. The Committee also considers succession planning, taking into account the skills and expertise that will be needed and is beneficial to the Board and to key members of the leadership team in the future.

Activity in 2021

The Nomination Committee met three times during the year. The Committee met three times during the year. In September it considered the Succession Plan, updated following the impending retirement of Mr. Fletcher as an executive director and as Managing Director of the Bank, and determined that, given the long-term and detailed experience of the Board in private and commercial banking as well as in investment management, spanning all elements of the Company's businesses, that it would not be necessary to recommend any additional appointments to the Board in relation to the banking and investment management businesses.

The Committee identified as a new independent non-executive director and Deputy Chairman Nigel Boardman who has provided the benefit of his considerable experience to the Board of ABG as a director since June 2019, following his retirement from the partnership of Slaughter & May. Mr. Boardman has considerable other Board experience, particularly as a non-executive director of the Department of Business, Energy and Industrial Strategy where he chairs the Departmental Audit, Risk and Assurance Committee.

In terms of the diversity of the Board and its individual and collective expertise and experience, the Committee concluded that Mr. Boardman's legal and commercial acumen, which has been notable at the ABG level, would be a significant benefit to the wider group. His appointment would also extend the benefit derived from his involvement with the wider group when third parties consider dealings with it and its businesses. It was not considered appropriate to widen the search to comprise other legal experts for the role, given Mr. Boardman's status and profile and his knowledge of the Arbuthnot Group. In relation to cultural fit with Arbuthnot Latham and its Values, it was noted that in his role as a director of ABG, Mr. Boardman had demonstrated alignment with and a clear understanding of the Arbuthnot Principles and Values.

The Committee assessed and confirmed the collective and individual suitability of Board members. In terms of individual performance, the Committee agreed that each Director was performing well. Collectively, it was agreed that the Board had operated effectively with a wide range of experience and knowledge. The Executive had performed well and, as noted, in the responses to the Board Effectiveness Questionnaire, Non-Executives had provided appropriate challenge and guidance. In relation to Individual Suitability, the Committee noted that all Board annual suitability checks had been completed in accordance with the relevant Senior Managers' Regime requirements.

In terms of the performance of the Company's Board generally, the Committee noted that it takes into account the provisions of the Board Diversity Policy and the Board Suitability Policy. It reviewed the summary of training carried out by each Director during the year and noted that, notwithstanding the continued impact of the pandemic, Directors had been able to carry out sufficient training online.

In terms of diversity and inclusion, the Committee noted the percentage of men to women in relation to the executive directors' direct reports and agreed that the key strategy of the business is to appoint the best person for the position into a role to take into account their experience, expertise in line with the company's strategy. The Nomination Committee takes into account the provisions of the Board Diversity Policy and the Equality and Diversity Policy which promotes equality of opportunity for all staff

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with the objective of creating a working environment in which there is no unlawful discrimination and where all decisions are based on merit. Further information on diversity and inclusion is given in the Sustainability Report on page 7, though the gender balance of senior management and their direct reports has not been given.

In November 2021, the Nomination Committee agreed that it continued to operate effectively and also recommended to the Board the appointment of Nigel Boardman as an additional member of the Committee with effect from 1 January 2022.

Remuneration Committee

Membership and meetings

The Remuneration Committee is chaired by Sir Henry Angest and its other members are Nigel Boardman (from 1 January 2022), Angela Knight and Paul Marrow, all non-executive directors. Sir Michael Peat was also a member until his retirement as a director on 31 May 2021. The General Counsel acts as its Secretary. The Committee meets at least once per year and otherwise as required.

The Remuneration Committee assists the Board in determining its responsibilities in relation to remuneration including, inter alia, in relation to the Group's policy on executive remuneration, determining the individual remuneration and benefits package of each of the Executive Directors, any termination arrangements for departing Executive Directors and the fees for Non-Executive Directors. It additionally approves the remuneration of the Heads of Compliance, Credit, Internal Audit and Risk and reviews the remuneration of all Material Risk Takers. The Committee also deals with remuneration-related issues under the FCA's IFPRU Remuneration Code applicable to the Group.

Activity in 2021

The Remuneration Committee met three times during the year. It undertook its regular activities including reviewing the operation of the Remuneration Policy, having regard to the performance of the Company during the year. It also reviewed and approved amendments to the Policy, satisfying applicable regulatory obligations, particularly in relation to remuneration clawback measures. The Committee also reviewed and approved incentive arrangements for the senior management of the newly acquired Asset Alliance Group. From the comments about the Remuneration Committee made by directors in the Board Effectiveness Questionnaire, it agreed that it continued to operate effectively, also noting the recommendation of the Nomination Committee to the Board that Nigel Boardman be appointed as an additional member of the Committee with effect from 1 January 2022.

Risk Committee

Membership and meetings

The Risk Committee is chaired by Paul Marrow and its other members are James Cobb, Andrew Salmon and Angela Knight, who was appointed as a second non-executive director. In order for a meeting to be quorate, one non-executive director is required to be present and to approve all decisions. Stephen Fletcher was also a member until his retirement from the Board. The Company Secretary acts as its Secretary. The Committee normally meets five times a year at appropriate intervals in the financial and regulatory reporting cycle and otherwise as required.

The Risk Committee's primary responsibilities are to:

- monitor the AL Group status against its principal risks, and the inherent risk direction via the risk dashboard;
- consider the Group's risk appetite relevant to current and future strategy including acquisitions;
- provide advice to the Board on risk appetite, tolerance and strategy;
- safeguard and promote the three lines of defence organisational model;
- safeguard the independence of the CRO and the Risk Oversight Function, made up of the Compliance, Credit and Operational Risk teams;
- oversee and challenge the day-to-day risk management and oversight arrangements of the business.
- oversee the development, implementation and maintenance of the Group's overall risk management framework, risk appetite, strategy, principles and policies;
- oversee the Group's risk exposures and propose improvements to the Group's risk management framework; and to
- consider ESG matters in the overarching Risk Framework (with diversity and inclusion considered as a 'social' element for these purposes); to review and recommend the Climate Change framework; and to oversee the Climate Change Policy.

The Risk Committee exercises its internal control and risk management role through the reports it receives from the seven sub-committees reporting directly to it - the Anti-Money Laundering Committee, the Conduct Risk Committee, the Fraud Committee, the Information Security Group, the Operations and Operational Risk Committee, the Financial Regulatory Reporting Committee and the Retail Mortgages Management Committee. Each of these sub-committees meets regularly.

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Activity in 2021

The Risk Committee held six regular meetings during the year. The Committee (itself or via its sub-committees) reviewed and monitored, where appropriate for recommendation to the Board: capital and liquidity limits and relevant the detail for inclusion in the ILAAP and the ICAAP including for the latter Operational Risk scenarios; the Recovery Plan; the Resolution Pack; and the Risk and Control Self-Assessments.

During the year further enhancements were made to the Company's risk management and overall risk and control framework, overseen by the Committee. The Committee approved the Risk Management Policy and discussed principal risks, risk appetite, policies, three lines of defence, systems, processes, procedures and controls, together with the risk board dashboard including new dashboards for each of the subsidiaries. It approved the Risk Hierarchy, which acts as a framework to inform the business of the key risks inherently applicable in day-to-day operations, the Risk Appetite Framework and new Risk Appetite Measures, the Compliance Monitoring Plan and the operational Resilience Framework. It monitored the integration plan for the Asset Alliance Group acquisition from a risk perspective. It considered the risk assessment for the closure of the Dubai office and various climate change opportunities and initiatives. It also discussed the establishment of a Management Steering Committee to be responsible for the Company's ESG agenda in addition to climate change. The Committee also approved a Managing Financial Risks of Climate Change Framework which sets out the Group's approach to managing the financial risks of climate change through the risk management framework. Since September 2021, a Climate Change dashboard has been presented for discussion at each meeting.

From its review of its own performance and the comments about the Risk Committee made by directors in the Board Effectiveness Questionnaire, it agreed that it continued to operate effectively.

Assets and Liabilities Committee

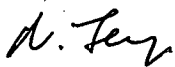
Membership and meetings

The Assets and Liabilities Committee is chaired by Stephen Kelly, the CRO, and its other members are the other executive directors, Messrs Cobb, Dagg, Salmon, together with the Treasurer and the Managing Director Banking. Stephen Fletcher was also a member until his retirement from the Board. The Company Secretary acts as its Secretary. The Committee meets monthly. The Committee ensures effective high-level management of the Company's balance sheet and monitors capital and liquidity against risk appetite, together with Treasury strategy, guidelines and limits. During the year, it reviewed assessments for the ICAAP and the ILAAP including, for the latter, funding strategy ahead of the acquisition of Asset Alliance Group Holdings Limited.

Policy Committee

Membership and meetings

The Policy Committee is chaired by Andrew Salmon and its other members are Messrs Cobb, Kelly and Marrow and Nicole Smith, General Counsel, who also acts as its Secretary. Stephen Fletcher was also a member until his retirement from the Board. The Committee normally meets six times a year. Amongst its responsibilities, the Committee reviews the content of all policy documentation (other than credit policy documentation which is reviewed by the Credit Committee prior to approval by the Board) to ensure that it meets legal and regulatory requirements and approves it on behalf of the Board.



N D Jennings

Secretary

23 March 2022

Independent auditor's report to the members of Arbuthnot Latham Co., Limited

Opinion

We have audited the financial statements of Arbuthnot Latham & Co., Limited (the 'Parent Company') and its subsidiaries (the 'Group') for the year ended 31 December 2021 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Financial Position, the Company Statement of Financial Position, the Consolidated Statement of Changes in Equity, the Company Statement of Changes in Equity, the Consolidated Statement of Cash Flows, the Company Statement of Cash Flows, and notes to the financial statements, including a summary of significant accounting policies.

The financial reporting framework that has been applied in their preparation is applicable law and UK-adopted international accounting standards and as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

In our opinion, the financial statements:

- give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2021 and of the group's profit for the year then ended;
- have been properly prepared in accordance with UK-adopted international accounting standards and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006; 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 group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's ('FRC') Ethical Standard as applied to listed entities and public interest entities 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 directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our audit procedures to evaluate the directors' assessment of the group's and the parent company's ability to continue to adopt the going concern basis of accounting included but were not limited to:

- Undertaking an initial assessment at the planning stage of the audit to identify events or conditions that may cast significant doubt on the Group's and the Parent Company's ability to continue as a going concern;
- Making enquiries of the directors to understand the period of assessment considered by them, the assumptions they considered and the implication of those when assessing the Group's and Parent Company's future financial performance;
- Evaluating management's going concern assessment of the Group and Parent Company and challenging the appropriateness of the key assumptions used in management's forecasts, including assessing the historical accuracy of management's forecasting and budgeting;
- Assessing the sufficiency of the Group's capital and liquidity taking into consideration the most recent Internal Capital Adequacy Assessment Process and Internal Liquidity Assessment Process, and evaluating the results of management stress testing, including consideration of principal and emerging risks on liquidity and regulatory capital;
- Evaluating the Group's Resolution and Recovery plan which includes possible cost saving measures that could be taken in the event circumstances prevent forecast results from being achieved;

Independent auditor's report to the members of Arbuthnot Latham Co., Limited

- Assessing and challenging key assumptions and mitigating actions put in place in response to the impact of the COVID-19 pandemic;
- Reading regulatory correspondence, minutes of meetings of the Audit Committee and the Board of Directors, and post balance sheet events to identify events of conditions that may impact the Group's and the Parent Company's ability to continue as a going concern;
- Considering the consistency of Management's forecasts with other areas of the financial statements and our audit; and
- Evaluating the appropriateness of the directors' disclosures in the financial statements on going concern.

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 Group's and the Parent Company's ability to continue as a going concern for a period of 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.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We summarise below the key audit matters in forming our opinion above, together with an overview of the principal audit procedures performed to address each matter and our key observations arising from those procedures.

These matters, together with our findings, were communicated to those charged with governance through our Audit Completion Report.

Key Audit Matter	How our scope addressed this matter
<p>Allowances for expected credit losses</p> <p>Group - £6.4m; 2020: £4.6m (See note 22 and 23)</p> <p>Parent - £3.4m; 2020: £3.6m (See note 22 and 23)</p> <p>Risk</p> <p>The determination of expected credit loss ('ECL') under IFRS 9 is an inherently judgmental area due to the use of subjective assumptions and a high degree of estimation. ECL relating to the Group's loan portfolio requires the Directors to make judgements over the ability of the Groups' customers to make future loan repayments.</p> <p>The most significant risk relates to loans and advances to customers where the Group is exposed to secured and unsecured lending to private and commercial customers.</p> <p>As set out in note 3.4, ECL is measured based on a three-stage model. For loans with no signification</p>	<p>Our audit procedures included but were not limited to:</p> <p><i>Planning</i></p> <p>We have performed a risk assessment over the Group's loan portfolio to identify areas of heightened risk, with consideration for the continued impact of COVID-19.</p> <p>We have assessed the methodology of identifying significant increase in credit risk and tested the stage allocation. As part of our audit of the methodology, we tested the model design and model implementation. We also performed benchmarking, sensitivities, detailed IFRS 9 compliance checklist review and the recalculation of the key components such as PD, LGD, EAD and final ECL.</p> <p><i>Controls</i></p> <p>We have evaluated the design and implementation and tested the operating effectiveness of the key controls operating across the Group in relation to credit processes (including underwriting, monitoring, collections and provisioning). This also included</p>

Independent auditor's report to the members of Arbuthnot Latham Co., Limited

<p>deterioration in credit risk since origination (stage 1), ECL is determined through the use of a model.</p> <p>The model used by the Group to determine expected losses requires judgement to the input parameters and assumptions. In particular, the ongoing economic impact of COVID-19 has increased uncertainty around macro-economic assumptions.</p> <p>For loans that have experienced a significant deterioration in credit risk since origination (stage 2) or have defaulted (stage 3) the ECL is determined based on probability of default ('PD') and the present value of future cash flows arising primarily from the sale or repossession of security which determines the loss given default ('LGD') and the exposure at default (EAD).</p> <p>The most significant areas where we identified greater levels of management judgement and estimate are:</p> <ul style="list-style-type: none"> • Staging of loans and the identification of significant increase in credit risk including assessment of the impact of COVID-19 driven actions such as payment holidays; • Key assumptions in the model including PD and LGD including the present value of future cash flows from collateral; and • Use of macro-economic variables reflecting a range of future scenarios. <p>Further detail on the key judgements and estimation involved are set out within the significant areas of judgement and estimation within the Critical accounting estimates and judgements in applying accounting policies in note 4 and note 22 and 23 to the financial statements.</p>	<p>attendance at the Potential & Problem Debt Management Committee meetings, missed payments monitoring, credit reviews at origination and annual review, watch list movements through the year, and collateral revaluation controls.</p> <p><i>Test of detail</i></p> <p>We have performed credit file reviews in order to verify data used in the determination of PD and LGD assumptions. This was performed for all loans in Stage 3 and Stage 2 and for a sample of loans in Stage 1 with characteristics of heightened credit risk (e.g., high Loan-to-Value secured exposures and unsecured exposures).</p> <p><i>ECL models</i></p> <p>We have assessed the models used by management to determine ECL calculations. We have:</p> <ul style="list-style-type: none"> • considered the methodology used by management; • tested the data inputs used in applying the methodology adopted and assessed for reasonableness; • tested the completeness of the loan portfolio applied to the model; • tested the process in place to allocate loans to the respective risk categories (staging); • tested and challenged the key assumptions applied to determine probability of default and loss given default; • on sample of higher risk individually assessed loans (stage 3), we involved our in-house valuation specialist to independently assessed the underlying collateral used in the ECL calculations. However, in some cases we relied on management's external valuation experts and in this situation, we assessed the capabilities, professional competence, and objectivity of the experts; • we have involved our in-house credit risk specialists and economists in the assessment of model approach and assumptions, including macro-economic scenarios and the impact on house prices; • we have assessed the valuation, completeness and appropriateness of post model adjustments; • we performed stand back analysis to assess the overall adequacy of the ECL coverage. In performing this procedure, we considered the credit quality of the portfolio and performed benchmarking across similar banks considering both staging percentages and provision coverage ratios; and • we assessed the adequacy and appropriateness of disclosures
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Independent auditor's report to the members of Arbuthnot Latham Co., Limited

	<p>made within the financial statements.</p> <p><i>Our observations</i></p> <p>We found the approach taken in respect of loan loss provisions to be consistent with the requirements of IFRS 9 and judgements made were reasonable.</p>
<p>Property Valuations</p> <p>Group and Parent Company:</p> <p>Inventory: £87.1m (2020: £84.7m) (note 24)</p> <p>Investment properties: £6.6m (2020: £6.6m) (note 31)</p> <p>Assets classified as held for sale: £3.1m (2020: £3.3m) (note 19)</p> <p>Risk</p> <p>The Group recognises commercial property as either investment property under IAS 40 or, where commercial property is being developed for future sale, as inventory under IAS 2.</p> <p>The Parent Company may come into ownership of property originally designated as security by borrowers under lending arrangements. These are recognised by the Parent Company as either inventory under IAS 2, where the property is being developed for future sale, or under IFRS 5 when held for sale criteria is met.</p> <p>The Group has an accounting policy to hold investment properties at fair value and other property held as inventory or for sale at lower of cost and net realisable value.</p> <p>Management engaged qualified third party experts to provide observations and market data e.g. property rental yields. This data is included in models built in-house to determine fair value or recoverable amount.</p> <p>The outcome of the model is highly sensitive to assumptions made.</p> <p>Further detail on the key judgements and estimates involved are set out within the significant areas of judgement and estimation within the Corporate</p>	<p>Our audit procedures included but were not limited to:</p> <p><i>Planning</i></p> <p>We have assessed the accounting classification of all commercial property, held as either investment property or within inventory and of all property security repossessed by the Group during workout of defaulted loans, held either within inventory or as held for sale.</p> <p>We have held meetings with property developers and legal representatives engaged by the Group in relation to repossessed property security.</p> <p><i>Controls</i></p> <p>We have assessed the design effectiveness and implementation of key controls around valuation models prepared by management.</p> <p><i>Valuation models</i></p> <p>We engaged with our in-house real estate valuation specialists to assist us in our review of the valuation approach and testing of the assumptions used by management. We have compared property valuations determined by management against our own independent valuation ranges.</p> <p>We have tested and challenged data inputs and the sources of management assumptions within the valuation models, including but not limited to:</p> <ul style="list-style-type: none"> • contractual rental income and incentives; • yield rates; • forecast maintenance and development costs; and, • fees and contingencies. <p>We assessed the capabilities, professional competence and objectivity of the external valuation experts who were engaged by management in the valuing the properties.</p> <p>We assessed the adequacy of the disclosures made, and their compliance with the accounting standards including the appropriateness of the key assumptions.</p>

Independent auditor's report to the members of Arbuthnot Latham Co., Limited

<p>Governance report on page 26, the Critical accounting estimates and judgements in applying accounting policies in note 4 to the financial statements.</p>	<p><i>Our observations</i></p> <p>We found the approach taken in respect property valuations to be consistent with the requirements of the relevant accounting standards and judgements made were reasonable.</p>
<p>Acquisition of Asset Alliance Group Holdings Limited ("AAG")</p> <p>£8.6m gain on bargain purchase (note 28)</p> <p>Risk</p> <p>On 1 April 2021, the Group completed the acquisition of 100% of AAG for an equity consideration of c.£10.0m. The transaction resulted in a £8.6m gain on bargain purchase reported in the income statement. The most significant areas where we identified greater levels of management judgement and estimate are::</p> <ul style="list-style-type: none"> • allocation of the purchase price consideration and its compliance with IFRS 3, Business Combination. • the cash flow forecasts used to determine the value of AAG is judgemental as it's based on expectation about growth in new originations in commercial vehicles market that is currently constraint due to the global semi-conductor shortage; and • the valuation of the operating lease residual values. Management must forecast its residual values based on expectation of future selling prices upon completion of the lease. <p>Further detail on the key judgements involved is set out within the significant areas of judgement and estimation within the Corporate Governance report on page 26, the Critical accounting estimates and judgements in applying accounting policies in note 4 and note 28 to the financial statements.</p>	<p>Our audit procedures included but were not limited to:</p> <p><i>Planning</i></p> <p>We first understood the purpose of the transaction and its consistency within the current business model of the group.</p> <p>We also performed detailed risk assessment of the transaction by inspecting Management's expert reports, key management papers, and attended meetings with management and those charge with governance.</p> <p><i>Controls</i></p> <p>We walked through the Group's process and assessed design effectiveness and implementation of the key controls, specifically around the accuracy of the purchase price allocation, including its cashflow forecast and the valuation of its residual values.</p> <p><i>Test of details</i></p> <p><i>Purchase price allocation</i></p> <p>We assessed the Group's purchase price allocation with our in-house valuation specialists who tested the appropriateness with allocation with reference to IFRS 3, Business Combination and best practice. Part of this procedure includes benchmarking key assumptions to external market data and assessed the reasonableness of the discount rate used.</p> <p>We assessed the capabilities, professional competence and objectivity of the external valuation experts who were engaged by management in the purchase price allocation.</p> <p>We assessed the appropriateness of the accounting and the disclosures to ensure compliance with IFRS 3, <i>Business Combination</i>.</p> <p><i>Cashflow forecast</i></p> <p>We challenged the Group's key assumptions relating to the estimated future cash flows. Our procedures included:</p> <ul style="list-style-type: none"> • assessing the Group's ability to accurately forecast business performance with reference to historical trading performance and as well as any potential impact on future business performance such as disruptions to supply chain;

Independent auditor's report to the members of Arbuthnot Latham Co., Limited

	<ul style="list-style-type: none"> • challenging the reasonableness of the Group's assessment of the cash flow forecasts new originations and growth rates applied; and • held discussion with key executives to understand their experience and knowledge in the sector. <p><i>Residual values</i></p> <ul style="list-style-type: none"> • We obtained management's residual values calculation and tested key inputs by tracing to source documents; • We performed independent research on current and expected market conditions that impact residual values and challenge their inclusion in the determination of the residual values; • We performed post-acquisition sales testing to validate the accuracy of the values determined by management on acquisition; and • We assessed the appropriateness of the accounting and its compliance with IFRS. <p><i>Our observations</i></p> <p>We concluded that the approach adopted by management on the acquisition of AAG was performed in line with IFRS 3, Business Combination.</p> <p>We were also able to satisfy ourselves that the cashflow forecast was appropriately supported and key uncertainties considered were reasonable.</p> <p>In addition, management residual values adopted were considered to be reasonable.</p> <p>Further, we consider management's disclosures in note 28 to be appropriate.</p>
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In the prior year, our audit report included a significant risk in relation to Effective Interest Rate ("EIR") accounting within Revenue Recognition. We determined that the nature and complexity of the adjustment no longer contribute significantly to our audit efforts and therefore is no longer considered as a key audit matter.

Our application of materiality and an overview of the scope of our audit

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and on the financial statements as a whole. Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Independent auditor's report to the members of Arbuthnot Latham Co., Limited

	Group financial statements	Parent company financial statements
Overall materiality	£1.1m (2020: £0.5m)	£0.9 m (2020: £0.5m)
How we determined it	0.5% of Net assets (2020: 0.5% of net assets but capped at 2019 materiality level due to impact of Covid-19 pandemic)	
Rationale for benchmark applied	We consider net assets to be the main the focus for the users of the financial statements given net assets being an approximation of regulatory capital resources and the importance of regulatory capital to the Parent Company's solvency. Also, the principal activity of the Group and Parent Company is the investment of Capital.	
Performance materiality	<p>Performance materiality is set to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements in the financial statements exceeds materiality for the financial statements as a whole.</p> <p>We set performance materiality at £0.7m (2020: £0.3m) for the Group and £0.7m (2020: £0.3m) for the Parent Company, which represents 70% of overall materiality.</p> <p>We considered several factors in determining performance materiality, including:</p> <ul style="list-style-type: none"> • The level and nature of uncorrected and correct misstatements in the prior year; • The robustness of the control environment; • Business acquisitions in the current year; and • The level of integration of new business segments. 	
Reporting threshold	We agreed with the directors that we would report to them misstatements identified during our audit above £27,000 (2020: £16,000) for the Group and £26,000 (2020: £8,000) for the Parent Company, as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.	

As part of designing our audit, we assessed the risk of material misstatement in the financial statements, whether due to fraud or error, and then designed and performed audit procedures responsive to those risks. In particular, we looked at where the directors made subjective judgements, such as assumptions on significant accounting estimates.

We tailored the scope of our audit to ensure that we performed sufficient work to be able to give an opinion on the financial statements as a whole. We used the outputs of our risk assessment, our understanding of the Group and the Parent Company, their environment, controls and critical business processes, to consider qualitative factors in order to ensure that we obtained sufficient coverage across all financial statement line items.

We performed a full scope audit on all entities within the Group which is consistent with the prior year. However, with the group acquiring Asset Alliance Group Holdings Limited, Mazars in Scotland was included as our component auditors for the current year.

Our component materiality ranged from £0.04m to £1.1m (2020: £0.04m to £0.5m). Full scope audits were carried out on all companies in the group and therefore, account for 100% (2020: 100%) of the Group's net interest income, 100% (2020: 100%) of the Group's profit before tax, 100% (2020: 100%) of the Group's net assets, and 100% (2020: 100%) of the Group's total assets.

Our group audit scope included an audit of the Group and the Parent Company financial statements. Based on our risk assessment, all components of the Group, including the Parent Company, were subject to full scope audit performed by the group and component audit teams.

At the Parent Company level, the Group audit team tested the consolidation process and carried out analytical procedures to confirm our conclusion that there were no significant risks of material misstatement of the aggregated financial information.

Independent auditor's report to the members of Arbuthnot Latham Co., Limited

Working with our component auditors

The group audit team performed the work on all entities except for one component, Asset Alliance Group Holdings Limited. This was audited by a separate UK Mazars office. Due to limitations on travel, the group team maintained frequent communications to monitor progress. The Senior Statutory Auditor and senior members of the Group team attended component meetings, which were held via videoconference. We issued instructions to our component audit team and interacted with them throughout the audit process. In the absence of component visits, we used videoconferencing to review key workpapers prepared by the component team and held meetings with component management.

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

Responsibilities of Directors

As explained more fully in the Statement of Directors' Responsibilities set out on page 25, 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.

Independent auditor's report to the members of Arbuthnot Latham Co., Limited

In preparing the financial statements, the directors are responsible for assessing the group's and the parent 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 group or the parent 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 these 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 Group and the Parent Company and its industry, we identified that the principal risks of non-compliance relate to regulations and supervisory requirements of the regulations and supervisory requirements of the Prudential Regulation Authority (PRA) and 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:

- Gaining an understanding of the legal and regulatory framework applicable to the group and the parent company, the industry in which they operate, and the structure of the group, and considering the risk of acts by the group and the parent company which were contrary to the applicable laws and regulations, including fraud;
- Inquiring of the directors, management and, where appropriate, those charged with governance, as to whether the group and the parent company is in compliance with laws and regulations, and discussing their policies and procedures regarding compliance with laws and regulations;
- Inspecting correspondence with relevant licensing or regulatory authorities including the PRA and FCA; and
- Review of minutes of meetings of the Board of Directors and the Audit Committee held during the year; and
- Discussing amongst the engagement team the laws and regulations listed above, and remaining alert to any indications of non-compliance.

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, management bias through judgements and assumptions in significant accounting estimates, in particular in relation to ECL (as described in the "Key audit matters" section of our report) and significant one-off or unusual transactions.

Our 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 such as opportunities for fraudulent manipulation of financial statements, and determined that the principal risks were related to posting manual journal entries to manipulate financial performance, management bias through judgements and assumptions in significant accounting estimates, in particular in relation to ECL, and significant one-off or unusual transactions; and

Independent auditor's report to the members of Arbuthnot Latham Co., Limited

- Addressing the risks of fraud through management override of controls by performing journal entry testing on a sample basis.

The primary responsibility for the prevention and detection of irregularities, including fraud, rests with both those charged with governance and 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.

The risks of material misstatement that had the greatest effect on our audit are discussed in the "Key audit matters" section of this report.

A further description of our responsibilities is available on the FRC's website at www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Other matters which we are required to address

Following the recommendation of the Audit Committee, we were appointed by the Board of Directors on 6 December 2019 to audit the financial statements for the year ended 31 December 2019 and subsequent financial periods. The period of total uninterrupted engagement is 3 years, covering the years ended 31 December 2019 to 31 December 2021.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the group or the parent company and we remain independent of the group and the parent company in conducting our audit.

Our audit opinion is consistent with our additional report to the audit committee.

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 Katherine's Dock
London
23 March 2022

Consolidated Statement of Comprehensive Income

		Year ended 31 December 2021 £000	Year ended 31 December 2020 £000
	Note		
Interest income	8	77,102	75,082
Interest expense	8	(10,384)	(14,414)
Net interest income	8	66,718	60,668
Fee and commission income	9	18,472	14,735
Fee and commission expense		(349)	(293)
Net fee and commission income		18,123	14,442
Operating income from banking activities		84,841	75,110
Income from leasing activities			
Revenue	10	74,500	-
Cost of goods sold	10	(68,027)	-
Gross profit from leasing activities	10	6,473	-
Total group operating income		91,314	75,110
Impairment loss on financial assets	11	(3,196)	(2,849)
Other income	12	4,402	1,518
Profit from bargain purchase	28	8,626	-
Operating expenses	13	(96,512)	(75,000)
Profit / (loss) before tax		4,634	(1,221)
Income tax credit	14	2,157	979
Profit / (loss) for the year		6,791	(242)
Other comprehensive income			
Items that may not be reclassified to profit or loss			
Movement in fair value reserve		763	(1,224)
Tax on other comprehensive income		(124)	70
Other comprehensive income for the period, net of tax		639	(1,154)
Total comprehensive income for the period		7,430	(1,396)


All amounts relate to continuing operations.


The notes on pages 50 to 146 are an integral part of these consolidated financial statements.

Consolidated Statement of Financial Position

		At 31 December 2021 £000	At 31 December 2020 £000
	Note		
ASSETS			
Cash and balances at central banks	16	814,692	636,799
Loans and advances to banks	17	73,430	110,252
Debt securities at amortised cost	18	301,052	344,692
Assets classified as held for sale	19	3,136	3,285
Derivative financial instruments	20	1,753	1,843
Loans and advances to customers	22	1,882,461	1,599,349
Other assets	24	110,065	97,507
Financial investments	25	3,169	4,324
Deferred tax asset	26	2,040	614
Intangible assets	27	33,595	27,376
Property, plant and equipment	29	125,753	4,744
Right-of-use assets	30	15,675	17,703
Investment property	31	6,550	6,550
Total assets		3,373,371	2,855,038
EQUITY AND LIABILITIES			
Equity attributable to owners of the parent			
Share capital	38	15,000	15,000
Retained earnings	39	47,533	46,835
Other reserves	39	147,491	120,809
Total equity		210,024	182,644
LIABILITIES			
Deposits from banks	32	240,333	230,090
Derivative financial instruments	20	171	649
Deposits from customers	33	2,856,949	2,391,861
Current tax liability		652	234
Other liabilities	34	19,598	6,946
Lease liabilities	35	21,277	18,306
Debt securities in issue	36	24,367	24,308
Total liabilities		3,163,347	2,672,394
Total equity and liabilities		3,373,371	2,855,038

The financial statements on pages 43 to 146 were approved and authorised for issue by the Board of directors on 23 March 2022 and were signed on their behalf by:


AA Salmon, Director


JR Cobb, Director

Registered Number: 00819519

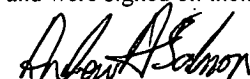
The notes on pages 50 to 146 are an integral part of these consolidated financial statements.

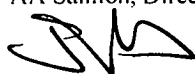
Company Statement of Financial Position

		At 31 December 2021 £000	At 31 December 2020 £000
	Note		
ASSETS			
Cash and balances at central banks	16	814,112	636,799
Loans and advances to banks	17	69,810	108,879
Debt securities at amortised cost	18	301,052	344,692
Assets classified as held for sale	19	3,136	3,285
Derivative financial instruments	20	1,753	1,843
Loans and advances to customers	22	1,975,325	1,584,099
Current tax asset		-	242
Other assets	24	96,368	100,245
Financial investments	25	3,169	4,324
Deferred tax asset	26	747	484
Interests in subsidiaries	43	35,755	24,770
Intangible assets	27	24,155	21,712
Property, plant and equipment	29	3,615	4,720
Right-of-use assets	30	14,607	17,177
Total assets		3,343,604	2,853,271
EQUITY AND LIABILITIES			
Equity attributable to owners of the parent			
Share capital	38	15,000	15,000
Retained earnings	39	34,173	42,020
Other reserves	39	147,491	120,809
Total equity		196,664	177,829
LIABILITIES			
Deposits from banks	32	240,333	230,090
Derivative financial instruments	20	171	649
Deposits from customers	33	2,858,266	2,396,863
Other liabilities	34	8,676	5,768
Lease liabilities	35	15,127	17,764
Debt securities in issue	36	24,367	24,308
Total liabilities		3,146,940	2,675,442
Total equity and liabilities		3,343,604	2,853,271

The Group has elected to take the exemption under section 408 of the Companies Act 2006 not to present the Parent Company profit and loss account. The profit for the Parent Company for the year is presented in the Statement of Changes in Equity.

The financial statements on pages 43 to 146 were approved and authorised for issue by the Board of directors on 23 March 2022 and were signed on their behalf by:


AA Salmon, Director


JR Cobb, Director

Registered Number: 00819519

The notes on pages 50 to 146 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

	Share capital	Retained earnings	Capital contribution reserve	Fair value reserve	Total
	£000	£000	£000	£000	£000
Balance at 1 January 2020	15,000	47,077	121,012	951	184,040
Total comprehensive income for the period					
Loss for 2020	-	(242)	-	-	(242)
Other comprehensive income, net of tax					
Fair value reserve - net change in fair value	-	-	-	(1,224)	(1,224)
Tax on other comprehensive income	-	-	-	70	70
Total other comprehensive income	-	-	-	(1,154)	(1,154)
Total comprehensive income for the period	-	(242)	-	(1,154)	(1,396)
Transactions with owners, recorded directly in equity					
Contributions by and distributions to owners					
Balance at 31 December 2020	15,000	46,835	121,012	(203)	182,644
Total comprehensive income for the period					
Profit for 2021	-	6,791	-	-	6,791
Other comprehensive income, net of tax					
Fair value reserve - net change in fair value	-	-	-	637	637
Tax on other comprehensive income	-	-	-	2	2
Total other comprehensive income	-	-	-	639	639
Total comprehensive income for the period	-	6,791	-	639	7,430
Transactions with owners, recorded directly in equity					
Contributions by and distributions to owners					
Capital contribution	-	-	25,500	-	25,500
Loss on disposal of assets held at FVOCI	-	(543)	-	543	-
Interim dividend relating to 2021	-	(5,550)	-	-	(5,550)
Total contributions by and distributions to owners	-	(6,093)	25,500	543	19,950
Balance at 31 December 2021	15,000	47,533	146,512	979	210,024

The notes on pages 50 to 146 are an integral part of these consolidated financial statements.

Company Statement of Changes in Equity

	Share capital	Retained earnings	Capital contribution reserve	Fair value reserve	Total
	£000	£000	£000	£000	£000
Balance at 1 January 2020	15,000	44,574	121,012	951	181,537
Total comprehensive income for the period					
Loss for 2020	-	(2,554)	-	-	(2,554)
Other comprehensive income, net of tax					
Fair value reserve - net change in fair value	-	-	-	(1,224)	(1,224)
Tax on other comprehensive income	-	-	-	70	70
Total other comprehensive income	-	-	-	(1,154)	(1,154)
Total comprehensive income for the period	-	(2,554)	-	(1,154)	(3,708)
Transactions with owners, recorded directly in equity					
Contributions by and distributions to owners					
Balance at 31 December 2020	15,000	42,020	121,012	(203)	177,829
Total comprehensive income for the period					
Loss for 2021	-	(1,754)	-	-	(1,754)
Other comprehensive income, net of tax					
Fair value reserve - net change in fair value	-	-	-	637	637
Tax on other comprehensive income	-	-	-	2	2
Total other comprehensive income	-	-	-	639	639
Total comprehensive income for the period	-	(1,754)	-	639	(1,115)
Transactions with owners, recorded directly in equity					
Contributions by and distributions to owners					
Capital contribution	-	-	25,500	-	25,500
Loss on disposal of assets held at FVOCI	-	(543)	-	543	-
Interim dividend relating to 2021	-	(5,550)	-	-	(5,550)
Total contributions by and distributions to owners	-	(6,093)	25,500	543	19,950
Balance at 31 December 2021	15,000	34,173	146,512	979	196,664

The notes on pages 50 to 146 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

		Year ended 31 December 2021 £000	Year ended 31 December 2020 £000
	Note		
Cash flows from operating activities			
Interest received		77,319	87,876
Interest paid		(11,752)	(16,629)
Fees and commissions received		15,579	13,922
Other income		4,402	1,518
Cash payments to employees and suppliers		(59,153)	(77,877)
Taxation paid		-	755
Cash flows from operating profit before changes in operating assets and liabilities		26,395	9,565
Changes in operating assets and liabilities:			
- net (increase)/decrease in derivative financial instruments		(388)	291
- net (increase)/decrease in loans and advances to customers		(284,871)	11,366
- net increase in other assets		(12,558)	(10,972)
- net increase in amounts due to customers		465,088	279,664
- net increase/(decrease) in other liabilities		12,651	(4,935)
Net cash inflow from operating activities		206,317	284,979
Cash flows from investing activities			
Purchase of subsidiary undertakings	28	(9,998)	-
Disposal of financial investments		2,400	-
Purchase of computer software	27	(5,100)	(6,393)
Purchase of property, plant and equipment	29	(172,915)	(683)
Proceeds from sale of property, plant and equipment	29	48,255	-
Disposal of assets held for sale		149	4,332
Purchase of debt securities		(590,492)	(695,614)
Proceeds from redemption of debt securities		635,155	791,242
Net cash (outflow)/inflow from investing activities		(92,546)	92,884
Cash flows from financing activities			
Decrease in borrowings		10,243	(331)
Dividends paid		(5,550)	-
Capital contribution received		25,500	-
Capital element of lease payments		(2,893)	(2,633)
Net cash inflow/(outflow) from financing activities		27,300	(2,964)
Net increase in cash and cash equivalents		141,071	374,899
Cash and cash equivalents at 1 January		747,051	372,152
Cash and cash equivalents at 31 December	41	888,122	747,051

The notes on pages 50 to 146 are an integral part of these consolidated financial statements.

Company Statement of Cash Flows

		Year ended 31 December 2021 £000	Year ended 31 December 2020 £000
	Note		
Cash flows from operating activities			
Interest received		67,563	65,178
Interest paid		(11,252)	(16,573)
Fees and commissions received		11,627	12,574
Other income		3,961	1,084
Cash payments to employees and suppliers		(58,478)	(57,474)
Taxation received/(paid)		-	1,582
Cash flows from operating profits before changes in operating assets and liabilities		13,421	6,371
Changes in operating assets and liabilities:			
- net (increase)/decrease in derivative financial instruments		(388)	291
- net (increase)/decrease in loans and advances to customers		(391,005)	15,709
- net increase in other assets		(7,108)	(18,048)
- net increase in amounts due to customers		461,403	284,900
- net increase/(decrease) in other liabilities		2,908	(4,842)
Net cash inflow from operating activities		79,231	284,381
Cash flows from investing activities			
Purchase of subsidiary undertakings	28	(9,998)	-
Disposal of financial investments		2,400	-
Purchase of computer software	27	(5,100)	(5,947)
Purchase of property, plant and equipment	29	(481)	(661)
Disposal of asset held for sale		149	4,332
Purchase of debt securities		(590,492)	(695,614)
Proceeds from redemption of debt securities		635,155	791,242
Net cash inflow from investing activities		31,633	93,352
Cash flows from financing activities			
Decrease in borrowings		10,243	(331)
Dividends paid		(5,550)	-
Capital contribution received		25,500	-
Capital element of lease payments		(2,813)	(2,570)
Net cash inflow/(outflow) from financing activities		27,380	(2,901)
Net increase in cash and cash equivalents		138,244	374,832
Cash and cash equivalents at 1 January		745,678	370,846
Cash and cash equivalents at 31 December	41	883,922	745,678

The notes on pages 50 to 146 are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

1. Reporting entity

Arbuthnot Latham & Co., Ltd is a company domiciled in the United Kingdom. The registered address of Arbuthnot Latham & Co., Ltd is 7 Wilson Street, London, EC2M 2SN. The consolidated financial statements of Arbuthnot Latham & Co., Ltd as at and for the year ended 31 December 2021 comprise Arbuthnot Latham & Co., Ltd and its subsidiaries (together referred to as the "Group" and individually as "subsidiaries"). The Group is primarily involved in banking and financial services.

2. Basis of preparation

(a) Statement of compliance

The Group's consolidated financial statements and 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 consolidated and company financial statements have been prepared under the historical cost convention, as modified by investment property, derivatives and financial assets and financial liabilities measured at fair value through profit or loss or other comprehensive income.

(c) Functional and presentational currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Pounds Sterling, which is the Company's functional and the Group's presentational currency.

(d) Use of estimates and judgements

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 4.

(e) Going concern

After making appropriate enquiries which assessed strategy, profitability, funding, risk management (see Note 6) and capital resources (see Note 7), the directors are satisfied that the Company and the Group have adequate resources to continue in operation for the foreseeable future. The Audit Committee reviewed management's assessment, which incorporated analysis of the ICAAP and ILAAP approved by the Board of AL and of relevant metrics, focusing on liquidity, capital, and the stress scenarios. It is satisfied that the going concern basis and assessment of the Group's longer-term viability is appropriate. 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 Consolidated Financial Statements

3. Significant accounting policies

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

3.1. Consolidation

(a) Subsidiaries

Subsidiaries are all investees (including special purpose entities) controlled by the Group. The Group controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The acquisition method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. Identifiable assets acquired, liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest. The excess of the cost of acquisition over the fair value of the Group's shares of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the Statement of Comprehensive Income as a gain on bargain purchase. Contingent consideration related to an acquisition is initially recognised at the date of acquisition as part of the consideration transferred, measured at its acquisition date fair value and recognised as a liability. The fair value of a contingent consideration liability recognised on acquisition is remeasured at key reporting dates until it is settled, changes in the contingent consideration liability are recognised in the profit and loss.

The company's investments in subsidiaries are recorded at cost less, where appropriate, provisions for impairment in value.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(b) Special purpose entities

Special purpose entities ("SPEs") are entities that are created to accomplish a narrow and well-defined objective such as the securitisation of particular assets or the execution of a specific borrowing or lending transaction. SPEs are consolidated when the investor controls the investee. The investor would only control the investee if it had all of the following:

- power over the investee;
- exposure, or rights, to variable returns from its involvement with the investee; and
- the ability to use its power over the investee to affect the amount of the investor's returns.

The assessment of whether the Group has control over an SPE is carried out at inception and the initial assessment is only reconsidered at a later date if there were any changes to the structure or terms of the SPE, or there were additional transactions between the Group and the SPE.

3.2. Foreign currency translation

Foreign currency transactions are translated into the functional currency using the spot exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Statement of Comprehensive Income. Foreign exchange differences arising from translation of equity instruments in respect of which an election has been made to present subsequent changes in fair value in OCI are recognised in Other Comprehensive Income.

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 Group classifies financial assets and financial liabilities in the following categories: financial assets and financial liabilities at FVTPL; FVOCI, financial assets and financial liabilities at amortised cost. Management determines the classification of its financial instruments at initial recognition.

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

Notes to the Consolidated Financial Statements

(a) Financial assets measured at amortised cost

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

Loans and advances

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable and the SPPI criteria are met. Loans are recognised when cash is advanced to the borrowers inclusive of transaction costs. Loans and advances, other than those relating to assets leased to customers, are carried at amortised cost using the effective interest rate method. The accounting for assets leased to customers is set out under note 30.

Debt securities at amortised cost

Debt securities at amortised cost are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group has determined meets the SPPI criteria. Debt security investments are carried at amortised cost using the effective interest rate method, less any impairment loss.

(b) Financial assets and financial liabilities at FVTPL

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

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

This category comprises derivative financial instruments and financial investments. Derivative financial instruments utilised by the Group include structured notes and derivatives used for hedging purposes.

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

(c) Financial assets at FVOCI

These include investments in special purpose vehicles, equity investments and debt instruments. They may be sold in response to liquidity requirements, interest rate, exchange rate or equity price movements. Financial investments are initially recognised at cost, which is considered as the fair value of the investment including any acquisition costs. The securities are subsequently measured at fair value in the statement of financial position.

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

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

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

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

For debt instruments, changes in fair value are recognised in OCI. The asset is subject to impairment testing under IFRS 9 and a loss allowance provision is recognised for such assets. The portion of changes in fair value which reflect ECL are taken to the profit or loss.

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

Notes to the Consolidated Financial Statements

(d) Financial guarantees and loan commitments

Financial guarantees represent undertakings that the Group will meet a customer's obligation to third parties if the customer fails to do so. Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. The Group is exposed to loss in an amount equal to the total guarantees or 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, where the amount of loss exceeds the total unused commitments, an ECL is recognised. Liabilities under financial guarantee contracts are initially recorded at their fair value, and the initial fair value is amortised over the life of the financial guarantee. Subsequently, the financial guarantee liabilities are measured at the higher of the initial fair value, less cumulative amortisation, and the ECL of the obligations.

(e) Financial liabilities at amortised cost

Financial liabilities at amortised cost are non-derivative financial liabilities with fixed or determinable payments. These financial liabilities are recognised when cash is received from the depositors. Financial liabilities are carried at amortised cost using the effective interest rate method. The fair value of other liabilities repayable on demand is assumed to be the amount payable on demand at the Statement of Financial Position date.

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.

Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

When available, the Group measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

If a market for a financial instrument is not active, the Group establishes fair value using a valuation technique. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same for which market observable prices exist, net present value and discounted cash flow analysis.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or when the Group has transferred substantially all risks and rewards of ownership. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Group is recognised as a separate asset or liability in the Statement of Financial Position. In transactions in which the Group neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset and it retains control over the asset, the Group continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset. There have not been any instances where assets have only been partially derecognised.

The Group derecognises a financial liability when its contractual obligations are discharged, cancelled, expire, are modified or exchanged.

Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group 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 Group's trading activity.

3.4 Impairment for financial assets and lease receivables

IFRS 9 impairment model adopts a three stage expected credit loss ("ECL") approach based on the extent of credit deterioration since origination.

Notes to the Consolidated Financial Statements

The three stages under IFRS 9 are as follows:

- Stage 1 – if, at the reporting date, the credit risk on a financial instrument has not increased significantly since initial recognition, an entity shall measure the loss allowance for that financial instrument at an amount equal to 12-month expected credit losses.
- Stage 2 – a lifetime loss allowance is held for financial assets where a significant increase in credit risk has been identified since initial recognition for financial assets that are not credit impaired. The assessment of whether credit risk has increased significantly since initial recognition is performed for each reporting period for the life of the loan.
- Stage 3 – a lifetime ECL allowance is required for financial assets that are credit impaired at the reporting date.

Measurement of ECL

The assessment of credit risk and the estimation of ECL are unbiased and probability weighted. ECL is measured on either a 12 month (Stage 1) or lifetime (Stage 2) basis depending on whether a significant increase in credit risk has occurred since initial recognition or where an account meets the Group's definition of default (Stage 3).

The ECL calculation is a product of an individual loan's probability of default ('PD'), exposure at default ('EAD') and loss given default ('LGD') discounted at the effective interest rate ('EIR').

Significant increase in credit risk ("SICR") (movement to Stage 2)

The Group's transfer criteria determines what constitutes a significant increase in credit risk, which results in a financial asset being moved from Stage 1 to Stage 2. The Group has determined that a significant increase in credit risk arises when an individual borrower is more than 30 days past due or if forbearance measures have been put in place.

Use of COVID-19 relief mechanisms (for example, payment holidays, CBILS and BBLS) will not automatically merit identification of SICR and trigger a Stage 2 classification in isolation. Where, an individual borrower received COVID-19 relief, which were primarily in the form of payment holidays. The individual borrower was assessed to be a significant increase in credit risk where they were considered to have suffered long term financial difficulty. An individual borrower was considered to have suffered long term financial difficulty based on individual circumstances or where they had received more than two payment holidays or where a payment holiday given was in excess of 6 months.

The Group monitors the ongoing appropriateness of the transfer criteria, and any proposed amendments will be reviewed and approved by the Groups Credit Committees at least annually and more frequently if required.

A borrower will move back into stage 1 conditional upon a period of good account conduct and the improvement of the Client's situation to the extent that the probability of default has receded sufficiently and a full repayment of the loan, without recourse to the collateral, is likely.

Definition of default (movement to Stage 3)

The Group uses a number of qualitative and quantitative criteria to determine whether an account meets the definition of default and as a result moves into Stage 3. The criteria are as follows:

- The rebuttable assumption that more than 90 days past due is an indicator of default. The Group therefore deems more than 90 days past due as an indicator of default except for cases where the customer is already within forbearance. This will ensure that the policy is aligned with the EU Capital Requirement Regulation definition of default.
- The Group has also deemed it appropriate to classify accounts where there has been a breach in agreed forbearance arrangements, recovery action is in hand or bankruptcy proceedings have been initiated or similar insolvency process of a client, or director of a company.

A borrower will move out of Stage 3 when their credit risk improves such that they are no longer past due and remain up to date for a minimum period of six months and the improvement in the borrower's situation to the extent that the probability of default has receded sufficiently and a full repayment of the loan, without recourse to the collateral, is likely.

Forward looking macroeconomic scenarios

IFRS 9 requires the entity to consider the risk of default and impairment loss taking into account expectations of economic changes that are reasonable.

The Group uses bespoke macroeconomic models to determine the most significant factors which may influence the likelihood of an exposure defaulting in the future. At present, the most significant macroeconomic factors relate to property prices, UK real GDP growth and unemployment rate. The Group currently consider five probability weighted scenarios: baseline (2020: "no

Notes to the Consolidated Financial Statements

change”); severe decline; moderate decline; decline and upside (2020: “growth”). The Group has derived an approach for factoring probability weighted macroeconomic forecasts into ECL calculations, adjusting PD and LGD estimates.

Expected life

IFRS 9 requires lifetime expected credit losses to be measured over the expected life. Currently the Group considers the loans’ expected life is equal to the contractual loan term. This approach will continue to be monitored and enhanced if and when deemed appropriate.

Government guarantees

During March and April 2020, the UK government launched a series of temporary schemes designed to support businesses deal with the impact of Covid-19. The BBLS, CBILS, CLBILS and RLS lending products were originated by the Group but are covered by government guarantees. These are to be set against the outstanding balance of a defaulted facility after the proceeds of the business assets have been applied. The government guarantee is 80% for CBILS, CLBILS and RLS and 100% for BBLS. Arbuthnot Latham recognises lower LGDs for these lending products as a result, with 0% applied to the government guaranteed part of the exposure.

3.5. Derivatives held for risk management purposes and hedge accounting

Derivatives held for risk management purposes include all derivative assets and liabilities that are not classified as trading assets or liabilities. All derivatives are measured at fair value in the statement of financial position.

The Group designates certain derivatives held for risk management as hedging instruments in qualifying hedging relationships.

Policy applicable generally to hedging relationships

On initial designation of the hedge, the Group formally documents the relationship between the hedging instrument(s) and hedged item(s), including the risk management objective and strategy in undertaking the hedge, together with the method that will be used to assess the effectiveness of the hedging relationship. The Group makes an assessment, both on inception of the hedging relationship and on an ongoing basis, of whether the hedging instrument(s) is (are) expected to be highly effective in offsetting the changes in the fair value of the respective hedged item(s) during the period for which the hedge is designated, and whether the actual results of each hedge are within a range of 80–125%.

Fair value hedges

When a derivative is designated as the hedging instrument in a hedge of the change in fair value of a recognised asset or liability or a firm commitment that could affect profit or loss, changes in the fair value of the derivative are recognised immediately in profit or loss. The change in fair value of the hedged item attributable to the hedged risk is recognised in profit or loss. If the hedged item would otherwise be measured at cost or amortised cost, then its carrying amount is adjusted accordingly.

If the hedging derivative expires or is sold, terminated or exercised, or the hedge no longer meets the criteria for fair value hedge accounting, or the hedge designation is revoked, then hedge accounting is discontinued prospectively. However, if the derivative is novated to a central counterparty by both parties as a consequence of laws or regulations without changes in its terms except for those that are necessary for the novation, then the derivative is not considered expired or terminated.

Any adjustment up to the point of discontinuation to a hedged item for which the effective interest method is used is amortised to profit or loss as an adjustment to the recalculated effective interest rate of the item over its remaining life.

On hedge discontinuation, any hedging adjustment made previously to a hedged financial instrument for which the effective interest method is used is amortised to profit or loss by adjusting the effective interest rate of the hedged item from the date on which amortisation begins. If the hedged item is derecognised, then the adjustment is recognised immediately in profit or loss when the item is derecognised.

3.6. Impairment of non-financial assets

The carrying amounts of the Group’s non-financial assets, other than inventories and deferred tax assets, are assessed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset’s recoverable amount is estimated. Impairment for goodwill is discussed in more detail under note 27.

3.7. Fiduciary activities

The Group commonly acts as trustee and in other fiduciary capacities that result in the holding or placing of assets on behalf of individuals, trusts, retirement benefit plans and other institutions. These assets and returns derived from the assets arising thereon are excluded from these financial statements, as they are not assets of the Group.

Notes to the Consolidated Financial Statements

3.8. Adoption of new and revised reporting standards

Except for the Interest Rate Benchmark Reform, there are no standards, interpretations or amendments to existing standards that have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2021 or later periods, that will have any material impact on the Group's financial statements.

Interest Rate Benchmark Reform

In August 2020 the IASB issued a further amendment to IAS 39 'Interest Rate Benchmark Reform – Phase 2'. This amendment sets out accounting requirements for the treatment of IBOR-linked financial assets and liabilities under the amortised cost method and IBOR related hedge accounting when a firm replaces the IBOR linkage in the underlying instruments with a replacement benchmark.

It is therefore applicable to the Group's LIBOR-linked assets and liabilities where interest is charged on the basis of LIBOR. The Group intends to utilise the provisions of the amendment as it transitions its IBOR-linked assets and liabilities. The impact of the amendment will depend upon the IBOR related assets, liabilities and hedging relationships at the point at which transition occurs.

3.9. 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 Group has not early adopted the new and amended standards in preparing these consolidated financial statements.

Other standards

The following new and amended standards are not expected to have a significant impact on the Group's consolidated 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)

Notes to the Consolidated Financial Statements

4. Critical accounting estimates and judgements in applying accounting policies

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances

4.1 Estimation uncertainty

(a) Expected credit losses ("ECL") on financial assets

The Group reviews its loan portfolios and debt security investments to assess impairment at least on a quarterly basis. The basis for evaluating impairment losses is described in note 11. The measurement of ECL required by the implementation of IFRS 9, from 1 January 2018, necessitates a number of significant judgements. Specifically, 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.

The Group incorporates FLI into the assessment of whether there has been a significant increase in credit risk. Forecasts for key macroeconomic variables that most closely correlate with the Bank's portfolio are used to produce five economic scenarios, comprising of a base case (2020: 'No change'), which is the central scenario, developed internally based on consensus forecast, and four less likely scenarios, one upside (2020: 'Growth') and three downside scenarios (decline, moderate decline and severe decline), and the impacts of these scenarios are then probability weighted. The estimation and application of this FLI will require significant judgement supported by the use of external information.

12-month ECLs on loans and advances (loans within Stage 1) are calculated using a statistical model on a collective basis, grouped together by product and geographical location. The key assumptions are the probability of default, the economic scenarios and loss given default having consideration to collateral. Lifetime 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 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 Group'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.

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 Group considered the impact of various assumptions on the calculation of ECL (changes in GDP, unemployment rates, inflation, exchange rates, equity prices, wages and collateral values/property prices) and concluded that collateral values/property prices, UK GDP and UK unemployment rate (2020: collateral values/property prices) are key drivers of credit risk and credit losses for each portfolio of financial instruments.

Using an analysis of historical data, management has estimated relationships between macro-economic variables and credit risk and credit losses. The Group estimates each key driver for credit risk over the active forecast period of between two and five years. This is followed by a period of mean reversion of five years.

The five macroeconomic scenarios modelled on future property prices and macroeconomic variables were as follows:

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

The tables below therefore reflect the expected probability weightings applied for each macroeconomic scenario:

Notes to the Consolidated Financial Statements

	Group & Company*	
	Probability weighting	
	2021	2020
Economic Scenarios		
Baseline (2020: No Change)	52.0%	9.0%
Upside (2020: Growth)	25.0%	4.0%
Decline	16.0%	70.0%
Moderate Decline	5.0%	15.0%
Severe Decline	2.0%	2.0%

* Renaissance Asset Finance applied probability weightings of 31.0% for No Change scenario, 3.0% for Growth scenario, 40% for Decline, 20% for Moderate Decline and 6% for Severe Decline scenarios at 31 December 2020.

The tables below list 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 absolute percentage unemployment rates and year-on-year percentage change for GDP and property prices.

UK House price index - four quarter growth

At 31 December 2021

Year	Upside	Baseline	Decline	Moderate Decline	Severe Decline
2022	6.2%	2.5%	-5.4%	-9.8%	-14.3%
2023	5.9%	2.3%	-4.1%	-10.5%	-16.9%
2024	5.6%	2.0%	-0.9%	-3.8%	-6.8%
5-year average	5.6%	2.0%	-0.7%	-2.8%	-4.8%

UK Commercial real estate price - four quarter growth

At 31 December 2021

Year	Upside	Baseline	Decline	Moderate Decline	Severe Decline
2022	5.9%	1.5%	-12.8%	-17.4%	-22.0%
2023	6.3%	1.5%	-1.0%	-3.5%	-6.0%
2024	5.4%	1.3%	2.9%	4.4%	6.0%
5-year average	5.1%	1.4%	-1.2%	-1.8%	-2.4%

UK Unemployment rate – annual average

At 31 December 2021

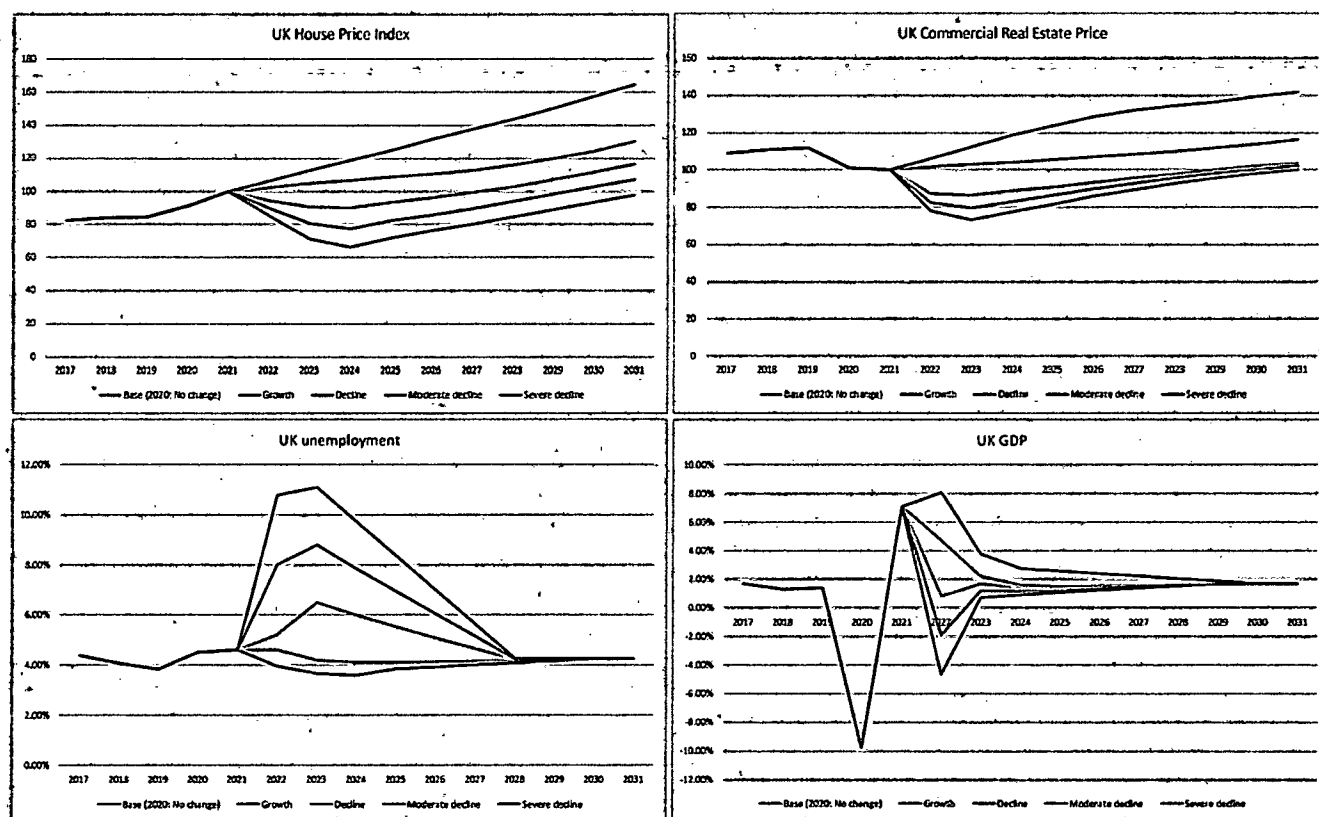
Year	Upside	Baseline	Decline	Moderate Decline	Severe Decline
2022	4.0%	4.6%	5.2%	8.0%	10.8%
2023	3.7%	4.2%	6.5%	8.8%	11.1%
2024	3.6%	4.1%	6.0%	7.9%	9.7%
5-year average	3.8%	4.2%	5.7%	7.5%	9.4%

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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 graphs below plot the historical data for HPI, Commercial real estate price, unemployment rate and GDP growth rate in the UK as well as the forecasted data under each of the five scenarios.



The Group & Company applied 5-year average expected change in property price of 0% for No Change scenario, 0.5% for Growth scenario, negative 2.5% for Decline, negative 20% for Moderate Decline and negative 40% for Severe Decline scenarios at 31 December 2020.

The table below compares the 31 December 2021 ECL provision using the 31 December 2021 economic scenarios and the 31 December 2021 ECL provision using the 31 December 2020 economic scenarios.

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	Group		Company	
	Economic Scenarios as at			
	2021	2020	2021	2020
	£,000	£,000	£,000	£,000
ECL Provision				
Stage 1	388	831	162	487
Stage 2	77	157	41	67
Stage 3	5,922	5,968	3,208	3,248
At 31 December 2021	6,387	6,956	3,411	3,802

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

	Group		Company	
	2021	2020	2021	2020
	£,000	£,000	£,000	£,000
Severe Decline	(£13.6m)	(£51.0m)	(£8.6m)	(£46.4m)
Moderate Decline	(£4.0m)	(£6.0m)	(£3.0m)	(£5.1m)
Decline	(£0.8m)	£0.4m	(£0.7m)	£0.3m
Baseline	£0.1m	£0.8m	-	£0.4m
Upside	£0.1m	£0.9m	£0.1m	£0.5m

(b) Effective Interest Rate

Loans and advances to customers are initially recognised at fair value. Subsequently, they are measured under the effective interest rate method. Management review the expected cash flows against actual cash flows to ensure future assumptions on customer behaviour and future cash flows remain valid. If the estimates of future cash flows are revised, the gross carrying value of the financial asset is recalculated as the present value of the estimated future contractual cash flows discounted at the original effective interest rate. The adjustment to the carrying value of the loan book is recognised in the Statement of Comprehensive Income.

The accuracy of the effective interest rate is affected by unexpected market movements resulting in altered customer behaviour, inaccuracies in the models used compared to actual outcomes and incorrect assumptions.

In 2021 the Group recognised £0.1m (2020: £0.1m) additional interest income to reflect a revision in the timing of expected cash flows on the originated book, reflecting a shortening of the expected life of originated loan book.

If customer loans repaid 6 months earlier than anticipated on the originated loan book, interest income would increase by £0.6m (2020: £0.5m), due to acceleration of fee income.

In 2021 the Group recognised £0.3m (2020: £0.1m) reversal of interest income to reflect actual cash flows received on the acquired mortgage books being less than forecast cash flows.

The key judgements in relation to calculating the net present value of the acquired mortgage books relate to the timing of future cash flows on principal repayments. Management have considered an early and delayed 6-month sensitivity on the timing of repayment and a 10% increase and decrease of principal repayments to be reasonably possible.

If the acquired loan books were modelled to accelerate cash flows by 6 months, it would increase interest income in 2021 by £0.1m (2020: £0.2m) while a 10% increase in principal repayments will increase interest income in 2021 by £0.3m (2020: £0.5m) through a cash flow reset adjustment.

Notes to the Consolidated Financial Statements

(c) Investment property

The valuations that the Group places on its investment properties are subject to a degree of uncertainty and are calculated on the basis of assumptions in relation to prevailing market rents and effective yields. These assumptions may not prove to be accurate, particularly in periods of market volatility.

Following the uncertainty due to Brexit which had the effect of reducing the activity in the property market in 2019, the impact of COVID-19 combined with the ongoing complexities of Brexit had the impact of further significantly reducing the activity in the property market, particularly during the first half of 2020. There were signs of the level of activity increasing in 2021 and early 2022, though below the overall levels of 2019. This has in turn resulted in less market evidence being available for Management in making its judgement on the key assumptions of property yield and market rent. The Group currently owns one (2020: one) investment property, as outlined in note 31.

Management valued the investment property utilising externally sourced market information and property specific knowledge. The valuations were reviewed by the Group's in-house surveyor.

Crescent Office Park, Bath (value at 2021: £6.6m; (2020: £6.6m))

In December 2017, the office building was acquired with the intention to be included within a new property fund initiative that the Group had planned to start-up. The property had tenants in situ with the Fund recognising rental income.

The property was initially recognised as held for sale under IFRS 5. In 2018 the launch of the property fund was placed on hold and as a result it was reclassified as an investment property as the property no longer met the IFRS 5 criteria. The property remained occupied as at 31 December 2021 with the Group receiving rental income.

In accordance with IAS 40, the property is recognised at fair value, with its carrying value at year end of £6.6m equal to its fair value.

The valuation of the property has the following key considerations:

- yield: 6.50%
- future rent increases (every five years): 4.00%

		Revised fair value gain / (loss)	
		£m	%
Model Yield	6.50%		
- Yield 0.25% lower	6.25%	0.4	5.3%
- Yield 0.25% higher	6.75%	(0.3)	-3.8%
Model Future Rent Increases (Every 5 Years)	4.00%		
- Positive +25%	5.00%	0.2	2.3%
- Negative -25%	3.00%	0.1	0.8%

(d) Inventory

The Group owns two commercial properties and four repossessed properties, classified as inventory. During 2019, the two commercial properties were reclassified from investment property to inventory due to being under development with the intention to sell. The repossessed properties were initially recognised as inventory. The commercial properties on reclassification to inventory were initially recognised at fair value and have been subsequently measured at the lower of cost and net realisable value (NRV) less costs to sell. Cost is deemed to be fair value on the date of transfer or initial recognition. The properties are assessed at the reporting date for impairment.

The internal valuations that the Group places on its properties are subject to a degree of uncertainty and are calculated on the basis of assumptions in relation to prevailing market rents and effective yields. These assumptions may not prove to be accurate, particularly in periods of market volatility.

Notes to the Consolidated Financial Statements

Similarly to investment property, the uncertainty due to Brexit and the impact of COVID-19 resulted in less market evidence being available for Management in making its judgement on the key assumptions of property yield and market rent.

Management valued the property utilising externally sourced market information and property specific knowledge. The valuations were reviewed by the Group's in-house surveyor.

The external valuations that the Group places on its properties are subject to a degree of uncertainty and are calculated on the basis of assumptions in relation to prevailing market conditions and subject to comparable properties for sale. These valuations are therefore susceptible to uncertainty particularly where there is a limited level of activity in the property market.

Management have assessed that should the net realisable value less cost to sell of each of the combined property inventory reduce by 5% this would impact profit or loss by £0.4m (or 0.5% of cost) and a reduction of 10% would impact profit or loss by £2.1m (or 2.4% of cost).

(e) Residual value

At the end of lease terms, assets may be sold to third parties or leased for further terms. Rentals are calculated to recover the cost of assets less their residual value (RV), and earn finance income. RV's represent the estimated value of the leased asset at the end of lease period. Residual values are calculated after analysing the market place and the company's own historical experience in the market. Expected residual values of leased assets are prospectively adjusted for through the depreciation adjustments which are charged to the income statement each year. The key estimates and judgements that arise in relation to RV's are timing of lease terminations and expected residual value of returned vehicles.

The profitability of the Group's operating lease contracts is highly dependent on the RV of the vehicle at the end of the agreement. On inception of the lease, the Group uses its knowledge and experience of the market and industry to estimate the final RV of the vehicle. The Group is exposed to the risk that the RV of the vehicle may be less than anticipated at the outset of the contract impacting profitability. The Group manages the risk through effective and robust procedures by continually monitoring historic, current and forecast RF performance.

Expected residual values underlying the calculation of depreciation of leased assets are kept under review to take account of any change in circumstances. Refer to note 29 for further detail.

(f) Fair Value of Fixed Assets on Acquisition

Upon acquisition of AAG management used an external valuation expert to determine the market value of the fleet of leased assets. An overall average increase of 15.95% on the carrying value resulted in an uplift of £19.2m. Since acquisition management have monitored subsequent sales and have recorded a £2.9m provision against future residual values of the leased vehicles based on the company's historical sales trends.

(g) Recognition of Brand

Management used an external valuation expert to determine the market value of AAG's brand. At acquisition the fair value of the brand was estimated using the relief from royalty ("RfR") approach. The RfR method is a widely used approach for valuing intangibles. The principle of the RfR method value equates to the avoided cost of not having to pay a royalty. A royalty rate of 0.4% was applied against forecast revenues resulting in a brand value of £3.5m.

Notes to the Consolidated Financial Statements

5. Maturity analysis of assets and liabilities

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

	Due within one year	Due after more than one year	Total
At 31 December 2021	£000	£000	£000
ASSETS			
Cash and balances at central banks	814,692	-	814,692
Loans and advances to banks	73,430	-	73,430
Debt securities at amortised cost	147,696	153,356	301,052
Assets classified as held for sale	3,136	-	3,136
Derivative financial instruments	118	1,635	1,753
Loans and advances to customers	658,006	1,224,455	1,882,461
Other assets	109,687	378	110,065
Financial investments	124	3,045	3,169
Deferred tax asset	-	2,041	2,041
Intangible assets	7,340	26,255	33,595
Property, plant and equipment	78,897	46,856	125,753
Right of use assets	2,729	12,946	15,675
Investment property	-	6,550	6,550
	1,895,854	1,477,517	3,373,372
LIABILITIES			
Deposits from banks	15,333	225,000	240,333
Derivative financial instruments	132	39	171
Deposits from customers	1,659,707	1,197,242	2,856,949
Current tax liability	652	-	652
Other liabilities	19,570	28	19,598
Lease liabilities	5,802	15,475	21,277
Debt securities in issue	-	24,367	24,367
	1,701,196	1,462,151	3,163,347

Notes to the Consolidated Financial Statements

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

	Due within one year	Due after more than one year	Total
At 31 December 2020	£000	£000	£000
ASSETS			
Cash and balances at central banks	636,799	-	636,799
Loans and advances to banks	110,252	-	110,252
Debt securities at amortised cost	199,002	145,690	344,692
Assets classified as held for sale	3,285	-	3,285
Derivative financial instruments	202	1,641	1,843
Current tax asset	242	-	242
Loans and advances to customers	545,356	1,053,993	1,599,349
Other assets	97,399	108	97,507
Financial investments	1,754	2,570	4,324
Deferred tax asset	-	614	614
Intangible assets	13,895	13,481	27,376
Property, plant and equipment	3,113	1,631	4,744
Right of use assets	2,793	14,910	17,703
Investment property	-	6,550	6,550
	1,614,092	1,241,188	2,855,280
LIABILITIES			
Deposits from banks	5,090	225,000	230,090
Derivative financial instruments	188	461	649
Deposits from customers	2,196,993	194,868	2,391,861
Current tax liability	476	-	476
Other liabilities	6,946	-	6,946
Lease liabilities	2,798	15,508	18,306
Debt securities in issue	-	24,308	24,308
	2,212,491	460,145	2,672,636

Notes to the Consolidated Financial Statements

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

	Due within one year	Due after more than one year	Total
At 31 December 2021	£000	£000	£000
ASSETS			
Cash and balances at central banks	814,112	-	814,112
Loans and advances to banks	69,810	-	69,810
Debt securities at amortised cost	147,696	153,356	301,052
Assets classified as held for sale	3,136	-	3,136
Derivative financial instruments	118	1,635	1,753
Loans and advances to customers	813,714	1,161,611	1,975,325
Other assets	95,990	378	96,368
Financial investments	124	3,045	3,169
Deferred tax asset	-	747	747
Investment in subsidiary	-	35,755	35,755
Intangible assets	7,340	16,815	24,155
Property, plant and equipment	2,831	784	3,615
Right of use assets	2,630	11,977	14,607
	1,957,501	1,386,103	3,343,604
LIABILITIES			
Deposits from banks	15,333	225,000	240,333
Derivative financial instruments	132	39	171
Deposits from customers	1,957,312	900,954	2,858,266
Other liabilities	8,676	-	8,676
Lease liabilities	2,580	12,547	15,127
Debt securities in issue	-	24,367	24,367
	1,984,033	1,162,907	3,146,940

Notes to the Consolidated Financial Statements

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

	Due within one year	Due after more than one year	Total
At 31 December 2020	£000	£000	£000
ASSETS			
Cash and balances at central banks	636,799	-	636,799
Loans and advances to banks	108,879	-	108,879
Debt securities at amortised cost	199,002	145,690	344,692
Assets classified as held for sale	3,285	-	3,285
Derivative financial instruments	202	1,641	1,843
Current tax asset	242	-	242
Loans and advances to customers	552,029	1,032,070	1,584,099
Other assets	100,137	108	100,245
Financial investments	1,754	2,570	4,324
Deferred tax asset	-	484	484
Investment in subsidiary	-	24,770	24,770
Intangible assets	13,895	7,817	21,712
Property, plant and equipment	3,113	1,607	4,720
Right of use assets	2,720	14,457	17,177
	1,622,057	1,231,214	2,853,271
LIABILITIES			
Deposits from banks	5,090	225,000	230,090
Derivative financial instruments	188	461	649
Deposits from customers	2,280,739	116,124	2,396,863
Other liabilities	5,768	-	5,768
Lease liabilities	2,732	15,032	17,764
Debt securities in issue	-	24,308	24,308
	2,294,517	380,925	2,675,442

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6. Financial risk management

Strategy

By their nature, the Group's activities are principally related to the use of financial instruments. The Directors and senior management of the Group have formally adopted a Group Risk and Controls Policy which sets out the Board's attitude to risk and internal controls. Key risks identified by the Directors are formally reviewed and assessed at least once a year by the Board, in addition to which key business risks are identified, evaluated and managed by operating management on an ongoing basis by means of procedures such as physical controls, credit and other authorisation limits and segregation of duties. The Board also receives regular reports on any risk matters that need to be brought to its attention. Significant risks identified in connection with the development of new activities are subject to consideration by the Board. There are budgeting procedures in place and reports are presented regularly to the Board detailing the results of each principal business unit, variances against budget and prior year, and other performance data.

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

(a) Credit risk

The Company and Group take on exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Impairment provisions are provided for expected credit losses. Significant changes in the economy, or in the health of a particular industry segment that represents a concentration in the Company and Group's portfolio, could result in losses that are different from those provided for at the balance sheet date. Credit risk is managed through the Credit Committee.

The Committee regularly reviews the credit risk profile of the Group, with a clear focus on performance against risk appetite statements and risk metrics. The Committee considered credit conditions during the year, and in particular the impact of the Covid-19 crisis on performance against both credit risk appetite and a range of key credit risk metrics.

The Company and Group 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 economic environment remains uncertain and future impairment charges may be subject to further volatility (including from changes to macroeconomic variable forecasts) depending on the longevity of the COVID-19 pandemic and related containment measures, as well as the longer term effectiveness of central bank, government and other support measures.

COVID-19 has created an unprecedented challenge for ECL modelling, given the severity of economic shock and associated uncertainty for the future economic path coupled with the scale of government and central bank intervention and Covid-19 relief mechanisms that have altered the relationships between economic drivers and default.

The Group has attempted to leverage stress test modelling insights to inform ECL model refinements to enable reasonable estimates. Management review of modelling approaches and outcomes continues to inform any necessary adjustments to the ECL estimates through the form of in-model adjustments, based on expert judgement including the use of available information. Management considerations included the potential severity and duration of the economic shock, including the mitigating effects of government support actions, as well the potential trajectory of the subsequent recovery. The Group also considered differential impacts on asset classes, including pronouncements from regulatory bodies regarding IFRS 9 application in the context of Covid-19, notably on significant increase in credit risk (SICR) identification.

The Group employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of collateral to secure advances, which is common practice. The principal collateral types for loans and advances include, but are not limited to:

- Charges over residential and commercial properties;
- Charges over business assets such as premises, inventory and accounts receivable;
- Charges over financial instruments such as debt securities and equities;
- Charges over other chattels; and

Notes to the Consolidated Financial Statements

- Personal guarantees.

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

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss in an amount equal to the total unused commitments.

The Group incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. The key inputs into the measurement of the ECL are:

- assessment of significant increase in credit risk
- future economic scenarios
- probability of default
- loss given default
- exposure at default

The IFRS 9 impairment model adopts a three stage approach based on the extent of credit deterioration since origination, see note 10.

The below tables represent the maximum credit risk exposure to the Group and Company at 31 December 2021 and 2020 without taking account of any collateral held or other credit enhancements attached. For on-balance-sheet assets, the exposures are based on the carrying amounts as reported in the Statement of Financial Position.

Group Credit risk exposures (all stage 1, unless otherwise stated)	2021							Total
	Banking	Mortgage Portfolios	RAF	ABL	ASFL	AAG	All Other Divisions	
	£000	£000	£000	£000	£000	£000	£000	£000
<u>On-balance sheet:</u>								
Cash and balances at central banks	-	-	-	-	-	-	814,499	814,499
Loans and advances to banks	-	-	-	-	-	-	73,430	73,430
Debt securities at amortised cost	-	-	-	-	-	-	301,052	301,052
Assets classified as held for sale	-	-	-	-	-	-	3,136	3,136
Derivative financial instruments	-	-	-	-	-	-	1,753	1,753
Loans and advances to customers (net of ECL)	1,399,388	178,153	99,969	182,213	10,125	7,500	11,500	1,888,848
Stage 1	1,297,781	157,566	82,952	182,213	9,896	7,500	11,500	1,749,408
Stage 2	70,132	13,728	11,374	-	229	-	-	95,463
Stage 3	31,475	6,859	5,643	-	-	-	-	43,977
Other assets	-	-	-	-	-	-	13,095	13,095
Financial investments	-	-	-	-	-	-	3,169	3,169
<u>Off-balance sheet:</u>								
Guarantees	2,931	-	-	-	-	1,629	-	4,560
Loan commitments and other credit related liabilities	261,797	-	-	200,478	2,115	-	-	464,390
At 31 December	1,664,116	178,153	99,969	382,691	12,240	9,129	1,221,634	3,567,932

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2020

Group	Banking	Mortgage Portfolios	RAF	ABL	ASFL	AAG	All Other Divisions	Total
Credit risk exposures (all stage 1, unless otherwise stated)	£000	£000	£000	£000	£000	£000	£000	£000
<u>On-balance sheet:</u>								
Cash and balances at central banks	-	-	-	-	-	-	636,631	636,631
Loans and advances to banks	-	-	-	-	-	-	110,252	110,252
Debt securities at amortised cost	-	-	-	-	-	-	344,692	344,692
Derivative financial instruments	-	-	-	-	-	-	1,843	1,843
Loans and advances to customers (net of ECL)	1,133,799	268,827	91,927	87,331	5,964	-	11,501	1,599,349
Stage 1	1,030,970	223,800	74,542	87,331	5,964	-	11,501	1,434,108
Stage 2	72,626	36,794	16,394	-	-	-	-	125,814
Stage 3	30,203	8,233	991	-	-	-	-	39,427
Other assets	-	-	-	-	-	-	6,779	6,779
Financial investments	-	-	-	-	-	-	4,324	4,324
<u>Off-balance sheet:</u>								
Guarantees	6,248	-	-	-	-	-	-	6,248
Loan commitments and other credit related liabilities	152,972	-	-	155,300	155	-	-	308,427
At 31 December	1,293,019	268,827	91,927	242,631	6,119	-	1,116,022	3,018,545

Notes to the Consolidated Financial Statements

Company	2021							Total
	Banking	Mortgage Portfolios	RAF	ABL	ASFL	AAG	All Other Divisions	
Credit risk exposures (all stage 1, unless otherwise stated)	£000	£000	£000	£000	£000	£000	£000	£000
<u>On-balance sheet:</u>								
Cash and balances at central banks	-	-	-	-	-	-	813,920	813,920
Loans and advances to banks	-	-	-	-	-	-	69,810	69,810
Debt securities at amortised cost	-	-	-	-	-	-	301,052	301,052
Assets classified as held for sale	-	-	-	-	-	-	3,136	3,136
Derivative financial instruments	-	-	-	-	-	-	1,753	1,753
Loans and advances to customers (net of ECL)	1,399,388	178,153	-	-	-	-	401,195	1,978,736
Stage 1	1,297,781	157,566	-	-	-	-	401,195	1,856,542
Stage 2	70,132	13,728	-	-	-	-	-	83,860
Stage 3	31,475	6,859	-	-	-	-	-	38,334
Other assets	-	-	-	-	-	-	11,469	11,469
Financial investments	-	-	-	-	-	-	3,169	3,169
<u>Off-balance sheet:</u>								
Guarantees	2,931	-	-	-	-	-	-	2,931
Loan commitments and other credit related liabilities	261,797	-	-	-	-	-	-	261,797
At 31 December	1,664,116	178,153	-	-	-	-	1,605,504	3,447,773

	2020							
Company	Banking	Mortgage Portfolios	RAF	ABL	ASFL	AAG	All Other Divisions	Total
<u>On-balance sheet:</u>								
Cash and balances at central banks	-	-	-	-	-	-	636,631	636,631
Loans and advances to banks	-	-	-	-	-	-	108,879	108,879
Debt securities at amortised cost	-	-	-	-	-	-	344,692	344,692
Derivative financial instruments	-	-	-	-	-	-	1,843	1,843
Loans and advances to customers (net of ECL)	1,133,799	268,827	-	-	-	-	181,473	1,584,099
Stage 1	1,030,970	223,800	-	-	-	-	181,473	1,436,243
Stage 2	72,626	36,794	-	-	-	-	-	109,420
Stage 3	30,203	8,233	-	-	-	-	-	38,436
Other assets	-	-	-	-	-	-	15,002	15,002
Financial investments	-	-	-	-	-	-	4,324	4,324
Guarantees	6,248	-	-	-	-	-	-	6,248
Loan commitments and other credit related liabilities	152,972	-	-	-	-	-	-	152,972
At 31 December	1,293,019	268,827	-	-	-	-	1,292,844	2,854,690

The above tables represent the maximum credit risk exposure of financial assets to the Group and Company at 31 December 2021, without taking account of any collateral held or other credit enhancements attached. For financial assets, the balances are based on carrying amounts as reported in the Statement of Financial Position. For guarantees and loan commitments, the amounts in the table represent the amounts for which the group is contractually committed.

Notes to the Consolidated Financial Statements

The table below represents an analysis of the loan to values of the exposures secured by property for the Group and Company:

Group & Company	2021					
	Banking		Mortgage Portfolios		Total	
	Loan Balance £000	Collateral £000	Loan Balance £000	Collateral £000	Loan Balance £000	Collateral £000
Less than 60%	724,604	1,606,614	74,305	174,446	798,909	1,781,060
Stage 1	699,913	1,557,704	67,034	157,905	766,947	1,715,609
Stage 2	17,722	34,470	5,195	12,185	22,917	46,655
Stage 3	6,969	14,440	2,076	4,356	9,045	18,796
60%-80%	586,077	916,749	59,536	86,873	645,613	1,003,622
Stage 1	538,908	847,769	53,182	77,574	592,090	925,343
Stage 2	37,550	55,255	4,090	5,881	41,640	61,136
Stage 3	9,619	13,725	2,264	3,418	11,883	17,143
80%-100%	23,362	27,223	29,387	33,591	52,749	60,814
Stage 1	8,488	10,088	25,498	29,065	33,986	39,153
Stage 2	14,874	17,135	2,557	2,909	17,431	20,044
Stage 3	-	-	1,332	1,617	1,332	1,617
Greater than 100%*	27,525	22,002	20,489	16,796	48,014	38,798
Stage 1	14,895	12,914	15,640	12,855	30,535	25,769
Stage 2	-	-	2,768	2,435	2,768	2,435
Stage 3	12,630	9,088	2,081	1,506	14,711	10,594
Total	1,361,568	2,572,588	183,717	311,706	1,545,285	2,884,294

*In addition to property, other security is taken, including charges over Arbuthnot Latham Investment Management portfolios, other chattels and personal guarantees. The increase in loan to values greater than 100% is due to an increase in exposures collateralised by other assets. Additionally under the government scheme for BBLs, collateral is not required as the loans are 100% backed by the government.

Loans in the Banking segment with a loan to value of greater than 100% have additional collateral of £7.8m in the form of cash deposits and security over Arbuthnot Latham Investment Management Portfolios and personal guarantees of £35.9m. Non property collateral reduces loan to value below 100% for all such exposures in the banking segment.

Notes to the Consolidated Financial Statements

The table below represents an analysis of the loan to values of the exposures secured by property for the Group and Company:

Group & Company	2020					
	Banking		Mortgage Portfolios		Total	
	Loan Balance £000	Collateral £000	Loan Balance £000	Collateral £000	Loan Balance £000	Collateral £000
Less than 60%	691,787	1,445,062	130,773	315,099	822,560	1,760,161
Stage 1	649,958	1,379,681	108,766	262,939	758,724	1,642,620
Stage 2	27,119	48,259	18,483	42,591	45,602	90,850
Stage 3	14,710	17,122	3,524	9,569	18,234	26,691
60%-80%	370,629	567,337	96,372	122,956	467,001	690,293
Stage 1	308,860	480,511	82,443	101,641	391,303	582,152
Stage 2	44,340	60,221	10,659	15,783	54,999	76,004
Stage 3	17,429	26,605	3,270	5,532	20,699	32,137
80%-100%	8,046	9,425	28,170	34,090	36,216	43,515
Stage 1	8,046	9,425	24,115	29,003	32,161	38,428
Stage 2	-	-	3,572	4,313	3,572	4,313
Stage 3	-	-	483	774	483	774
Greater than 100%*	16,010	12,530	13,694	13,849	29,704	26,379
Stage 1	16,010	12,530	8,546	8,376	24,556	20,906
Stage 2	-	-	4,172	4,163	4,172	4,163
Stage 3	-	-	976	1,310	976	1,310
Total	1,086,472	2,034,354	269,009	485,994	1,355,481	2,520,348

*In addition to property, other security is taken, including charges over Arbuthnot Latham Investment Management portfolios, other chattels and personal guarantees. The increase in loan to values greater than 100% is due to an increase in exposures collateralised by other assets. Additionally under the government scheme for BBLs, collateral is not required as the loans are 100% backed by the government.

Loans in the Banking segment with a loan to value of greater than 100% have additional collateral of £10.0m in the form of cash deposits and security over Arbuthnot Latham Investment Management Portfolios and personal guarantees of £5.0m. Non property collateral reduces loan to value below 100% for all such exposures in the banking segment.

Notes to the Consolidated Financial Statements

The table below represents an analysis of loan commitments compared to the values of collateral for the Group (all Stage 1):

Group	2021	
	Total	
	Loan commitments £000	Collateral £000
Less than 60%	125,147	437,385
60%-80%	69,960	105,781
80%-100%	9,573	10,331
Greater than 100%	20,660	15,017
Total	225,340	568,514

Group	2020	
	Total	
	Loan commitments £000	Collateral £000
Less than 60%	52,990	123,660
60%-80%	62,323	95,602
80%-100%	7,608	9,180
Greater than 100%	5,502	4,758
Total	128,423	233,200

Renegotiated loans and forbearance

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

Customers seeking Covid-19 related support, including payment holidays, who were not subject to any wider SICR triggers and who were assessed as having the ability in the medium-term, post-crisis to be viable and meet credit appetite metrics, were not considered to have been granted forbearance.

When modification results in derecognition, a new loan is recognised and allocated to Stage 1 (assuming it is not credit-impaired at that time).

The Group renegotiates loans to customers in financial difficulties (referred to as 'forbearance') to maximise collection opportunities and minimise the risk of default. Under the Group's forbearance policy, loan forbearance is granted on a selective basis if the debtor is currently in default on its debt, or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms.

The revised terms can include changing the timing of interest payments, extending the date of repayment of the loan, transferring a loan to interest only payments and a payment holiday. Both retail and corporate loans are subject to the forbearance policy. The Group Credit Committee regularly reviews reports on forbearance.

For financial assets modified as part of the Group's forbearance policy, the estimate of PD reflects whether the modification has improved or restored the Group's ability to collect interest and principal and the Group's previous experience of similar forbearance action. As part of this process, the Group evaluates the borrower's payment performance against the modified contractual terms and considers various behavioural indicators. Whilst the customer is under forbearance the customer will be classified as stage 2 and recognise a lifetime ECL. The customer will transfer to stage 1 and revert to a 12 month ECL when they exit forbearance and conditional upon both a minimum six months' good account conduct and the improvement to the Client's situation to the extent the probability of default has receded sufficiently and full repayment of the loan, without recourse to the collateral, is likely.

Notes to the Consolidated Financial Statements

Forbearance is a qualitative indicator of a SICR (see notes 3.3 & 3.4).

As at 31 December 2021, loans for which forbearance measures were in place totalled 3.82% (2020: 4.97%) of total value of loans to customers for the Group.

These are set out in the following tables:

Notes to the Consolidated Financial Statements

Group	2021		2021		2021	
	Stage 1		Stage 2		Stage 3	
	Number	Loan Balance £000	Number	Loan Balance £000	Number	Loan Balance £000
Time for Asset Sale	-	-	6	7,586	1	43
Term Extension	-	-	9	18,875	-	-
Time for Refinance with third party	-	-	8	14,867	-	-
Payment holiday	-	-	1	1,651	2	88
Covenant waived	-	-	4	7,384	-	-
Switch to interest only	-	-	1	10,681	-	-
Modification in terms and conditions	-	-	63	9,809	15	915
Total forbearance	-	-	92	70,853	18	1,046

Group	2020		2020		2020	
	Stage 1		Stage 2		Stage 3	
	Number	Loan Balance £000	Number	Loan Balance £000	Number	Loan Balance £000
Interest capitalisation	-	-	4	564	-	-
Time for asset sale	-	-	7	10,496	3	11,110
More than one measure	-	-	2	12,740	-	-
Term extension	-	-	3	8,084	-	-
Switch to interest only	-	-	4	519	-	-
Reduced monthly payments	-	-	10	1,100	-	-
Payment holiday	19	507	333	45,954	2	1,193
Total forbearance	19	507	363	79,457	5	12,303

Company	2021		2021		2021	
	Stage 1		Stage 2		Stage 3	
	Number	Loan Balance £000	Number	Loan Balance £000	Number	Loan Balance £000
Time for Asset Sale	-	-	6	7,586	1	43
Term Extension	-	-	9	18,875	-	-
Time for Refinance with third party	-	-	8	14,867	-	-
Payment holiday	-	-	1	1,651	2	88
Covenant waived	-	-	4	7,384	-	-
Switch to interest only	-	-	1	10,681	-	-
Modification in terms and conditions	-	-	63	9,809	15	915
Total forbearance	-	-	92	70,853	18	1,046

Company	2020		2020		2020	
	Stage 1		Stage 2		Stage 3	
	Number	Loan Balance £000	Number	Loan Balance £000	Number	Loan Balance £000
Interest capitalisation	-	-	4	564	-	-
Time for asset sale	-	-	7	10,496	3	11,110
More than one measure	-	-	2	12,740	-	-
Term extension	-	-	3	8,084	-	-
Switch to interest only	-	-	4	519	-	-
Reduced monthly payments	-	-	10	1,100	-	-
Payment holiday	-	-	14	31,272	2	1,193
Total forbearance	-	-	44	64,775	5	12,303

Notes to the Consolidated Financial Statements

Concentration risk

The tables below show the concentration in the loan book based on the most significant type of collateral held for each loan.

Group	Loans and advances to customers		Loan Commitments	
	2021	2020	2021	2020
	£000	£000	£000	£000
Concentration by collateral type				
Asset Based Lending	182,306	87,331	200,478	155,300
Asset finance	104,613	87,529	2,115	155
Cash collateralised	189,196	25,405	3,083	5,952
Commercial lending	209,617	255,891	41,865	17,484
Investment portfolio secured	26,353	29,051	8,689	781
Residential mortgages	1,107,301	1,056,022	174,452	110,938
Mixed collateral*	37,250	30,442	17,589	4,705
Unsecured**	25,825	27,678	16,119	13,112
At 31 December	1,882,461	1,599,349	464,390	308,427

* Mixed collateral is where there is no single, overall, majority collateral type.

** Included within unsecured are £11.6m (2020: £8.4m) of loans which are backed by the government guarantee scheme for BBLs.

Concentration by location

East Anglia	25,350	44,304	21,389	2,925
London	779,467	584,688	148,046	89,796
Midlands	97,102	102,504	11,248	8,117
North East	4,707	37,499	3,122	1,170
North West	50,276	111,793	3,681	4,017
Northern Ireland	111,400	9,222	-	-
Scotland	33,952	25,611	50	50
South East	230,384	232,311	15,049	7,370
South West	189,685	171,581	12,243	14,130
Wales	16,179	17,403	5,662	848
Overseas	-	1,000	-	-
Non-property collateral	343,959	261,433	243,900	180,004
At 31 December	1,882,461	1,599,349	464,390	308,427

Notes to the Consolidated Financial Statements

Company	Loans and advances to customers		Loan Commitments	
	2021	2020	2021	2020
	£000	£000	£000	£000
Concentration by collateral type				
Asset Based lending	173,101	76,796	-	-
Asset Finance	206,682	82,814	-	-
Cash collateralised	189,196	25,405	3,083	5,952
Commercial Lending	209,617	255,891	41,865	17,484
Investment portfolio secured	26,353	29,051	8,689	781
Mixed Collateral*	37,250	30,442	17,589	4,705
Residential mortgages	1,107,301	1,056,022	174,452	110,938
Unsecured**	25,825	27,678	16,119	13,112
At 31 December	1,975,325	1,584,099	261,797	152,972

* Mixed collateral is where there is no single, overall, majority collateral type.

** Included within unsecured are £11.6m (2020: £8.4m) of loans which are backed by government guarantee under the BBLS

Concentration by location

East Anglia	25,350	44,304	21,389	2,925
London	779,467	584,688	148,046	89,796
Midlands	97,102	102,504	11,248	8,117
North East	4,707	37,499	3,122	1,170
North West	50,276	111,793	3,681	4,017
Northern Ireland	111,400	9,222	-	-
Scotland	33,952	25,611	50	50
South East	230,384	232,311	15,049	7,370
South West	189,685	171,581	12,243	14,130
Wales	16,179	17,403	5,662	848
Overseas	-	1,000	-	-
Non-property collateral	436,823	246,183	41,307	24,549
At 31 December	1,975,325	1,584,099	261,797	152,972

(b) Operational risk (unaudited)

The Group's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Group's reputation with overall cost effectiveness and to avoid control procedures that restrict initiatives and creativity. The Group is exposed to operational risks from its Information Technology and Operations platforms.

There are additional internal controls in these processes that are designed to protect the Group from these risks. The Group's overall approach to managing internal control and financial reporting is described in the Corporate Governance section of the Annual Report.

With much of the year with staff continuing to work remotely there continued to be significant focus on the potential operational risks arising from the new in working practices. Management attention also focused heavily on operational resilience to ensure that planning, controls and operational activities remained robust and appropriate. The Group ensured that all staff had access to equipment to complete their work with all staff working from home for the majority of the year.

The Group's control environment was continually monitored to ensure that the challenges posed by adapting to the impact of Covid-19 were safely addressed.

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

Notes to the Consolidated Financial Statements

Cyber risk

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

Conduct risk

As a financial services provider we face conduct risk, including selling products to customers which do not meet their needs; failing to deal with customers' complaints effectively; not meeting customers' expectations; and exhibiting behaviours which do not meet market or regulatory standards.

The Group adopts a zero risk appetite for any unfair customer outcomes. It maintains clear compliance guidelines and provides ongoing training to all staff. Periodic spot checks and internal audits are performed to ensure these guidelines are being followed. The Group also has insurance policies in place to provide some cover for any claims that may arise.

(c) Macroeconomic and competitive environment

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. Following the closure of the Dubai office during the year, all the Group's income and expenditure is now based in the UK.

Climate change

Climate change presents financial and reputational risks for the banking industry. The Board consider Climate change a material risk as per the Board approved risk appetite framework which provides a structured approach to risk taking within agreed boundaries. The assessment is proportional at present but will develop over time as the Group generates further resources and industry consensus emerges. The assessment is maintained by the Chief Risk officer and has been informed by the ICAAP review and numerous workshops for staff.

Whilst it is difficult to assess how climate change will unfold, the Group is continually assessing various risk exposures. The UK has a legally binding target to cut its greenhouse gas emissions to "net-zero" by 2050. There is growing consensus that an orderly transition to a low-carbon economy will bring substantial adjustments to the global economy which will have financial implications while bringing risks and opportunities.

The risk assessment process has been integrated into existing risk frameworks and will be governed through the various risk governance structures including review and recommendations by the AL Risk Committee. Arbutnot Latham governance has been assessed against the Task Force on Climate-related Financial Disclosures' (TCFD) recommended governance disclosures and where appropriate the FCA/PRA guidance as per the Supervisory statements.

In accordance with the requirements of the PRA's Supervisory Statement 'Enhancing banks' and insurers' approaches to managing the financial risks from climate change', the Group has allocated responsibility for identifying and managing the risks from climate change to the relevant existing Senior Management Function. The Bank is continuously developing a suitable strategic approach to climate change and the unique challenges it poses.

Notes to the Consolidated Financial Statements

The FCA have issued 'Climate Change and Green Finance: summary of responses and next steps'. In addition to the modelling of various scenarios and various governance reviews, Arbuthnot Latham will continue to monitor requirements through the relationship with UK Finance.

(d) Market risk

Price risk

The Company and Group are exposed to price risk from equity investments and derivatives held by the Group and classified in the Consolidated Statement of Financial Position either as fair value through other comprehensive income or at fair value through the profit and loss. The Group is not exposed to commodity price risk.

Based upon the financial investment exposure in Note 25, a severe decline of 10% (2020: 10%) in market prices, would result in a £12k (2020: £14k) decrease in the Company and Group's income and a decrease of £305k (2020: £432k) in the Company and Group's equity. The Group considers a 10% decline scenario appropriate after taking the current values and historic data into account.

Currency risk

The Group and Company take on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. This is managed through the Group entering into forward foreign exchange contracts. The Board sets limits on the level of exposure for both overnight and intra-day positions, which are monitored daily. The table below summarises the Group's exposure to foreign currency exchange rate risk at 31 December 2021. Included in the table below are the Group's assets and liabilities at carrying amounts, categorised by currency.

	GBP (£)	USD (\$)	Euro (€)	Other	Total
	£000	£000	£000	£000	£000
At 31 December 2021					
ASSETS					
Cash and balances at central banks	814,601	46	41	4	814,692
Loans and advances to banks	17,424	23,983	24,885	7,138	73,430
Debt securities at amortised cost	204,474	96,579	-	(1)	301,052
Derivative financial instruments	1,663	39	-	51	1,753
Loans and advances to customers	1,862,688	7,816	12,360	(403)	1,882,461
Other assets	(17,078)	33,314	(4,320)	1,179	13,095
Financial investments	-	3,031	138	-	3,169
	2,883,772	164,808	33,104	7,968	3,089,652
LIABILITIES					
Deposits from banks	240,333	-	-	-	240,333
Derivative financial instruments	103	-	-	68	171
Deposits from customers	2,670,797	128,667	50,340	7,145	2,856,949
Other liabilities	7,704	-	(495)	-	7,209
Debt securities in issue	24,367	-	-	-	24,367
	2,943,304	128,667	49,845	7,213	3,129,029
Net on-balance sheet position	(59,534)	36,141	(16,741)	755	(39,377)
Credit commitments	464,390	-	-	-	464,390

Notes to the Consolidated Financial Statements

The table below summarises the Group'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					
Cash and balances at central banks	636,688	41	64	6	636,799
Loans and advances to banks	46,137	26,005	25,415	12,695	110,252
Debt securities held-to-maturity	234,112	110,580	-	-	344,692
Derivative financial instruments	1,768	6	-	69	1,843
Loans and advances to customers	1,589,245	1,611	8,595	(102)	1,599,349
Other assets	7,812	-	-	(1,033)	6,779
Financial investments	1,750	2,436	138	-	4,324
	2,517,512	140,679	34,212	11,635	2,704,038
LIABILITIES					
Deposits from banks	230,090	-	-	-	230,090
Derivative financial instruments	581	-	-	68	649
Deposits from customers	2,190,138	140,786	50,438	10,499	2,391,861
Other liabilities	2,225	-	(495)	-	1,730
Debt securities in issue	24,308	-	-	-	24,308
	2,447,342	140,786	49,943	10,567	2,648,638
Net on-balance sheet position	70,170	(107)	(15,731)	1,068	55,400
Credit commitments	308,427	-	-	-	308,427

Notes to the Consolidated Financial Statements

Derivative financial instruments (see note 20) are in place to mitigate foreign currency risk on net exposures for each currency. A 10% strengthening of the pound against the US dollar would lead to a £4k decrease (2020: a £11k increase) in the Group's profits, while a 10% weakening of the pound against the US dollar would lead to the same decrease in the Bank's profits. Additionally the Group holds £3.1m of properties as assets held for sale (2020: £3.3m) and £7.7m has been classified as inventory (2020: £12.3m). These properties are located in the EU and relate to Euro denominated loans where the properties were repossessed and are either being held for sale or being developed with a view to sell. Including these Euro assets, the net Euro exposure is positive £6.1m (2020: £100k) for the Group.

Due to the global nature of the pandemic, the Group's risk management strategy has not substantially changed due to COVID-19.

The table below summarises the Company's exposure to foreign currency exchange risk at 31 December 2021:

	GBP (£)	USD (\$)	Euro (€)	Other	Total
At 31 December 2021	£000	£000	£000	£000	£000
ASSETS					
Cash and balances at central banks	814,021	46	41	4	814,112
Loans and advances to banks	13,804	23,983	24,885	7,138	69,810
Debt securities at amortised cost	204,474	96,579	-	(1)	301,052
Derivative financial instruments	1,663	39	-	51	1,753
Loans and advances to customers	1,963,329	4,837	7,522	(363)	1,975,325
Other assets	(18,704)	33,314	(4,320)	1,179	11,469
Financial investments	-	3,031	138	-	3,169
	2,978,587	161,829	28,266	8,008	3,176,690
LIABILITIES					
Deposits from banks	240,333	-	-	-	240,333
Derivative financial instruments	103	-	-	68	171
Deposits from customers	2,679,727	125,693	45,661	7,185	2,858,266
Other liabilities	1,502	-	(495)	-	1,007
Debt securities in issue	24,367	-	-	-	24,367
	2,946,032	125,693	45,166	7,253	3,124,144
Net on-balance sheet position	32,555	36,136	(16,900)	755	52,546
Credit commitments	261,797	-	-	-	261,797

Notes to the Consolidated Financial Statements

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					
Cash and balances at central banks	636,688	41	64	6	636,799
Loans and advances to banks	44,764	26,005	25,415	12,695	108,879
Debt securities held-to-maturity	234,112	110,580	-	-	344,692
Derivative financial instruments	1,768	6	-	69	1,843
Loans and advances to customers	1,572,088	3,358	8,704	(51)	1,584,099
Other assets	16,035	-	-	(1,033)	15,002
Financial investments	1,750	2,436	138	-	4,324
	2,507,205	142,426	34,321	11,686	2,695,638
LIABILITIES					
Deposits from banks	230,090	-	-	-	230,090
Derivative financial instruments	581	-	-	68	649
Deposits from customers	2,193,201	142,541	50,571	10,550	2,396,863
Other liabilities	1,695	-	(495)	-	1,200
Debt securities in issue	24,308	-	-	-	24,308
	2,449,875	142,541	50,076	10,618	2,653,110
Net on-balance sheet position	57,330	(115)	(15,755)	1,068	42,528
Credit commitments	152,972	-	-	-	152,972

Notes to the Consolidated Financial Statements

Interest rate risk

Interest rate risk is the potential adverse impact on the Company and Group's future cash flows from changes in interest rates, and arises from the differing interest rate risk characteristics of the Company and Group's assets and liabilities. In particular, fixed rate savings and borrowing products expose the Group to the risk that a change in interest rates could cause either a reduction in interest income or an increase in interest expense relative to variable rate interest flows. The Group seeks to "match" interest rate risk on either side of the Statement of Financial Position. However, this is not a perfect match and interest rate risk is present in: Money market transactions of a fixed rate nature, fixed rate loans and fixed rate savings accounts and floating rate products dependent on when they re-price at a future date.

Interest rate risk is measured throughout the maturity bandings of the book on a parallel shift scenario for a 200 basis points movement. Interest rate risk is managed to limit value at risk to be less than £0.5m. The current position of the balance sheet is such that it results in an adverse impact on the economic value of equity of £0.3m (2020: favourable impact of £2.4m) for a positive 200bps shift and a favourable impact of £37k (2020: adverse impact of £0.1m) for a negative 200bps movement capped at negative 0.25% (2020: 0.1%).

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

Group	Within 3 months	More than 3 months but less than 6 months	More than 6 months but less than 1 year	More than 1 year but less than 5 years	More than 5 years	Non-interest bearing	Total
As at 31 December 2021	£000	£000	£000	£000	£000	£000	£000
ASSETS							
Cash and balances at central banks	814,692	-	-	-	-	-	814,692
Loans and advances to banks	73,106	324	-	-	-	-	73,430
Debt securities at amortised cost	262,943	7,403	14,806	15,900	-	-	301,052
Derivative financial instruments	118	-	-	1,635	-	-	1,753
Loans and advances to customers	1,686,262	17,040	40,194	102,488	36,477	-	1,882,461
Other assets*	-	-	-	-	-	296,814	296,814
Financial investments	-	-	-	-	-	3,169	3,169
	2,837,121	24,767	55,000	120,023	36,477	299,983	3,373,371
LIABILITIES							
Deposits from banks	240,333	-	-	-	-	-	240,333
Derivative financial instruments	171	-	-	-	-	-	171
Deposits from customers	2,166,266	109,337	217,645	363,691	10	-	2,856,949
Other liabilities**	-	-	-	-	-	41,527	41,527
Debt securities in issue	-	-	-	-	24,367	-	24,367
Equity	-	-	-	-	-	210,024	210,024
	2,406,770	109,337	217,645	363,691	24,377	251,551	3,373,371
Impact of derivative instruments	57,889	-	-	(57,889)	-	-	-
Interest rate sensitivity gap	488,240	(84,570)	(162,645)	(301,557)	12,100	48,432	
Cumulative gap	488,240	403,670	241,025	(60,532)	(48,432)	(1)	

*Other assets include all remaining assets in the Statement of Financial Position which are not shown above.

**Other liabilities include all remaining liabilities in the Statement of Financial Position which are not shown above.

Notes to the Consolidated Financial Statements

Group	Within 3 months	More than 3 months but less than 6 months	More than 6 months but less than 1 year	More than 1 year but less than 5 years	More than 5 years	Non-interest bearing	Total
As at 31 December 2020	£000	£000	£000	£000	£000	£000	£000
ASSETS							
Cash and balances at central banks	636,799	-	-	-	-	-	636,799
Loans and advances to banks	109,921	331	-	-	-	-	110,252
Debt securities held-to-maturity	269,014	41,957	15,677	18,044	-	-	344,692
Derivative financial instruments	202	-	-	1,641	-	-	1,843
Loans and advances to customers	1,355,363	17,463	19,946	193,122	13,455	-	1,599,349
Other assets*	-	-	-	-	-	170,871	170,871
Financial investments	-	-	-	-	-	4,324	4,324
	2,371,299	59,751	35,623	212,807	13,455	175,195	2,868,130
LIABILITIES							
Deposits from banks	230,090	-	-	-	-	-	230,090
Derivative financial instruments	649	-	-	-	-	-	649
Deposits from customers	1,557,758	182,703	249,828	401,562	10	-	2,391,861
Other liabilities**	-	-	-	-	-	20,571	20,571
Debt securities in issue	-	-	-	-	24,308	-	24,308
Equity	-	-	-	-	-	200,651	200,651
	1,788,497	182,703	249,828	401,562	24,318	221,222	2,868,130
Impact of derivative instruments	25,292	-	-	(25,292)	-	-	-
Interest rate sensitivity gap	608,094	(122,952)	(214,205)	(214,047)	(10,863)	(46,027)	-
Cumulative gap	608,094	485,142	270,937	56,890	46,027	-	-

*Other assets include all remaining assets on the Statement of Financial Position which are not shown above.

**Other liabilities include all remaining liabilities on the Statement of Financial Position which are not shown above.

Notes to the Consolidated Financial Statements

Company	Within 3 months	More than 3 months but less than 6 months	More than 6 months but less than 1 year	More than 1 year but less than 5 years	More than 5 years	Non-interest bearing	Total
As at 31 December 2021	£000	£000	£000	£000	£000	£000	£000
ASSETS							
Cash and balances at central banks	814,112	-	-	-	-	-	814,112
Loans and advances to banks	69,486	324	-	-	-	-	69,810
Debt securities at amortised cost	262,943	7,403	14,806	15,900	-	-	301,052
Derivative financial instruments	118	-	-	1,635	-	-	1,753
Loans and advances to customers	1,886,096	6,703	20,018	26,660	35,848	-	1,975,325
Other assets*	-	-	-	-	-	178,383	178,383
Financial investments	-	-	-	-	-	3,169	3,169
	3,032,755	14,430	34,824	44,195	35,848	181,552	3,343,604
LIABILITIES							
Deposits from banks	240,333	-	-	-	-	-	240,333
Derivative financial instruments	171	-	-	-	-	-	171
Deposits from customers	2,256,020	109,337	217,645	275,254	10	-	2,858,266
Other liabilities**	-	-	-	-	-	23,803	23,803
Debt securities in issue	-	-	-	-	24,367	-	24,367
Equity	-	-	-	-	-	196,664	196,664
	2,496,524	109,337	217,645	275,254	24,377	220,467	3,343,604
Impact of derivative instruments	57,889	-	-	(57,889)	-	-	-
Interest rate sensitivity gap	594,120	(94,907)	(182,821)	(288,948)	11,471	(38,915)	-
Cumulative gap	594,120	499,213	316,392	27,444	38,915	-	-

*Other assets include all remaining assets in the Statement of Financial Position which are not shown above.

**Other liabilities include all remaining liabilities in the Statement of Financial Position which are not shown above.

Notes to the Consolidated Financial Statements

Company	Within 3 months	More than 3 months but less than 6 months	More than 6 months but less than 1 year	More than 1 year but less than 5 years	More than 5 years	Non-interest bearing	Total
As at 31 December 2020	£000	£000	£000	£000	£000	£000	£000
ASSETS							
Cash and balances at central banks	636,799	-	-	-	-	-	636,799
Loans and advances to banks	108,548	331	-	-	-	-	108,879
Debt securities held-to-maturity	269,014	41,957	15,677	18,044	-	-	344,692
Derivative financial instruments	202	-	-	1,641	-	-	1,843
Loans and advances to customers	1,439,583	7,126	2,053	122,511	12,826	-	1,584,099
Other assets	-	-	-	-	-	172,635	172,635
Financial investments	-	-	-	-	-	4,324	4,324
	2,454,146	49,414	17,730	142,196	12,826	176,959	2,853,271
LIABILITIES							
Deposits from banks	230,090	-	-	-	-	-	230,090
Derivative financial instruments	649	-	-	-	-	-	649
Deposits from customers	1,645,574	182,703	249,828	318,748	10	-	2,396,863
Other liabilities**	-	-	-	-	-	5,768	5,768
Debt securities in issue	-	-	-	-	24,308	-	24,308
Equity	-	-	-	-	-	195,593	195,593
	1,876,313	182,703	249,828	318,748	24,318	201,361	2,853,271
Impact of derivative instruments	25,292	-	-	(25,292)	-	-	-
Interest rate sensitivity gap	603,125	(133,289)	(232,098)	(201,844)	(11,492)	(24,402)	-
Cumulative gap	603,125	469,836	237,738	35,894	24,402	-	-

*Other assets include all remaining assets in the Statement of Financial Position which are not shown above.

**Other liabilities include all remaining liabilities in the Statement of Financial Position which are not shown above.

Notes to the Consolidated Financial Statements

(e) Liquidity risk

Liquidity risk is the risk that the Group, although solvent, either does not have sufficient financial resources to enable it to meet its obligations as they fall due, or can only secure such resources at excessive cost.

The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal conditions and in the event of a severe economic decline, without incurring unacceptable losses or risking damage to the Group's reputation. The liquidity requirements of the Group are met through withdrawing funds from its Bank of England reserve account to cover any short-term fluctuations and longer term funding to address any structural liquidity requirements.

The Group has formal governance structures in place to manage and mitigate liquidity risk on a day to day basis. The Board sets and approves the liquidity risk management strategy. The Assets and Liabilities Committee ("ALCO"), comprising senior executives of the Group, monitors liquidity risk. Key liquidity risk management information is reported by the finance teams and monitored by the Chief Executive Officer, Finance Director and Deputy CEO on a daily basis. The ALCO meets monthly to review liquidity risk against set thresholds and risk indicators including early warning indicators, liquidity risk tolerance levels and Internal Liquidity Adequacy Assessment Process ("ILAAP") metrics.

The PRA requires the Board to ensure that the Group has adequate levels of liquidity resources and a prudent funding profile and that it comprehensively manages and controls liquidity and funding risks. The Group maintains deposits placed at the Bank of England, and highly liquid unencumbered assets that can be called upon to create sufficient liquidity to meet liabilities on demand.

The Group has a Board approved ILAAP, and maintains liquidity buffers in excess of the minimum requirements. The ILAAP is embedded in the risk management framework of the Group and is subject to ongoing updates and revisions when necessary. At a minimum, the ILAAP is updated annually. The Liquidity Coverage Ratio ("LCR") regime has applied to the Group from 1 October 2015, requiring management of net 30 day cash outflows as a proportion of high quality liquid assets. The LCR exceeded the regulatory minimum of 100% throughout the year, following the steps taken by the Group to respond to possible future liquidity constraints arising from the COVID-19 pandemic. There has been an increase in deposits of 19% which has accordingly improved the Bank's liquidity.

The Group is exposed to daily calls on its available cash resources from current accounts, maturing deposits and loan draw-downs. The Group maintains significant cash resources to meet all of these needs as they fall due. The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Group. It is unusual for banks to be completely matched, as transacted business is often of uncertain term and of different types.

The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest bearing liabilities as they mature are important factors in assessing the liquidity of the Group and its exposure to changes in interest rates.

Notes to the Consolidated Financial Statements

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

	Carrying amount	Gross inflow/ (outflow)	Not more than 3 months	More than 3 months but less than 1 year	More than 1 year but less than 5 years	More than 5 years
At 31 December 2021	£000	£000	£000	£000	£000	£000
Financial liability by type						
Non-derivative liabilities						
Deposits from banks	240,333	(240,333)	(240,333)	-	-	-
Deposits from customers	2,856,949	(2,913,515)	(1,736,457)	(672,029)	(505,029)	-
Other liabilities	7,209	(7,209)	(3,155)	(2,968)	(1,086)	-
Debt securities in issue	24,367	(25,343)	-	-	-	(25,343)
Issued financial guarantee contracts	-	(4,560)	(4,560)	-	-	-
Unrecognised loan commitments	-	(463,783)	(463,783)	-	-	-
	3,128,858	(3,654,742)	(2,448,287)	(674,997)	(506,115)	(25,343)
Derivative liabilities						
Risk management:	171					
- Outflows		(171)	(171)	-	-	-
	171	(171)	(171)	-	-	-

	Carrying amount	Gross inflow/ (outflow)	Not more than 3 months	More than 3 months but less than 1 year	More than 1 year but less than 5 years	More than 5 years
At 31 December 2021	£000	£000	£000	£000	£000	£000
Financial asset by type						
Non-derivative assets						
Cash and balances at central banks	814,692	814,692	814,692	-	-	-
Loans and advances to banks	73,430	73,425	73,425	-	-	-
Debt securities at amortised cost	301,052	336,772	318,658	9,666	8,448	-
Loans and advances to customers	1,882,461	2,186,294	218,665	296,957	1,361,543	309,130
Other assets	13,095	13,095	13,095	-	-	-
Financial investments	3,169	3,169	3,169	-	-	-
	3,087,899	3,427,447	1,441,704	306,623	1,369,991	309,130
Derivative assets						
Risk management:	1,753					
- Inflows		1,753	118	-	1,635	-
	1,753	1,753	118	-	1,635	-

Notes to the Consolidated Financial Statements

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

	Carrying amount	Gross inflow/ (outflow)	Not more than 3 months	More than 3 months but less than 1 year	More than 1 year but less than 5 years	More than 5 years
At 31 December 2020	£000	£000	£000	£000	£000	£000
Financial liability by type						
Non-derivative liabilities						
Deposits from banks	230,090	(230,090)	(230,090)	-	-	-
Deposits from customers	2,391,861	(2,440,983)	(1,573,916)	(560,425)	(306,642)	-
Other liabilities	1,730	(1,730)	(1,730)	-	-	-
Debt securities in issue	24,308	(25,375)	-	-	-	(25,375)
Issued financial guarantee contracts	-	(6,248)	(6,248)	-	-	-
Unrecognised loan commitments	-	(308,427)	(308,427)	-	-	-
	2,647,989	(3,012,853)	(2,120,410)	(560,425)	(306,642)	(25,375)
Derivative liabilities						
Risk management:	649					
- Outflows		(649)	(649)	-	-	-
	649	(649)	(649)	-	-	-

	Carrying amount	Gross inflow/ (outflow)	Not more than 3 months	More than 3 months but less than 1 year	More than 1 year but less than 5 years	More than 5 years
At 31 December 2020	£000	£000	£000	£000	£000	£000
Financial asset by type						
Non-derivative assets						
Cash and balances at central banks	636,799	636,799	636,799	-	-	-
Loans and advances to banks	110,252	110,253	109,922	331	-	-
Debt securities held-to-maturity	344,692	349,718	104,854	96,830	148,034	-
Loans and advances to customers	1,599,349	1,795,059	317,830	178,534	1,195,396	103,299
Other assets	6,779	6,779	6,779	-	-	-
Financial investments	4,324	4,324	4,324	-	-	-
	2,702,195	2,902,932	1,180,508	275,695	1,343,430	103,299
Derivative assets						
Risk management:	1,843					
- Inflows		1,843	-	-	-	1,843
	1,843	1,843	-	-	-	1,843

Notes to the Consolidated Financial Statements

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

	Carrying amount	Gross inflow/ (outflow)	Not more than 3 months	More than 3 months but less than 1 year	More than 1 year but less than 5 years	More than 5 years
At 31 December 2021	£000	£000	£000	£000	£000	£000
Financial liability by type						
Non-derivative liabilities						
Deposits from banks	240,333	(240,333)	(240,333)			
Deposits from customers	2,858,266	(2,891,169)	(2,113,982)	(669,139)	(108,048)	-
Other liabilities	1,007	(1,007)	(1,007)			
Debt securities in issue	24,367	(25,343)				(25,343)
Issued financial guarantee contracts		(2,931)	(2,931)			
Unrecognised loan commitments		(261,797)	(261,797)			
	3,123,973	(3,422,580)	(2,620,050)	(669,139)	(108,048)	(25,343)
Derivative liabilities						
Risk management:	171					
- Outflows		(171)	(171)			
	171	(171)	(171)	-	-	-

	Carrying amount	Gross inflow/ (outflow)	Not more than 3 months	More than 3 months but less than 1 year	More than 1 year but less than 5 years	More than 5 years
At 31 December 2021	£000	£000	£000	£000	£000	£000
Financial asset by type						
Non-derivative assets						
Cash and balances at central banks	814,112	814,112	814,112			
Loans and advances to banks	69,810	69,805	69,805	-	-	-
Debt securities at amortised cost	301,052	336,772	318,658	9,666	8,448	-
Loans and advances to customers	1,975,325	2,249,211	508,040	236,388	1,206,317	298,466
Other assets	11,469	11,469	11,469			
Financial investments	3,169	3,169	3,169			
	3,174,937	3,484,538	1,725,253	246,054	1,214,765	298,466
Derivative assets						
Risk management:	1,753					
- Inflows		1,753	118		1,635	-
	1,753	1,753	118	-	1,635	-

Notes to the Consolidated Financial Statements

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

	Carrying amount	Gross inflow/ (outflow)	Not more than 3 months	More than 3 months but less than 1 year	More than 1 year but less than 5 years	More than 5 years
At 31 December 2020	£000	£000	£000	£000	£000	£000
Financial liability by type						
Non-derivative liabilities						
Deposits from banks	230,090	(230,090)	(230,090)			
Deposits from customers	2,396,863	(2,414,969)	(1,738,130)	(559,210)	(117,629)	
Other liabilities	1,200	(1,200)	(1,200)			
Debt securities in issue	24,308	(25,375)				(25,375)
Issued financial guarantee contracts		(6,248)	(6,248)			
Unrecognised loan commitments		(152,972)	(152,972)			
	2,652,461	(2,830,854)	(2,128,640)	(559,210)	(117,629)	(25,375)
Derivative liabilities						
Risk management:	649					
- Outflows		(649)	(649)			
	649	(649)	(649)	-	-	-

	Carrying amount	Gross inflow/ (outflow)	Not more than 3 months	More than 3 months but less than 1 year	More than 1 year but less than 5 years	More than 5 years
At 31 December 2020	£000	£000	£000	£000	£000	£000
Financial asset by type						
Non-derivative assets						
Cash and balances at central banks	636,799	636,799	636,799			
Loans and advances to banks	108,879	108,880	108,549	331	-	
Debt securities held-to-maturity	344,692	349,718	104,854	96,830	148,034	-
Loans and advances to customers	1,584,099	1,750,086	448,452	153,023	1,055,867	92,744
Other assets	15,002	15,002	15,002			
Financial investments	4,324	4,324	4,324			
	2,693,795	2,864,809	1,317,980	250,184	1,203,901	92,744
Derivative assets						
Risk management:	1,843					
- Inflows		1,843	-			1,843
	1,843	1,843	-	-	-	1,843

Assets pledged as collateral or encumbered

The total financial assets recognised in the statement of financial position that had been pledged as collateral for liabilities at 31 December 2021 were £225m (2020: £288m). Assets are encumbered due to the Term Funding Scheme (note 32).

Financial assets can be pledged as collateral as part of repurchases, transactions under terms that are usual and customary for such activities.

The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature are important factors in assessing the liquidity of the Group and its exposure to changes in interest rates and exchange rates.

Notes to the Consolidated Financial Statements

Fiduciary activities

The Group provides investment management and advisory services to third parties, which involve the Group making allocation and purchase and sale decisions in relation to a wide range of financial instruments. Assets under management that are held in a fiduciary capacity are not included in these financial statements. These services give rise to the risk that the Group may be accused of maladministration or underperformance. At the balance sheet date, the Group had investment management accounts amounting to approximately £1.356bn (2020: £1.15bn). Additionally, the Group provides investment advisory services.

Notes to the Consolidated Financial Statements

(f) Financial assets and liabilities

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

	Fair value through profit or loss	Fair value through other comprehensive income	Amortised cost	Total carrying amount	Fair value
At 31 December 2021	£000	£000	£000	£000	£000
ASSETS					
Cash and balances at central banks	-	-	814,692	814,692	814,692
Loans and advances to banks	-	-	73,430	73,430	73,430
Debt securities at amortised cost	-	-	301,052	301,052	303,337
Derivative financial instruments	1,753	-	-	1,753	1,753
Loans and advances to customers	-	-	1,882,461	1,882,461	1,833,048
Other assets	-	-	13,095	13,095	13,095
Financial investments	165	3,004	-	3,169	3,169
	1,918	3,004	3,084,730	3,089,652	3,042,524

LIABILITIES					
Deposits from banks	-	-	240,333	240,333	240,333
Derivative financial instruments	171	-	-	171	171
Deposits from customers	-	-	2,856,949	2,856,949	2,856,949
Other liabilities	-	-	7,209	7,209	7,209
Debt securities in issue	-	-	24,367	24,367	24,367
	171	-	3,128,858	3,129,029	3,129,029

	Fair value through profit or loss	Fair value through other comprehensive income	Amortised cost	Total carrying amount	Fair value
At 31 December 2020	£000	£000	£000	£000	£000
ASSETS					
Cash and balances at central banks	-	-	636,799	636,799	636,799
Loans and advances to banks	-	-	110,252	110,252	110,252
Debt securities held-to-maturity	-	-	344,692	344,692	346,660
Derivative financial instruments	1,843	-	-	1,843	1,843
Loans and advances to customers	-	-	1,599,349	1,599,349	1,564,122
Other assets	-	-	6,779	6,779	6,779
Financial investments	165	4,159	-	4,324	4,324
	2,008	4,159	2,697,871	2,704,038	2,670,779

LIABILITIES					
Deposits from banks	-	-	230,090	230,090	230,090
Derivative financial instruments	649	-	-	649	649
Deposits from customers	-	-	2,391,861	2,391,861	2,391,861
Other liabilities	-	-	1,730	1,730	1,730
Debt securities in issue	-	-	24,308	24,308	24,308
	649	-	2,647,989	2,648,638	2,648,638

Notes to the Consolidated Financial Statements

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

	Fair value through profit or loss	Fair value through other comprehensive income	Amortised cost	Total carrying amount	Fair value
At 31 December 2021	£000	£000	£000	£000	£000
ASSETS					
Cash and balances at central banks	-	-	814,112	814,112	814,112
Loans and advances to banks	-	-	69,810	69,810	69,810
Debt securities at amortised cost	-	-	301,052	301,052	303,337
Derivative financial instruments	1,753	-	-	1,753	1,753
Loans and advances to customers	-	-	1,975,325	1,975,325	1,933,412
Other assets	-	-	11,469	11,469	11,469
Financial investments	165	3,004	-	3,169	3,169
	1,918	3,004	3,171,768	3,176,690	3,137,062
LIABILITIES					
Deposits from banks	-	-	240,333	240,333	240,333
Derivative financial instruments	171	-	-	171	171
Deposits from customers	-	-	2,858,266	2,858,266	2,858,266
Other liabilities	-	-	1,007	1,007	1,007
Debt securities in issue	-	-	24,367	24,367	24,367
	171	-	3,123,973	3,124,144	3,124,144

	Fair value through profit or loss	Fair value through other comprehensive income	Amortised cost	Total carrying amount	Fair value
At 31 December 2020	£000	£000	£000	£000	£000
ASSETS					
Cash and balances at central banks	-	-	636,799	636,799	636,799
Loans and advances to banks	-	-	108,879	108,879	108,879
Debt securities held-to-maturity	-	-	344,692	344,692	346,660
Derivative financial instruments	1,843	-	-	1,843	1,843
Loans and advances to customers	-	-	1,584,099	1,584,099	1,548,872
Other assets	-	-	15,002	15,002	15,002
Financial investments	165	4,159	-	4,324	4,324
	2,008	4,159	2,689,471	2,695,638	2,662,379
LIABILITIES					
Deposits from banks	-	-	230,090	230,090	230,090
Derivative financial instruments	649	-	-	649	649
Deposits from customers	-	-	2,396,863	2,396,863	2,396,863
Other liabilities	-	-	1,200	1,200	1,200
Debt securities in issue	-	-	24,308	24,308	24,308
	649	-	2,652,461	2,653,110	2,653,110

The Group's accounting policies on the classification of financial instruments under IFRS 9 are set out in Note 3.3.

Notes to the Consolidated Financial Statements

Fair value

Valuation of financial instruments

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

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

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

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

Notes to the Consolidated Financial Statements

Group At 31 December 2021	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
ASSETS				
Derivative financial instruments	-	1,753	-	1,753
Financial investments	-	-	3,169	3,169
Investment property	-	-	6,550	6,550
	-	1,753	9,719	11,472

LIABILITIES				
Derivative financial instruments	-	171	-	171
	-	171	-	171

Company At 31 December 2021	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
ASSETS				
Derivative financial instruments	-	1,753	-	1,753
Financial investments	-	-	3,169	3,169
	-	1,753	3,169	4,922

LIABILITIES				
Derivative financial instruments	-	171	-	171
	-	171	-	171

Group At 31 December 2020	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
ASSETS				
Derivative financial instruments	-	1,843	-	1,843
Financial investments	1,754	-	2,570	4,324
Investment property	-	-	6,550	6,550
	1,754	1,843	9,120	12,717

LIABILITIES				
Derivative financial instruments	-	649	-	649
	-	649	-	649

Company At 31 December 2020	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
ASSETS				
Derivative financial instruments	-	1,843	-	1,843
Financial investments	1,754	-	2,570	4,324
	1,754	1,843	2,570	6,167

LIABILITIES				
Derivative financial instruments	-	649	-	649
	-	649	-	649

Notes to the Consolidated Financial Statements

The tables above analyse the assets and liabilities measured at fair value by the level in the fair value hierarchy into which the measurement is categorised.

There were no transfers between level 1 and level 2 during the year for the Group or the Company.

For assets which are accounted at fair value under Level 3 the valuations are primarily based on Fund Manager valuations and are based on reasonable estimates. Applying reasonable alternative valuations would not lead to a significantly different fair value. The following tables reconcile the Group and the Company's movement in level 3 financial instruments measured at fair value during the year:

Group	2021	2020
Movement in level 3	£000	£000
At 1 January	9,120	8,566
Purchases	670	419
Movements recognised in other comprehensive income	(57)	366
Movements recognised in the profit and loss	(14)	(231)
At 31 December	9,719	9,120

Company	2021	2020
Movement in level 3	£000	£000
At 1 January	2,570	1,803
Purchases	670	419
Movements recognised in other comprehensive income	(57)	366
Movements recognised in the profit and loss	(14)	(18)
At 31 December	3,169	2,570

Secure Trust bank investment

In the prior year Arbuthnot Latham currently held equity shares in Secure Trust Bank plc, valued at £1.75m. In 2018, the parent company of Arbuthnot Latham transferred 1.25m shares of their investment in Secure Trust Bank to the Company, by way of a capital contribution. The shares were recognised at fair value using quoted prices on the London Stock Exchange. This was classified as a level one investment. All share were disposed of in 2021 at market value.

Visa Inc. investment

Arbuthnot Latham currently holds preference shares in Visa Inc., valued at £1.6m (2020: £1.6m) as at 31 December 2021. These shares have been valued at their future conversion value into Visa Inc. common stock.

In the prior year, as part of the fourth anniversary of the closing of the Visa Europe transaction, an assessment was performed of the ongoing risk of liability to Visa. As part of the adjustment, Visa awarded the Group 59 preference shares with a carrying value of £920k. These can be automatically converted into freely tradeable Class A common stock.

There is a haircut of 31% (2020: 31%) on the original shares comprising 25% (2020: 25%) due to a contingent liability disclosed in Visa Europe's accounts in relation to litigation and 6% (2020: 6%) based on a liquidity discount.

Investment in overseas property company

Arbuthnot Latham currently holds a debt and equity investment classified as FVTPL in a property company which owns an office building through its 100% owned subsidiary. During 2018 the subsidiary company was sold. Under the terms of the sale agreement the buyer agreed to purchase 100% of the share capital and reimburse all outstanding loans. The proceeds of the sale have been distributed to the investors, except for the amount withheld for the general and specific warranties (which will be released in three instalments at 18 month intervals) included as a condition of the sale agreement. A loss of £14k (2020: 14k loss) has been recognised in profit or loss during the year. The investment has been valued at £124k as at 31 December 2021 (2020: £138k). The investment has been valued as the discounted consideration outstanding less 11% haircut for the warranties.

Notes to the Consolidated Financial Statements

Hetz Ventures, L.P.

Arbuthnot Latham currently holds an equity investment in Hetz Ventures, L.P. which was launched in January 2018. The primary objective was to generate attractive risk-adjusted returns for its Partners, principally through long-term capital appreciation, by making, holding and disposing of equity and equity-related investments in early stage revenue generating Israeli technology companies, primarily in cyber, fin-tech and the disruptive software sectors. The company has committed to a capital contribution of USD \$2.5m of the total closing fund capital of USD\$55.0m. At 31 December 2021 the company had made capital contributions into the Fund of \$1.8m (2020: \$0.9m).

The investment is classified as FVOCI and is valued at fair value by Hetz Ventures, L.P. at £1.4m as at 31 December 2021 (2020: £0.8m). As at year end the fair value is deemed to be the Group's share of the fund based on what a third party would pay for the underlying investments.

Investment property

Please see notes 4 and 31 for the investment property valuation detail.

Notes to the Consolidated Financial Statements

The tables below are the fair values of assets carried at cost by category:

Group	Level 1	Level 2	Level 3	Total
At 31 December 2021	£000	£000	£000	£000
ASSETS				
Cash and balances at central banks	-	814,692	-	814,692
Loans and advances to banks	-	73,430	-	73,430
Debt securities at amortised cost	-	301,052	-	301,052
Loans and advances to customers	-	-	1,882,461	1,882,461
Other assets	-	-	13,095	13,095
	-	1,189,174	1,895,556	3,084,730
LIABILITIES				
Deposits from banks	-	240,333	-	240,333
Deposits from customers	-	2,856,949	-	2,856,949
Other liabilities	-	-	7,209	7,209
Debt securities in issue	-	-	24,367	24,367
	-	3,097,282	31,576	3,128,858
Group	Level 1	Level 2	Level 3	Total
At 31 December 2020	£000	£000	£000	£000
ASSETS				
Cash and balances at central banks	-	636,799	-	636,799
Loans and advances to banks	-	110,252	-	110,252
Debt securities held-to-maturity	-	344,692	-	344,692
Loans and advances to customers*	-	-	1,599,349	1,599,349
Other assets	-	-	6,779	6,779
	-	1,091,743	1,606,128	2,697,871
LIABILITIES				
Deposits from banks	-	230,090	-	230,090
Deposits from customers	-	2,391,861	-	2,391,861
Other liabilities	-	-	1,730	1,730
Debt securities in issue	-	-	24,308	24,308
	-	2,621,951	26,038	2,647,989

Loans and advances to customers have been reallocated from level 2 to level 3 due to unobservable inputs which could have a significant effect on the instruments valuation.

Notes to the Consolidated Financial Statements

Company At 31 December 2021	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
ASSETS				
Cash and balances at central banks	-	814,112	-	814,112
Loans and advances to banks	-	69,810	-	69,810
Debt securities at amortised cost	-	301,052	-	301,052
Loans and advances to customers	-	-	1,975,325	1,975,325
Other assets	-	-	11,469	11,469
	-	1,184,974	1,986,794	3,171,768
LIABILITIES				
Deposits from banks	-	240,333	-	240,333
Deposits from customers	-	2,858,266	-	2,858,266
Other liabilities	-	-	1,007	1,007
Debt securities in issue	-	-	24,367	24,367
	-	3,098,599	25,374	3,123,973
Company At 31 December 2020	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
ASSETS				
Cash and balances at central banks	-	636,799	-	636,799
Loans and advances to banks	-	108,879	-	108,879
Debt securities held-to-maturity	-	344,692	-	344,692
Loans and advances to customers*	-	-	1,584,099	1,584,099
Other assets	-	-	15,002	15,002
	-	1,090,370	1,599,101	2,689,471
LIABILITIES				
Deposits from banks	-	230,090	-	230,090
Deposits from customers	-	2,396,863	-	2,396,863
Other liabilities	-	-	1,200	1,200
Debt securities in issue	-	-	24,308	24,308
	-	2,626,953	25,508	2,652,461

Loans and advances to customers have been reallocated from level 2 to level 3 due to unobservable inputs which could have a significant effect on the instruments valuation.

Notes to the Consolidated Financial Statements

All above assets and liabilities are carried at amortised cost. Therefore for these assets, the fair value hierarchy noted above relates to the disclosure in this note only.

Cash and balances at central banks

The fair value of cash and balances at central banks was calculated based upon the present value of the expected future principal and interest cash flows. The rate used to discount the cash flows was the market rate of interest at the balance sheet date.

At the end of each year, the fair value of cash and balances at central banks was calculated to be equivalent to their carrying value.

Loans and advances to banks

The fair value of loans and advances to banks was calculated based upon the present value of the expected future principal and interest cash flows. The rate used to discount the cash flows was the market rate of interest at the balance sheet date.

Loans and advances to customers

The fair value of loans and advances to customers was calculated based upon the present value of the expected future principal and interest cash flows. The rate used to discount the cash flows was the market rate of interest at the balance sheet date, and the same assumptions regarding the risk of default were applied as those used to derive the carrying value.

The Group provides loans and advances to commercial, corporate and personal customers at both fixed and variable rates. To determine the fair value of loans and advances to customers, loans are segregated into portfolios of similar characteristics. A number of techniques are used to estimate the fair value of fixed rate lending; these take account of expected credit losses based on historic trends and expected future cash flows.

For the acquired loan book, the discount on acquisition is used to determine the fair value in addition to the expected credit losses and expected future cash flows.

Debt securities

The fair value of debt securities is based on the quoted mid-market share price.

Derivatives

Where derivatives are traded on an exchange, the fair value is based on prices from the exchange.

Deposits from banks

The fair value of amounts due to banks was calculated based upon the present value of the expected future principal and interest cash flows. The rate used to discount the cash flows was the market rate of interest at the balance sheet date.

At the end of each year, the fair value of amounts due to banks was calculated to be equivalent to their carrying value due to the short maturity term of the amounts due.

Deposits from customers

The fair value of deposits from customers was calculated based upon the present value of the expected future principal and interest cash flows. The rate used to discount the cash flows was the market rate of interest at the balance sheet date for the notice deposits and deposit bonds. The fair value of instant access deposits is equal to book value as they are repayable on demand.

Financial liabilities

The fair value of other financial liabilities was calculated based upon the present value of the expected future principal cash flows.

At the end of each year, the fair value of other financial liabilities was calculated to be equivalent to their carrying value due to their short maturity. The other financial liabilities include all other liabilities other than non-interest accruals.

Debt Securities in Issue

The fair value of debt securities in issue was calculated based upon the present value of the expected future principal cash flows.

Notes to the Consolidated Financial Statements

7. Capital management (*unaudited*)

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

The Group is authorised by the Prudential Regulation Authority ("PRA") and regulated by the Financial Conduct Authority and the Prudential Regulation Authority and is subject to EU Capital Requirement Regulation (EU No.575/2013) ("CRR"), which forms part of retained EU law, and the PRA Rulebook for Capital Requirement Regulation firms. One of the requirements the Group is subject to is that capital resources must be in excess of capital requirements at all times.

In accordance with the EU's Capital Requirements Directive (EU No.36/2013) and the PRA Rulebook the Internal Capital Adequacy Assessment Process ("ICAAP") is embedded in the risk management framework of the Group. The ICAAP identifies and assesses the risks to the Group, considers how these risks can be mitigated and demonstrates that the Group has sufficient resources, after mitigating actions, to withstand all reasonable scenarios.

Not all material risks can be mitigated by capital, but where capital is appropriate the Board has adopted a "Pillar 1 plus" approach to determine the level of capital the Group needs to hold. This method takes the Pillar 1 capital requirement for credit, market and operational risk as a starting point, and then considers whether each of the calculations delivers a sufficient amount of capital to cover risks to which the Group is, or could be, exposed. Where the Board considers that the Pillar 1 calculations do not adequately cover the risks an additional Pillar 2A capital requirement is applied. The PRA will set a Pillar 2A capital requirement in light of the calculations included within the ICAAP. AL's Total Capital Requirement, as issued by the PRA, is the sum of the minimum capital requirements under the CRR (Pillar 1) and the Pillar 2A requirement.

The ICAAP document will be updated and approved by the AL Board at least annually, or more frequently if changes in the business, strategy, nature or scale of AL's activities or operational environment suggest that the current level of capital resources are no longer adequate. The ICAAP brings together the management framework (i.e. the policies, procedures, strategies, and systems that the Group has implemented to identify, manage and mitigate its risks) and the financial disciplines of business planning and capital management.

The Group's regulatory capital is currently made up of Common Equity Tier 1 capital, which comprises shareholder funds less regulatory deductions for intangible assets, including goodwill, and deferred tax assets that do not arise from temporary differences, and Tier 2 capital, being subordinated loans.

The following table summarises the composition of regulatory capital for the Group:

Notes to the Consolidated Financial Statements

	2021	2020
	£000	£000
Common Equity Tier 1 Capital		
Share capital	15,000	15,000
Retained earnings*	47,249	46,551
Fair value reserve	979	(203)
Capital contribution reserve	146,512	121,012
IFRS 9 transitional arrangement	1,600	1,956
Deduction for goodwill	(8,935)	(8,935)
Deduction for other intangibles**	(18,665)	(8,741)
Deduction for deferred tax assets that do not arise from temporary differences	(2,077)	(1,147)
Deduction for prudent valuation	(5)	(7)
Common Equity Tier 1 capital resources	181,658	165,486
Subordinated debt	24,367	24,308
Total Tier 2 capital	24,367	24,308
Own Funds (sum of Tier 1 and Tier 2)	206,025	189,794
Common Equity Tier 1 capital ratio (Common Equity Tier 1 capital/Total Risk Exposure)*	12.8%	14.3%
Total Capital Ratio (Own Funds/Total Risk Exposure)*	14.5%	16.4%

*Includes current year audited profit excluding Arbuthnot Real Estate Investment Fund retained earnings.

** From 1 January 2022 the PRA requires the full carrying amount of software intangibles to be deducted from Common Equity Tier 1 capital

Capital ratios are reviewed on a monthly basis to ensure that external requirements are adhered to. During the period no breaches of externally imposed capital requirements have been reported.

Notes to the Consolidated Financial Statements

8. Net interest income

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

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.

The Group monitors the actual cash flows for each acquired book and where they diverge significantly from expectation, the future cash flows are reset. Expectation may diverge due to factors such as one-off payments or expected credit losses. In assessing whether to adjust future cash flows on an acquired portfolio, the Group considers the cash variance on an absolute and percentage basis. The Group also considers the total variance across all acquired portfolios. Where cash flows for an acquired portfolio are reset, they are discounted at the EIR to derive a new carrying value, with changes taken to the statement of comprehensive income as interest income. The EIR rate is adjusted for events where there is a change to the reference interest rate (e.g Bank of England base rate) affecting portfolios with a variable interest rate which will impact future cash flows. The revised EIR is the rate which exactly discounts the revised cash flows to the net carrying value of the loan portfolio.

	2021	2020
	£000	£000
Cash and balances at central banks	521	807
Loans and advances to banks	(165)	(143)
Debt securities at amortised cost	1,156	2,942
Loans and advances to customers	75,590	71,476
Total interest income	77,102	75,082
Deposits from banks	387	(824)
Deposits from customers	(10,771)	(13,590)
Total interest expense	(10,384)	(14,414)
Net interest income	66,718	60,668

Notes to the Consolidated Financial Statements

9. Fee and commission income

Accounting for fee and commission income

Fee and commission income which is integral to the EIR of a financial asset are included in the effective interest rate. (See Note. 8)

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

Types of fee	Description
Banking commissions	- Banking Tariffs are charged monthly for services provided.
Investment management fees	- Annual asset management fees relate to a single performance obligation that is continuously provided over an extended period of time.
Wealth planning fees	- Provision of bespoke, independent Wealth Planning solutions to Arbuthnot Latham's clients. Fees are recognised as the service is performed.'
Foreign exchange fees	- Provides foreign currencies for our clients to purchase/sell.

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

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

Asset and other management, advisory and service fees are recognised, under IFRS 15, as the related services are performed. The same principle is applied for wealth planning services that are continuously provided over an extended period of time.

The Group includes the transaction price of variable consideration only when it is highly probable that a significant reversal in the amount recognised will not occur or when the variable element becomes certain.

Fee and commission income is disaggregated below and includes a total for fees in scope of IFRS 15:

Group	Banking	Wealth Planning	RAF	ABL	ASFL	AAG	Other	Total
At 31 December 2021	£000	£000	£000	£000	£000	£000	£000	£000
Banking commissions	1,961	-	166	4,308	7	-	-	6,442
Foreign exchange fees	888	-	-	-	-	-	681	1,569
Investment management fees	-	10,101	-	-	-	-	-	10,101
Wealth planning Fees	-	360	-	-	-	-	-	360
Total fee and commission income	2,849	10,461	166	4,308	7	-	681	18,472

Group	Banking	Wealth Planning	RAF	ABL	ASFL	AAG	Other	Total
At 31 December 2020	£000	£000	£000	£000	£000	£000	£000	£000
Banking and services fees	1,600	-	131	2,443	4	-	5	4,183
Foreign exchange fees	803	-	-	-	-	-	526	1,329
Investment management Fees	-	8,862	-	-	-	-	-	8,862
Wealth planning Fees	-	355	-	-	-	-	6	361
Total fee and commission income	2,403	9,217	131	2,443	4	-	537	14,735

Notes to the Consolidated Financial Statements

10. Gross profit from leasing activities

Accounting for operating lease and related income:

The statement of comprehensive income is credited with:

- Income from operating leases recognised on a straight-line basis over the period of the lease.
- The sales proceeds from the sale of vehicles at the end of operating lease agreements, when the Group has transferred the significant risks and rewards of ownership to the buyer.
- Income from service and maintenance contracts recognised on a straight-line method.

Revenue from service and maintenance contracts is recognised in accordance with the principles of IFRS 15, Revenue from contracts with customers. Payments from customers for service and maintenance contracts are deferred on the balance sheet until the point they are recognised, and when the performance obligations are met.

Revenue is the aggregate of operating lease income and service and maintenance contracts. Revenue also includes the sales proceeds from the same of vehicles at the end of operating lease agreements and other returned vehicles. Amounts recognised within gross profit from leasing activities in the statement of comprehensive income are set out below:

Group	2021 £000	2020 £000
Operating lease income	33,577	-
Sale of vehicles at the end of operating lease agreements	32,123	-
Income from service and maintenance contracts	8,800	-
Revenue	74,500	-
Operating lease depreciation	(25,197)	-
Carrying amount of vehicles sold	(31,339)	-
Service & maintenance costs	(11,491)	-
Cost of goods sold	(68,027)	-
Gross profit from leasing activities	6,473	-

Notes to the Consolidated Financial Statements

11. Impairment of financial assets

Accounting for impairment of financial assets

(a) Assets carried at amortised cost

The Group recognises loss allowances on an expected credit loss basis for all financial assets measured at amortised cost, including loans and advances, debt securities and loan commitments.

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. The assets, to which the low credit risk exemption applies, include cash and balances at central banks (note 16), loans and advance to banks (note 17) and debt securities at amortised cost (note 18). These assets are all considered investment grade.
- 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 1 includes the current performing loans (up to date and in arrears of less than 10 days) and those within Heightened Business Monitoring ("HBM"). Accounts requiring HBM are classified as a short-term deterioration in financial circumstances and are tightly monitored with additional proactive client engagement, but not deemed SICR.
- 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 Group 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, beyond the extent that they are no longer considered to be credit impaired.

A borrower will move back into Stage 1 conditional upon both a minimum of 6 months' good account conduct and the improvement of the Client's situation to the extent that the credit risk has receded sufficiently and full repayment of the loan, without recourse to the collateral, is likely.

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 Consolidated Financial Statements

Write-off

Loans and debt securities are written off (either partially or in full) when there is no realistic prospect of recovery. This is the case when the Group 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

Renegotiated loans are derecognised if the new terms are significantly different to the original agreement. Loans that have been modified to such an extent the renegotiated loan is a substantially different to the original loan, are no longer considered to be past due and are treated as new loans.

(c) Forbearance

Under certain circumstances, the Group may use forbearance measures to assist borrowers who are experiencing significant financial hardship. Any forbearance support is assessed on a case by case basis in line with best practice and subject to regular monitoring and review. The Group seeks to ensure that any forbearance results in a fair outcome for both the customer and the Group.

(d) Assets classified as financial investments

Equity instruments at fair value through other comprehensive income

Equity investments are not subject to impairment charges recognised in the income statement. Any fair value gains and losses are recognised in OCI which are not subject to reclassification to the income statement on derecognition.

Debt instruments at FVOCI

Changes in fair value are recognised in OCI, the loss allowance will be recognised in OCI and shall not reduce the carrying amount of the financial asset in the statement of financial position. Impairment costs will be recognised in the profit or loss with a corresponding entry to OCI. On derecognition, cumulative gains and losses in OCI are reclassified to the profit or loss.

	2021	2020
	£000	£000
Net impairment losses on loans and advances to customers	3,196	2,849
Of which:		
Stage 1	664	525
Stage 2	(456)	134
Stage 3	2,966	2,190
Impairment losses on financial investments	22	-
	3,196	2,849

During the year, the Bank recovered £60k (2020: £7k) of loans which had previously been written-off.

12. Other income

Other income includes £2.2m relating to the gain on sale of the Tay Mortgage portfolio and an adjustment of £0.6m gain (2020: £0.1m charge), to the contingent consideration for the acquisition of Renaissance Asset Finance Ltd.

Accounting for rental income

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

Rental income from the investment property (see note 31) of £0.3m (2020: £0.5m), re-charges to the Arbuthnot Banking Group for the shared use of premises and information technology infrastructure of £0.9m (2020: £0.8m).

Notes to the Consolidated Financial Statements

13. Operating expenses

	2021	2020
	£000	£000
Operating expenses comprise:		
Staff costs, including Directors:		
Wages, salaries and bonuses	44,503	32,318
Social security costs	5,021	3,427
Pension costs	2,353	2,107
Amortisation of intangibles (note 27)	3,210	2,827
Depreciation (note 29)	1,790	1,545
Profit on disposals of property, plant and equipment	3	-
Expenses relating to short-term leases	608	413
Write down of Repossessed Majorcan Property	3,835	-
Parent company management charge	10,354	9,537
Other administrative expenses	24,835	22,826
Total operating expenses from continuing operations	96,512	75,000

	2021	2020
	£000	£000
Remuneration of the auditor and its associates, excluding VAT, was as follows:		
Fees payable to the Group's auditor for the audit of the Group's annual accounts	265	279
Fees payable to the Group's auditor and its associates for other services:		
Audit of the accounts of subsidiaries	217	117
Audit related assurance services	113	103
Total fees payable	594	499

*Other assurance services include regulatory assessments.

14. Income tax expense

Accounting policy for current 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.

Notes to the Consolidated Financial Statements

	2021	2020
United Kingdom corporation tax at 19% (2020: 19%)	£000	£000
Current taxation		
Corporation tax charge - current year	1,625	(1,041)
Corporation tax charge - adjustments in respect of prior years	16	(4)
	1,641	(1,045)
Deferred taxation		
Origination and reversal of temporary differences	(3,736)	92
Adjustments in respect of prior years	(62)	(26)
	(3,798)	66
Income tax credit	(2,157)	(979)
Tax reconciliation		
Profit/(loss) before tax	4,634	(1,221)
Tax at 19% (2020: 19%)	881	(232)
Tax transfer pricing	(992)	(1,028)
Permanent differences	(760)	311
Tax rate change	(1,237)	-
Adjustments in respect of prior years	(49)	(30)
Corporation tax credit for the year	(2,157)	(979)

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.

15. Average number of employees

	2021	2020
Banking	223	202
Central Support Services and Operations	246	232
RAF	34	31
Arbuthnot Asset Based Lending	24	18
Arbuthnot Specialist Finance Lending	9	11
Asset Alliance Group Holdings	51	-
	587	494

The Bank did not take advantage of the furlough scheme and all staff were redeployed to working from home arrangements when the consequences of the Covid-19 pandemic became apparent.

Accounting for employee benefits

(a) Post-retirement obligations

The Group contributes to a defined contribution scheme and to individual defined contribution schemes for the benefit of certain employees. The schemes are funded through payments to insurance companies or trustee-administered funds at the contribution rates agreed with individual employees.

The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as an employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

There are no post-retirement benefits other than pensions.

Notes to the Consolidated Financial Statements

(b) Share-based compensation- cash settled

The Group adopts a Black-Scholes valuation model in calculating the fair value of the share options as adjusted for an attrition rate for members of the scheme and a probability of pay-out reflecting the risk of not meeting the terms of the scheme over the vesting period. The number of share options that are expected to vest are reviewed at least annually.

The fair value of cash settled share-based payments is recognised as personnel expenses in the profit or loss with a corresponding increase in liabilities over the vesting period. The liability is remeasured at each reporting date and at settlement date based on the fair value of the options granted, with a corresponding adjustment to personnel expenses.

(c) Deferred cash bonus scheme

The Bank has a deferred cash bonus scheme for senior employees. The cost of the award is recognised to the income statement over the period to which the performance relates.

(d) Short-term incentive plan

The Group has a short-term incentive plan payable to employees of one of its subsidiary companies. The award of a profit share is based on a percentage of the net profit of a Group subsidiary.

16. Cash and balances at central banks

	Group		Company	
	2021	2020	2021	2020
	£000	£000	£000	£000
Cash and balances at central banks	814,692	636,799	814,112	636,799

ECL has been assessed to be insignificant.

Surplus funds are mainly held in the Bank of England reserve account, with the remainder held in certificates of deposit, fixed and floating rate notes and money market deposits in investment grade banks.

Notes to the Consolidated Financial Statements

17. Loans and advances to banks

	Group		Company	
	2021	2020	2021	2020
	£000	£000	£000	£000
Placements with banks included in cash and cash equivalents (note 41)	73,430	110,252	69,810	108,879

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

	Group		Company	
	2021	2020	2021	2020
	£000	£000	£000	£000
Aa3	-	341	-	341
A1	61,521	100,741	57,901	99,368
A2	11,909	10	11,909	10
A3	-	3,956	-	3,956
Baa1	-	5,204	-	5,204
	73,430	110,252	69,810	108,879

None of the loans and advances to banks are past due (2020: £nil).

ECL has been assessed to be insignificant.

18. Debt securities at amortised cost

The movement in debt securities at amortised cost for the Group may be summarised as follows:

	Group & Company	
	2021	2020
	£000	£000
At 1 January	344,692	442,960
Exchange difference	1,023	(2,640)
Additions	590,492	695,614
Redemptions	(635,155)	(791,242)
At 31 December	301,052	344,692

Notes to the Consolidated Financial Statements

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

	Group & Company	
	2021	2020
	£000	£000
Aaa	56,783	61,715
Aa1	33,314	29,315
Aa2	16,403	14,657
Aa3	11,105	41,986
A1	183,447	197,019
	301,052	344,692

ECL has been assessed to be insignificant.

None of the debt securities at amortised cost are past due. (2020: £nil)

19. Assets classified as held for sale

Assets, or disposal groups comprising assets and liabilities, that are expected to be recovered primarily through sale rather than through continuing use, are classified as held for sale.

The criteria that the Group uses to determine whether an asset is held for sale under IFRS 5 include, but are not limited to the following:

- Management is committed to a plan to sell
- The asset is available for immediate sale
- An active programme to locate a buyer is initiated
- The sale is highly probable, within 12 months of classification as held for sale
- The asset is being actively marketed for sale at a sale price reasonable in relation to its fair value

Non-current assets held for sale are measured at the lower of their carrying amount and fair value less costs to sell in accordance with IFRS 5. Where investments that have initially been recognised as non-current assets held for sale, because the Group has been deemed to hold a controlling stake, are subsequently disposed of or diluted such that the Group's holding is no longer deemed a controlling stake, the investment will subsequently be reclassified as fair value through profit or loss or fair value through other comprehensive income investments in accordance with IFRS 9. Subsequent movements will be recognised in accordance with the Group's accounting policy for the newly adopted classification.

Once classified as held for sale, intangible assets and property, plant and equipment are no longer amortised or depreciated.

	Group & Company	
	2021	2020
	£000	£000
Reposessed property held for sale	3,136	3,285
	3,136	3,285

Reposessed property held for sale

The reposessed property is expected to be sold within 12 months and can therefore be recognised as held for sale under IFRS 5.

Notes to the Consolidated Financial Statements

20. Derivative financial instruments

Accounting for derivative financial instruments

All derivatives are recognised at their fair value. Fair values are obtained using recent arm's length transactions or calculated using valuation techniques such as discounted cash flow models at the prevailing interest rates, and for structured notes classified as financial instruments fair values are obtained from quoted market prices in active markets. Derivatives are shown in the Statement of Financial Position as assets when their fair value is positive and as liabilities when their fair value is negative.

Group & Company	2021			2020		
	Contract/ notional amount	Fair value assets	Fair value liabilities	Contract/ notional amount	Fair value assets	Fair value liabilities
	£000	£000	£000	£000	£000	£000
Currency swaps	8,686	118	132	17,338	202	188
Interest rate swaps	57,889	1,635	39	25,292	-	461
Structured notes	-	-	-	1,644	1,641	-
	66,575	1,753	171	44,274	1,843	649

The principal derivatives used by the Group are over the counter exchange rate contracts. Exchange rate related contracts include currency swaps and interest rate swaps.

A forward foreign exchange contract is an agreement to buy or sell a specified amount of foreign currency on a specified future date at an agreed rate. Currency swaps generally involve the exchange of interest payment obligations denominated in different currencies; exchange of principal can be notional or actual. The currency swaps are settled net and therefore the fair value is small in comparison to the contract/notional amount. Interest rate swaps are used to hedge against the Profit or Loss impact resulting from the movement in interest rates, due to some exposures having fixed rate terms.

Also included in derivative financial instruments are structured notes. The Group invested in the structured notes, which are maturing in 2021.

The Group only uses investment graded banks as counterparties for derivative financial instruments.

The table below presents an analysis of derivative financial instruments contract/notional amounts by rating agency designation of

	Group & Company	
	2021	2020
	£000	£000
Aa1	7,797	12,126
Aa3		
A1	58,778	32,148
Baa1		
	66,575	44,274

21. Derivatives held for risk management and hedge accounting

See accounting policy in Note 3.

Derivatives held for risk management

The following table describes the fair values of derivatives held for risk management purposes by type of risk exposure.

Notes to the Consolidated Financial Statements

	2021		2020	
	Assets	Liabilities	Assets	Liabilities
Group & Company risk exposure	£000	£000	£000	£000
Interest rate				
Designated in fair value hedges	1,635	-	-	-
Total interest rate derivatives	1,635	-	-	-

Details of derivatives designated as hedging instruments in qualifying hedging relationships are provided in the hedge accounting section below. The instruments used principally include interest rate swaps.

For more information about how the Group manages its market risks, see Note 6.

Hedge accounting

Fair value hedges of interest rate risk

The Group uses interest rate swaps to hedge its exposure to changes in the fair values of fixed rate pound sterling loans to customers in respect of the SONIA (The Sterling Overnight Index Average) benchmark interest rate. Pay-fixed/receive-floating interest rate swaps are matched to specific fixed-rate loans and advances with terms that closely align with the critical terms of the hedged item.

The Group's approach to managing market risk, including interest rate risk, is discussed in Note 6. The Group's exposure to interest rate risk is disclosed in Note 6. Interest rate risk to which the Group applies hedge accounting arises from fixed-rate loans and advances, whose fair value fluctuates when benchmark interest rates change. The Group hedges interest rate risk only to the extent of benchmark interest rates because the changes in fair value of a fixed-rate loan are significantly influenced by changes in the benchmark interest rate (SONIA). Hedge accounting is applied where economic hedging relationships meet the hedge accounting criteria.

By using derivative financial instruments to hedge exposures to changes in interest rates, the Group also exposes itself to credit risk of the derivative counterparty, which is not offset by the hedged item. The Group minimises counterparty credit risk in derivative instruments by entering into transactions with high-quality counterparties whose credit rating is not lower than A.

Before fair value hedge accounting is applied by the Group, the Group determines whether an economic relationship between the hedged item and the hedging instrument exists based on an evaluation of the qualitative characteristics of these items and the hedged risk that is supported by quantitative analysis. The Group considers whether the critical terms of the hedged item and hedging instrument closely align when assessing the presence of an economic relationship. The Group evaluates whether the fair value of the hedged item and the hedging instrument respond similarly to similar risks. The Group further supports this qualitative assessment by using regression analysis to assess whether the hedging instrument is expected to be and has been highly effective in offsetting changes in the fair value of the hedged item.

The Group establishes a hedge ratio by aligning the par amount of the fixed-rate loan and the notional amount of the interest rate swap designated as a hedging instrument. Under the Group policy, in order to conclude that a hedging relationship is effective, all of the following criteria should be met.

- The regression co-efficient (R squared), which measures the correlation between the variables in the regression, is at least 0.8.
- The slope of the regression line is within a 0.8–1.25 range.
- The confidence level of the slope is at least 95%.

In these hedging relationships, the main sources of ineffectiveness are:

- the effect of the counterparty and the Group's own credit risk on the fair value of the interest rate swap, which is not reflected in the fair value of the hedged item attributable to the change in interest rate; and
- differences in payable/receivable fixed rates of the interest rate swap and the loans.

There were no other sources of ineffectiveness in these hedging relationships.

Notes to the Consolidated Financial Statements

The effective portion of fair value gains on derivatives held in qualifying fair value hedging relationships and the hedging gain or loss on the hedged items are included in net interest income.

At 31 December 2021 and 31 December 2020, the Group held the following interest rate swaps as hedging instruments in fair value hedges of interest risk.

	Maturity 2021			Maturity 2020		
	Less than 1 year	1–5 years	More than 5 years	Less than 1 year	1–5 years	More than 5 years
Group & Company						
Risk category						
Interest rate risk						
Hedge of loans and advances						
Nominal amount (in £'000)	-	5,335	33,750	-	-	-
Average fixed interest rate	-	0.88%	0.09%	-	-	-

The amounts relating to items designated as hedging instruments and hedge ineffectiveness at 31 December 2021 were as follows.

	2021		
	Nominal amount	Carrying amount	
		Assets	Liabilities
Group & Company	£000	£000	£000
Interest rate risk			
Interest rate swaps – hedge of loans and advance	39,085	1635	-

The amounts relating to items designated as hedged items at 31 December 2021 were as follows.

	2021	
	Carrying amount	
	Assets	Liabilities
Group & Company	£000	£000
Loans and advances	39,085	-

Group & Company	2021		Line item in profit or loss that includes hedge ineffectiveness
	Change in fair value used for calculating hedge ineffectiveness	Ineffectiveness recognised in profit or loss	
	£000	£000	
Derivative financial instruments	1,635	144	Net interest income

Notes to the Consolidated Financial Statements

Group & Company Line item in the statement of financial position in which the hedged item is included	2021		
	Change in value used for calculating hedge ineffectiveness	Accumulated amount of fair value hedge adjustments on the hedged item included in the carrying amount of the hedged item	
		Assets	Liabilities
		£000	£000
Loans and advances to customers	(1,490)	(1,490)	-

No hedge accounting was applied at 31 December 2020.

22. Loans and advances to customers

	2021			
	Stage 1	Stage 2	Stage 3	Total
Group loans and advances to customers	£000	£000	£000	£000
At 1 January 2021	1,434,833	126,347	42,797	1,603,977
Originations and (repayments)	345,786	(53,133)	(11,296)	281,357
Write-offs	-	-	(614)	(614)
Acquired portfolio	4,128	-	-	4,128
Transfer to Stage 1	8,726	(8,726)	-	-
Transfer to Stage 2	(40,132)	44,147	(4,015)	-
Transfer to Stage 3	(3,932)	(13,173)	17,105	-
At 31 December 2021	1,749,409	95,462	43,977	1,888,848
Less allowances for ECLs (see note 23)	(388)	(77)	(5,922)	(6,387)
Net loans and advances at 31 December 2021	1,749,021	95,385	38,055	1,882,461

	2020			
	Stage 1	Stage 2	Stage 3	Total
Group loans and advances to customers	£000	£000	£000	£000
At 1 January 2020	1,517,524	66,372	31,447	1,615,343
Originations and (repayments)	4,941	(4,045)	(8,982)	(8,086)
Write-offs	-	-	(3,280)	(3,280)
Transfer to Stage 1	20,951	(20,951)	-	-
Transfer to Stage 2	(99,683)	99,683	-	-
Transfer to Stage 3	(8,901)	(14,712)	23,613	-
At 31 December 2020	1,434,833	126,347	42,797	1,603,977
Less allowances for ECLs (see note 23)	(725)	(533)	(3,369)	(4,627)
Net loans and advances at 31 December 2020	1,434,108	125,814	39,428	1,599,349

*Originations include further advances and drawdowns on existing commitments.

Notes to the Consolidated Financial Statements

	2021			
	Stage 1	Stage 2	Stage 3	Total
Company loans and advances to customers	£000	£000	£000	£000
At 1 January 2021	1,436,671	109,600	41,460	1,587,731
Originations and (repayments)	454,021	(51,734)	(11,051)	391,236
Write-offs	-	-	(231)	(231)
Transfer to Stage 1	6,216	(6,216)	-	-
Transfer to Stage 2	(39,538)	43,553	(4,015)	-
Transfer to Stage 3	(827)	(11,344)	12,171	-
At 31 December 2021	1,856,543	83,859	38,334	1,978,736
Less allowances for ECLs (see note 23)	(162)	(41)	(3,208)	(3,411)
Net loans and advances at 31 December 2021	1,856,381	83,818	35,126	1,975,325

	2020			
	Stage 1	Stage 2	Stage 3	Total
Company loans and advances to customers	£000	£000	£000	£000
At 1 January 2020	1,507,900	65,616	29,924	1,603,440
Originations and (repayments)	(747)	(3,732)	(8,691)	(13,170)
Write-offs	-	-	(2,539)	(2,539)
Transfer to Stage 1	20,923	(20,923)	-	-
Transfer to Stage 2	(83,153)	83,153	-	-
Transfer to Stage 3	(8,253)	(14,514)	22,767	-
At 31 December 2020	1,436,671	109,600	41,460	1,587,731
Less allowances for ECLs (see note 23)	(428)	(180)	(3,024)	(3,632)
Net loans and advances at 31 December 2020	1,436,243	109,420	38,436	1,584,099

**Originations include further advances and drawdowns on existing commitments.*

Notes to the Consolidated Financial Statements

Group Loans and advances to customers by division (net of ECL)	2021							Total
	Banking	Mortgage Portfolios	RAF	ABL	ASFL	AAG	All Other Divisions	
	£000	£000	£000	£000	£000	£000	£000	£000
Stage 1	1,297,624	157,561	82,845	182,122	9,868	7,500	11,500	1,749,020
Stage 2	70,100	13,719	11,338	-	229	-	-	95,386
Stage 3	28,324	6,802	2,929	-	-	-	-	38,055
At 31 December 2021	1,396,048	178,082	97,112	182,122	10,097	7,500	11,500	1,882,461

Group Loans and advances to customers by division (net of ECL)	2020							Total
	Banking	Mortgage Portfolios	RAF	ABL	ASFL	AAG	All Other Divisions	
	£000	£000	£000	£000	£000	£000	£000	£000
Stage 1	1,030,970	223,800	74,541	87,331	5,965	-	11,501	1,434,108
Stage 2	72,626	36,794	16,394	-	-	-	-	125,814
Stage 3	30,203	8,233	991	-	-	-	-	39,427
At 31 December 2020	1,133,799	268,827	91,926	87,331	5,965	-	11,501	1,599,349

Company

Loans and advances to customers split by division (net of ECL)	2021				Total
	Banking	Wealth Management	Mortgage portfolios	Other	
	£000	£000	£000	£000	£000
Stage 1	1,297,624	-	157,561	401,195	1,856,380
Stage 2	70,100	-	13,719	-	83,819
Stage 3	28,324	-	6,802	-	35,126
At 31 December 2021	1,396,048	-	178,082	401,195	1,975,325

Company

Loans and advances to customers split by division (net of ECL)	2020				Total
	Banking	Wealth Management	Mortgage portfolios	Other	
	£000	£000	£000	£000	£000
Stage 1	1,030,970	-	223,800	181,473	1,436,243
Stage 2	72,626	-	36,794	-	109,420
Stage 3	30,203	-	8,233	-	38,436
At 31 December 2020	1,133,799	-	268,827	181,473	1,584,099

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

Notes to the Consolidated Financial Statements

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

Group loans and advances in arrears	2021								
	Banking	Wealth Management	Mortgage portfolios	RAF	ABL	ASFL	AAG	Other	Total
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Up to 30 days	42,125	-	6,293	1,813	-	1,890	-	-	52,121
Stage 1	36,118	-	3,699	1,647	-	1,890	-	-	43,355
Stage 2	4,623	-	2,594	-	-	-	-	-	7,217
Stage 3	1,384	-	-	166	-	-	-	-	1,550
30 - 60 days	1,509	-	2,561	2,736	-	-	-	-	6,806
Stage 1	-	-	-	40	-	-	-	-	40
Stage 2	1,495	-	2,561	-	-	-	-	-	4,056
Stage 3	14	-	-	2,696	-	-	-	-	2,710
60 - 90 days	25,648	-	1,566	98	-	-	-	-	27,312
Stage 2	18,889	-	1,566	-	-	-	-	-	20,455
Stage 3	6,759	-	-	98	-	-	-	-	6,857
Over 90 days	31,820	-	7,753	2,583	-	-	-	-	42,155
Stage 2	6,251	-	-	2	-	-	-	-	6,253
Stage 3	25,569	-	7,753	2,581	-	-	-	-	35,902
At 31 December 2021	101,102	-	18,172	7,231	-	1,890	-	-	128,395

Group loans and advances in arrears	2020								
	Banking	Wealth Management	Mortgage portfolios	RAF	ABL	ASFL	AAG	Other	Total
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Up to 30 days	10,554	-	6,355	1,928	-	-	-	-	18,836
Stage 1	9,902	-	5,948	1,468	-	-	-	-	17,318
Stage 2	652	-	406	346	-	-	-	-	1,405
Stage 3	-	-	-	114	-	-	-	-	114
30 - 60 days	9	-	4,187	274	-	-	-	-	4,470
Stage 1	9	-	-	-	-	-	-	-	9
Stage 2	-	-	4,187	209	-	-	-	-	4,396
Stage 3	-	-	-	65	-	-	-	-	65
60 - 90 days	9,467	-	1,788	475	-	-	-	-	11,730
Stage 2	9,467	-	1,788	162	-	-	-	-	11,417
Stage 3	-	-	-	313	-	-	-	-	313
Over 90 days	65,227	-	7,125	1,096	-	-	-	-	73,448
Stage 2	29,871	-	-	276	-	-	-	-	30,147
Stage 3	35,356	-	7,125	820	-	-	-	-	43,301
At 31 December 2020	85,257	-	19,455	3,773	-	-	-	-	108,485

Notes to the Consolidated Financial Statements

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

	2021				
	Banking	Wealth Management	Mortgage portfolios	Other	Total
Company loans and advances in arrears	£000	£000	£000	£000	£000
Up to 30 days	42,125	-	6,293	-	48,418
Stage 1	36,118	-	3,699	-	39,817
Stage 2	4,623	-	2,594	-	7,217
Stage 3	1,384	-	-	-	1,384
30 - 60 days	1,509	-	2,561	-	4,070
Stage 2	1,495	-	2,561	-	4,056
Stage 3	14	-	-	-	14
60 - 90 days	25,648	-	1,566	-	27,214
Stage 2	18,889	-	1,566	-	20,455
Stage 3	6,759	-	-	-	6,759
Over 90 days	31,820	-	7,753	-	39,573
Stage 2	6,251	-	-	-	6,251
Stage 3	25,569	-	7,753	-	33,322
At 31 December 2021	101,102	-	18,172	-	119,274

	2020				
	Banking		Mortgage portfolios	Other	Total
Company loans and advances in arrears	£000		£000	£000	£000
Up to 30 days	10,554		6,355	-	16,909
Stage 1	9,902	-	5,948	-	15,850
Stage 2	652	-	406	-	1,059
30 - 60 days	9		4,187	-	4,196
Stage 1	9	-	-	-	9
Stage 2	-	-	4,187	-	4,187
60 - 90 days	9,467		1,788	-	11,255
Stage 2	9,467	-	1,788	-	11,255
Over 90 days	65,227		7,125	-	72,352
Stage 2	29,871	-	-	-	29,871
Stage 3	35,356	-	7,125	-	42,481
At 31 December 2020	85,257	-	19,455	-	104,712

Notes to the Consolidated Financial Statements

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

	Group		Company	
	2021	2020	2021	2020
	£000	£000	£000	£000
Gross investment in finance lease receivables:				
- No later than 1 year	45,368	12,894	-	-
- Later than 1 year and no later than 5 years	72,392	97,062	-	-
- Later than 5 years	119	1,679	-	-
	117,879	111,635	-	-
Unearned future finance income on finance leases	(12,368)	(19,708)	-	-
Net investment in finance leases	105,511	91,927	-	-
The net investment in finance leases may be analysed as follows:				
- No later than 1 year	38,609	30,770	-	-
- Later than 1 year and no later than 5 years	66,777	60,824	-	-
- Later than 5 years	125	333	-	-
	105,511	91,927	-	-

(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).

The Bank has continued to support clients that have suffered financial difficulty as a result of the pandemic. The use of COVID-19 relief mechanisms will not automatically merit identification of SICR and trigger a Stage 2 classification in isolation.

Where individual borrowers received COVID-19 relief, which were primarily in the form of payment holidays, the individual borrower was assessed to be a significant increase in credit risk where they were considered to have suffered long term financial difficulty. An individual borrower was considered to have suffered long term financial difficulty based on individual circumstances or where they had received more than two payment holidays or where a payment holiday given was in excess of 6 months. Where an individual borrower is considered to have suffered long term financial difficulty they are transferred to stage 2.

(c) Collateral held

Collateral is measured at fair value less costs to sell.

Most of the loans are secured by property. The fair value of collateral held against loans and advances in Stage 3 is £42.6m (2020: £60.6m), against loans of £38.3m (2020: £41.5m). The weighted average loan-to-value of loans and advances in Stage 3 is 73.4% (2020: 75%).

Notes to the Consolidated Financial Statements

23. Allowances for impairment of loans and advances

	Stage 1	Stage 2	Stage 3	Total
Group	£000	£000	£000	£000
Loans and advances to customers	388	77	5,922	6,387
At 31 December 2021	388	77	5,922	6,387

An analysis of movements in the allowance for ECLs under IFRS 9:

	Stage 1	Stage 2	Stage 3	Total
Group	£000	£000	£000	£001
At 1 January 2021	725	533	3,369	4,627
Transfer to Stage 1	4	(4)	-	-
Transfer to Stage 2	(13)	13	-	-
Transfer to Stage 3	(15)	(82)	97	-
Current year charge	194	(49)	3,507	3,652
Adjustment due to variation in expected future cash flows	(142)	(280)	65	(357)
Change in assumptions	(191)	(43)	(106)	(340)
Financial assets that have been derecognised	-	-	(230)	(230)
Repayments and write-offs	(174)	(11)	(780)	(965)
At 31 December 2021	388	77	5,922	6,387

	Stage 1	Stage 2	Stage 3	Total
Group	£000	£000	£000	£000
Loans and advances to customers	725	533	3,369	4,627
At 31 December 2020	725	533	3,369	4,627

An analysis of movements in the allowance for ECLs under IFRS 9:

	Stage 1	Stage 2	Stage 3	Total
Group	£000	£000	£000	£001
At 1 January 2020	527	47	4,216	4,790
Transfer to Stage 1	5	(5)	-	-
Transfer to Stage 2	(17)	17	-	-
Current year charge	139	145	1,612	1,896
Adjustment due to variation in expected future cash flows	(96)	-	700	604
Change in assumptions	308	371	90	769
Financial assets that have been derecognised	-	-	(596)	(596)
Repayments and write-offs	(141)	(42)	(2,653)	(2,836)
At 31 December 2020	725	533	3,369	4,627

Notes to the Consolidated Financial Statements

	Stage 1	Stage 2	Stage 3	Total
Company	£000	£000	£000	£000
Loans and advances to customers	162	41	3,208	3,411
At 31 December 2021	162	41	3,208	3,411

An analysis of movements in the allowance for ECLs under IFRS 9:

	Stage 1	Stage 2	Stage 3	Total
Company	£000	£000	£000	£000
Balance as at 1 January 2021	427	180	3,025	3,632
Transfer to Stage 1	4	(4)	-	-
Transfer to Stage 2	(10)	10	-	-
Transfer to Stage 3	(2)	(52)	54	-
Current year charge	15	(64)	393	344
Adjustment due to variation in expected future cash flows	-	-	112	112
Change in assumptions	(148)	(29)	(40)	(217)
Financial assets that have been derecognised	-	-	(230)	(230)
Repayments and write-offs	(124)	-	(106)	(230)
At 31 December 2021	162	41	3,208	3,411

	Stage 1	Stage 2	Stage 3	Total
Company	£000	£000	£000	£000
Loans and advances to customers	427	180	3,025	3,632
At 31 December 2020	427	180	3,025	3,632

An analysis of movements in the allowance for ECLs under IFRS 9:

	Stage 1	Stage 2	Stage 3	Total
Company	£000	£000	£000	£000
Balance as at 1 January 2020	319	46	3,846	4,211
Transfer to Stage 1	5	(5)	-	-
Current year charge	64	39	1,319	1,422
Adjustment due to variation in expected future cash flows	-	-	735	735
Change in assumptions	169	140	81	390
Financial assets that have been derecognised	-	-	(596)	(596)
Repayments and write-offs	(130)	(40)	(2,360)	(2,530)
At 31 December 2020	427	180	3,025	3,632

Notes to the Consolidated Financial Statements

24. Other assets

	Group		Company	
	2021	2020	2021	2020
	£000	£000	£000	£000
Trade receivables	13,095	5,459	7,820	5,294
Inventory	87,065	84,722	78,079	79,554
Prepayments and accrued income	8,183	6,005	6,820	5,689
Other debtors	1,722	-	-	-
Amount due from group companies	-	1,321	3,649	9,708
	110,065	97,507	96,368	100,245
Trade receivables				
Gross balance	13,890	5,459	7,820	5,294
Allowance for bad debts	(795)	-	-	-
Net receivables	13,095	5,459	7,820	5,294

Accounting for inventory

Inventory is measured at the lower of cost and net realisable value less cost to sell. The cost of inventories comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Pinnacle Universal is a special purpose vehicle, 100% owned by the Bank, which owns land that is currently in the process of being redeveloped with a view to selling off as individual residential plots.

Land acquired through repossession of collateral which is subsequently held in the ordinary course of business with a view to develop and sell is accounted for as inventory.

In 2019 a property in Spain and in 2020 a property in France, held as collateral on a loan was repossessed. The Group's intention is to develop and sell the properties have therefore been recognised as inventory. The value of inventory for repossessed collateral at 31 December is £16.7m (2020: £17.5m).

In 2019 two properties were reclassified from investment property to inventory due to being under development with a view to sale, at 31 December 2021 they were valued at cost of £70.6m (2020: £67.2m).

Notes to the Consolidated Financial Statements

25. Financial investments

	Group & Company	
	2021	2020
	£000	£000
Designated at fair value through profit or loss		
- Debt securities	124	138
Designated at fair value through other comprehensive income		
- Listed securities	-	1,754
- Unlisted securities	3,045	2,432
Total financial investments	3,169	4,324

Listed securities

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

In 2018, AL received shares in a listed investment of Secure Trust Bank plc, which were transferred by the parent company, Arbuthnot Banking Group. They were designated as FVOCI for strategic purposes. During 2021 all remaining shares were disposed of at market value through a placing. The carrying value at previous year end was £1.75m.

Debt securities

The Group has made an investment in an unlisted special purpose vehicle, set up to acquire and enhance the value of a commercial property through its 100% owned subsidiary. During 2018 the subsidiary company was sold and under the terms of the sale agreement, the buyer agreed to purchase 100% of the share capital and reimburse all outstanding loans. The proceeds of the sale have been distributed to the investors, except for the amount withheld for the general and specific warranties (which will be released in three instalments at 18-month intervals included as a condition of the sale agreement.) A loss of £14k (2020: £14k loss) has been recognised in profit or loss during the year. The investment has been valued at £124k (2020: £138k) as at 31 December 2021 (see note 6. (f)).

Unlisted securities

All unlisted securities have been designated as FVOCI as they are held for strategic reasons.

On 23 June 2016 Arbuthnot Latham received €1.3m cash consideration following Visa Inc.'s completion of the acquisition of Visa Europe. As part of the deal Arbuthnot Latham also received preference shares in Visa Inc., these have been valued at their future conversion value into Visa Inc. common stock.

During 2020, as part of the fourth anniversary of the closing of the Visa Europe transaction, an assessment was performed of the ongoing risk of liability to Visa. As part of the adjustment, Visa awarded the Group 59 preference shares with a carrying value of £920k. These can be automatically converted into freely tradeable Class A common stock.

Management have assessed the sum of the fair value of the Group's investment as £1.6m (2020: £1.6m). This valuation includes a 31% haircut on the original preference shares.

The Group has designated its investment in the security as FVOCI. Dividends received during the year amounted to £Nil (2020: £17k).

A further investment in an unlisted venture capital investment vehicle was made in 2021. The carrying value at year end is £1,450k (2020: £828k) and no dividends were received in the year. The increase in value is due to additional contributions to the fund and the successful performance of the underlying investments.

Notes to the Consolidated Financial Statements

26. Deferred taxation

Accounting for deferred tax

Deferred tax is provided in full on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax is not accounted for if it arises from the initial recognition of goodwill, the initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries to the extent that they probably will not reverse in the foreseeable future. Deferred tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the Statement of Financial Position date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

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

The deferred tax asset comprises:

	Group		Company	
	2021	2020	2021	2020
	£000	£000	£000	£000
Accelerated capital allowances and other short-term timing differences	27	(577)	(1,266)	(707)
Movement in fair value of Financial investments at fair value through other comprehensive income	(299)	(229)	(299)	(229)
Unutilised tax losses	2,004	1,147	2,004	1,147
IFRS 9 adjustment	308	273	308	273
Deferred tax asset	2,040	614	747	484
At 1 January	614	1,425	484	1,065
On acquisition of AAG	(1,315)	-	-	-
Other comprehensive income	(70)	(69)	(70)	(69)
Profit and loss account - accelerated capital allowances and other short term timing differences	1,919	(314)	(559)	(322)
Profit and loss account - tax losses	857	(315)	857	(77)
IFRS 9 adjustment *	35	(113)	35	(113)
Deferred tax asset at 31 December	2,040	614	747	484

*Relates to first year adoption of IFRS 9 spread over 10 years for tax purposes.

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.

27. Intangible assets

Accounting for intangible assets

(a) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in 'intangible assets'. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

The Group reviews the goodwill for impairment at least annually, or more frequently when events or changes in economic circumstances indicate that impairment may have taken place, and carries goodwill at cost less accumulated impairment losses.

Notes to the Consolidated Financial Statements

Assets are grouped together in the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit" or "CGU").

For impairment testing purposes goodwill cannot be allocated to a CGU that is greater than a reported operating segment. CGUs to which goodwill has been allocated are aggregated so that the level at which impairment is tested reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the synergies of the combination. The test for impairment involves comparing the carrying value of goodwill with the present value of pre-tax cash flows, discounted at a rate of interest that reflects the inherent risks of the CGU to which the goodwill relates, or the CGU's fair value if this is higher.

(b) Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised on the basis of the expected useful lives (three to fifteen 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.

During the year the company developed software for customer relationship management. Relevant costs have been capitalised accordingly and will be amortised across its useful economic life.

(c) Other intangibles

Other intangibles include trademarks, customer relationships, broker relationships, technology and banking licences acquired. These costs are amortised on the basis of the expected useful lives (three to fourteen years).

Group	Goodwill £000	Computer software £000	Other intangibles £000	Total £000
Cost				
At 1 January 2020	8,935	18,946	2,561	30,442
Additions	-	6,393	-	6,393
At 31 December 2020	8,935	25,339	2,561	36,835
Additions	-	5,100	-	5,100
On acquisition of subsidiaries	-	-	4,416	4,416
At 31 December 2021	8,935	30,439	6,977	46,351
Accumulated amortisation				
At 1 January 2020	-	(5,763)	(869)	(6,632)
Amortisation charge	-	(2,581)	(246)	(2,827)
At 31 December 2020	-	(8,344)	(1,115)	(9,459)
Amortisation charge	-	(2,714)	(583)	(3,297)
At 31 December 2021	-	(11,058)	(1,698)	(12,756)
Net book amount				
At 31 December 2020	8,935	16,995	1,446	27,376
At 31 December 2021	8,935	19,381	5,279	33,595

Notes to the Consolidated Financial Statements

Significant management judgements are made in estimations, to evaluate whether an impairment of goodwill is necessary. Impairment testing is performed at CGU level and the following two items, with judgements surrounding them, have a significant impact on the estimations used in determining the necessity of an impairment charge:

- Future cash flows - Cash flow forecasts reflect management's view of future business forecasts at the time of the assessment. A detailed 3 year budget is done every year and management also uses judgement in applying a growth rate. The accuracy of future cash flows is subject to a high degree of uncertainty in volatile market conditions. During such conditions, management would perform impairment testing more frequently than annually to ensure that the assumptions applied are still valid in the current market conditions.
- Discount rate - Management also apply judgement in determining the discount rate used to discount future expected cash flows. The discount rate is derived from the cost of capital for each CGU.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. There are currently two CGUs (2020: two) with goodwill attached; the core Arbuthnot Latham CGU (£5.4m) and RAF CGU (£3.5m).

Management considers the value in use for the core Arbuthnot Latham CGU to be the discounted cash flows over 3 years with a terminal value (2020: 3 years with a terminal value). The 3 year discounted cash flows with a terminal value are considered to be appropriate as the goodwill relates to an ongoing, well established, business and not underlying assets with finite lives. The terminal value is calculated by applying a discounted perpetual growth model to the profit expected in 2023 as per the approved 3 year plan. A growth rate of 3.6% (2020: 6.2%) was used for income and 4.5% (2020: 7.1%) for expenditure from 2022 to 2024 (these rates were the best estimate of future forecasted performance), while a 3% (2020: 3%) growth rate for income and expenditure (a more conservative approach was taken for later years as these were not budgeted for in detail as per the 3 year plan approved by the Board of Directors) was used for cash flows after the approved 3 year plan.

Management considers the value in use for the RAF CGU to be the discounted cash flows over 3 years with a terminal value. The 3 year discounted cash flows with a terminal value are considered to be appropriate as the goodwill relates to an ongoing, well established, business and not underlying assets with finite lives. The terminal value is calculated by applying a discounted perpetual growth model to the profit expected in 2024 as per the approved budget. A growth rate of 3% (2020: 3%) was used (this rate was the best estimate of future forecasted performance).

The growth rates used are conservative and below the forecast UK growth rate of 2.5% (forecasted baseline average for the following 5 years).

Cash flows were discounted at a pre-tax rate of 12% (2020: 12%) to their net present value. The discount rate of 12% is considered to be appropriate after evaluating current market assessments of the time value of money and the risks specific to the assets or CGUs.

Currently, the value in use and fair value less costs to sell of both CGUs exceed the carrying values of the associated goodwill.

Notes to the Consolidated Financial Statements

Company	Goodwill £000	Computer software £000	Other intangibles £000	Total £000
Cost				
At 1 January 2020	5,415	18,595	213	24,223
Additions	-	5,947	-	5,947
At 31 December 2020	5,415	24,542	213	30,170
Additions	-	5,100	-	5,100
At 31 December 2021	5,415	29,642	213	35,270
Accumulated amortisation				
At 1 January 2020	-	(5,719)	(213)	(5,932)
Amortisation charge	-	(2,526)	-	(2,526)
At 31 December 2020	-	(8,245)	(213)	(8,458)
Amortisation charge	-	(2,657)	-	(2,657)
At 31 December 2021	-	(10,902)	(213)	(11,115)
Net book amount				
At 31 December 2020	5,415	16,297	-	21,712
At 31 December 2021	5,415	18,740	-	24,155

The goodwill in the Company relates to the core Arbuthnot Latham CGU.

28. Acquisition of Asset Alliance Group Holdings Limited

On 1 April 2021, following receipt of regulatory approval, Arbuthnot Latham completed the acquisition of 100% of the share capital of AAGH from its former owners made up of institutional investors and the key management team.

AAGH provides vehicle finance and related services, predominantly in the truck & trailer and bus & coach markets. Operating from five locations, it is the UK's leading independent end-to-end specialist in commercial vehicle financing and has over 4000 vehicles under management.

The acquisition supported AL's continued strategy to diversify its proposition within the specialist financial services sector.

The consideration was paid in full in cash following completion. AL has also provided an intercompany loan to AAGH at completion of £127.9m to re-finance its existing finance liabilities. The consideration and the refinancing of AAGH's funding liabilities have been satisfied from the Group's current cash resources.

The share capital was acquired at a discount to the fair value of net assets resulting in a bargain purchase gain recognised in the Statement of Comprehensive Income on acquisition of £8.6m as set out in the table on the next page. The most significant fair value adjustment arose from the valuation of the leased truck fleet. The global shortage of computer chips, which are used in the manufacture of vehicles, has curtailed the supply of new trucks and therefore increased the market value for second-hand vehicles. Upon acquisition the adjustment to the asset values was an overall average increase of 15.95% on the carrying value of the truck fleet resulting in an uplift totalling £19.2m.

As at the acquisition date gross trade receivables were £9,979k, of which £987k were considered not collectable.

The acquisition contributed £0.2m to interest income and £3.8m to profit before tax. Arbuthnot Latham provides AAG parental funding facilities. These are on different terms and rates of interest to its previous third party bank funding, consequently presentation of the result for the full year including prior to the acquisition is considered impracticable.

Notes to the Consolidated Financial Statements

	Acquired assets / liabilities £000	Fair value adjustments £000	Recognised values on acquisition £000
Loans and advances to banks	3,883	-	3,883
Loans and advances to customers	4,226	-	4,226
Other assets	10,128	-	10,128
Stock	1,982	316	2,298
Deferred tax assets	-	2,500	2,500
Intangible assets	1,579	2,837	4,416
Property, plant and equipment	120,684	16,261	136,945
Total assets	142,482	21,914	164,396
Deposits from banks	127,918	-	127,918
Deferred tax liability	-	3,815	3,815
Current tax liability	33	-	33
Other liabilities	14,006	-	14,006
Total liabilities	141,957	3,815	145,772
Net identifiable assets	525	18,099	18,624
Consideration			9,998
Negative Goodwill / Bargain Purchase			(8,626)

Notes to the Consolidated Financial Statements

29. Property, plant and equipment

Accounting for property, plant and equipment

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

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

Leasehold improvements	3 to 20 years
Commercial and other motor vehicles	over the lease period or over 2 to 5 years
Computer equipment	3 to 5 years
Office equipment	3 to 10 years

Leasehold improvements are depreciated over the term of the lease (until the first break clause). Gains and losses on disposals are determined by deducting carrying amount from proceeds. These are included in the Statement of Comprehensive Income.

Group	Leasehold improvements £000	Commercial and other motor vehicles	Computer and other equipment £000	Total £000
Cost or valuation				
At 1 January 2020	7,389	-	4,793	12,182
Additions	64	-	618	682
Disposals	(20)	-	(77)	(97)
At 31 December 2020	7,433	-	5,334	12,767
Additions	248	35,274	407	35,929
On acquisition of subsidiaries	228	136,610	147	136,985
Disposals	(253)	(47,554)	(448)	(48,255)
At 31 December 2021	7,656	124,330	5,440	137,426
At 1 January 2020	(3,778)	-	(2,774)	(6,552)
Depreciation charge	(704)	-	(841)	(1,545)
Disposals	20	-	54	74
At 31 December 2020	(4,462)	-	(3,561)	(8,023)
Depreciation charge	(752)	(30,560)	(964)	(32,276)
Disposals	253	27,918	455	28,626
At 31 December 2021	(4,961)	(2,642)	(4,070)	(11,673)
Net book amount				
At 31 December 2020	2,971	-	1,773	4,744
At 31 December 2021	2,695	121,688	1,370	125,753

Notes to the Consolidated Financial Statements

Company	Leasehold improvements £000	Computer and other equipment £000	Total £000
Cost or valuation			
At 1 January 2020	7,345	4,715	12,060
Additions	65	596	661
At 31 December 2020	7,410	5,311	12,721
Additions	137	344	481
At 31 December 2021	7,547	5,655	13,202
At 1 January 2020	(3,755)	(2,710)	(6,465)
Depreciation charge	(701)	(835)	(1,536)
At 31 December 2020	(4,456)	(3,545)	(8,001)
Depreciation charge	(692)	(894)	(1,586)
At 31 December 2021	(5,148)	(4,439)	(9,587)
Net book amount			
At 31 December 2020	2,954	1,766	4,720
At 31 December 2021	2,399	1,216	3,615

Notes to the Consolidated Financial Statements

30. Right-of-use assets

Accounting policy for leases

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

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

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

(a) As a lessee

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

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

Practical exemptions

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

(b) As a lessor

Assets leased to customers under agreements which transfer substantially all the risks and rewards of ownership, with or without ultimate legal title, are classified as finance leases. When assets are held subject to finance leases, the present value of the lease payments is recognised as a receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. Lease income is recognised over the term of the lease using the net investment method, which reflects a constant periodic rate of return.

Assets leased to customers under agreements which do not transfer substantially all the risks and rewards of ownership are classified as operating leases. When assets are held subject to operating leases, the underlying assets are held at cost less accumulated depreciation. The assets are depreciated down to their estimated residual values on a straight-line basis over the lease term. Lease rental income is recognised on a straight-line basis over the lease term.

Notes to the Consolidated Financial Statements

Group	Investment property £000	Properties £000	Equipment £000	Total £000
At 1 January 2020	-	19,490	454	19,944
Additions	-	346	-	346
Amortisation	-	(2,406)	(181)	(2,587)
At 31 December 2020	-	17,430	273	17,703
Additions	-	738	77	815
Amortisation	-	(2,651)	(192)	(2,843)
At 31 December 2021	-	15,517	158	15,675

Company	Investment property £000	Properties £000	Equipment £000	Total £000
At 1 January 2020	-	18,911	454	19,365
Additions	-	323	-	323
Amortisation	-	(2,330)	(181)	(2,511)
At 31 December 2020	-	16,904	273	17,177
Additions	-	189	-	189
Amortisation	-	(2,578)	(181)	(2,759)
At 31 December 2021	-	14,515	92	14,607

In the year, the Group received £0.8m (2020: £1.3m) of rental income from subleasing right of use assets through an operating lease.

The Group recognised £816k (2020: £851k) of interest expense related to lease liabilities. The Group also recognised £608k (2020: £413k) of expense in relation to leases with a duration of less than 12 months.

Notes to the Consolidated Financial Statements

31. Investment property

Accounting for investment property

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

	Group		Company	
	2021	2020	2021	2020
	£000	£000	£000	£000
Opening balance	6,550	6,763	-	-
Fair value adjustment	-	(213)	-	-
At 31 December	6,550	6,550	-	-

Crescent Office Park, Bath

In November 2017, a Property Fund, based in Jersey and owned by the Group, acquired a freehold office building in Bath. The property comprises 25,528 square ft. over ground and two upper floors with parking spaces. The property was acquired for £6.35m. On the date of acquisition, the property was being multi-let to tenants and was at full capacity.

In 2017, the Fund was recognised as an asset held for sale under IFRS 5 and therefore not consolidated in the financial statements. At 31 December 2018 it was consolidated into the Group as it no longer met the IFRS 5 criteria and is recognised as an investment property. The Group has elected to apply the fair value model (see note 4.1(c))

The Group recognised £0.3m (2020: £0.4m) rental income during the year and incurred £0.08m (2020: £0.03m) of direct operating expenses.

The property remained tenanted during 2021.

32. Deposits from banks

	2021	2020
Group & Company	£000	£000
Deposits from other banks	240,333	230,090

Deposits from banks include £225m (2020: £225m) obtained through the Bank of England Term Funding Scheme (2021: TFSME, 2020: TFS). For a maturity profile of deposits from banks, refer to Note 5.

Notes to the Consolidated Financial Statements

33. Deposits from customers

Group	Group		Company	
	2021	2020	2021	2020
	£000	£000	£000	£000
Current/demand accounts	1,878,497	1,523,137	1,879,814	1,528,139
Notice accounts	309,488	157,934	309,488	157,934
Term deposits	668,964	710,790	668,964	710,790
	2,856,949	2,391,861	2,858,266	2,396,863

Included in customer accounts are deposits of £14.7m (2020: £16.4m) held as collateral for loans and advances. The fair value of these deposits approximates their carrying value.

For a maturity profile of deposits from customers, refer to Note 5.

34. Other liabilities

	Group		Company	
	2021	2020	2021	2020
	£000	£000	£000	£000
Trade payables	4,849	1,730	1,007	1,200
Other creditors	2,027	-	-	-
Amount due to Group companies	333	-	-	-
Accruals and deferred income	12,389	5,216	7,669	4,568
	19,598	6,946	8,676	5,768

35. Lease Liabilities

Accounting policy for lease liabilities

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

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

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

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

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

Notes to the Consolidated Financial Statements

Group	Properties £000	Equipment £000	Total £000
At 1 January 2020	20,020	411	20,431
Additions	508	-	508
Interest expense	864	17	881
Lease payments	(3,321)	(193)	(3,514)
At 31 December 2020	18,071	235	18,306
Additions	725	5,139	5,864
Interest expense	807	9	816
Lease payments	(3,503)	(206)	(3,709)
At 31 December 2021	16,100	5,177	21,277

Company	Properties £000	Equipment £000	Total £000
At 1 January 2020	19,415	411	19,826
Additions	508	-	508
Interest expense	834	17	851
Lease payments	(3,228)	(193)	(3,421)
At 31 December 2020	17,529	235	17,764
Additions	176	-	176
Interest expense	780	8	788
Lease payments	(3,410)	(191)	(3,601)
At 31 December 2021	15,075	52	15,127

Maturity analysis

	2021 £000	2020 £000
Less than one year	6,669	3,551
One to five years	8,592	8,830
More than five years	57,894	58,318
Total undiscounted lease liabilities at 31 December	73,154	70,699
Lease liabilities included in the statement of financial position at 31 December	21,277	18,306
Current	5,802	2,766
Non-current	15,475	15,540

Notes to the Consolidated Financial Statements

36. Debt securities in issue

Accounting policy for debt securities in issue

Issued financial instruments or their components are classified as liabilities where the contractual arrangement results in the Group having a present obligation to either deliver cash or another financial asset to the holder.

Financial liabilities, other than trading liabilities at fair value, are carried at amortised cost using the effective interest rate method as set out in policy 3.3(e).

	2021	2020
Group and Company	£000	£000
Subordinated loan notes	24,367	24,308

In 2019 the parent company of the Group obtained subordinated debt which after costs totalled £24.2m. As the loan was to aid the growth of the Group, a further agreement was undertaken with the parent company, Arbuthnot Banking Group, to pass down the debt on the same terms.

Interest on the loan is repaid back quarterly through an intercompany transaction.

Redemption of the loan is due to occur in 2029.

37. Contingent liabilities and commitments

Accounting for provisions and contingent liabilities

Provisions are recognised when the Group 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 Group 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 Group'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 Group 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.

Contingent liabilities

The Group is subject to extensive regulation in the conduct of its business. A failure to comply with applicable regulations could result in regulatory investigations, fines and restrictions on some of the Group's business activities or other sanctions. The Group seeks to minimise this risk through the adoption and compliance with policies and procedures, continuing to refine controls over business practices and behaviour, employee training, the use of appropriate documentation, and the involvement of outside legal counsel where appropriate.

Capital commitments

At 31 December 2021, the Group had capital commitments of £542k (2020: £50k) in respect of a contribution in an equity investment.

Credit commitments

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

Notes to the Consolidated Financial Statements

	Group		Company	
	2021	2020	2021	2020
	£000	£000	£000	£000
Guarantees and other contingent liabilities	4,560	6,248	2,931	6,248
Commitments to extend credit:				
- Original term to maturity of one year or less	464,390	308,427	261,797	152,972
	468,950	314,675	264,728	159,220

All assets have been assessed at Stage 1. ECL has been assessed to be insignificant.

38. Share capital

Group and Company	Number of shares	Ordinary share capital £000
At 1 January 2020	15,000,000	15,000
At 31 December 2020 & December 2021	15,000,000	15,000

The Ordinary share capital is fully authorised and comprises £15m (2020: £15m) ordinary shares with a nominal value of £1 per share.

39. Reserves and retained earnings

	Group		Company	
	2021	2020	2021	2020
	£000	£000	£000	£000
Retained earnings	47,533	46,835	34,173	42,020
Capital contribution reserve	146,512	121,012	146,512	121,012
Fair value reserve/Available-for-sale reserve	979	(203)	979	(203)
Total reserves at 31 December	195,024	167,644	181,664	162,829

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

The fair value/available for sale reserve relates to gains or losses on assets which have been recognised through other comprehensive income.

40. Share-based payment options

Company - cash settled

Grants were made to Messrs Salmon and Cobb on 14 June 2016 under Phantom Option Scheme introduced on that date, to acquire ordinary 1p shares in the Company at 1591p exercisable in respect of 50% on or after 15 June 2019 and in respect of the remaining 50% on or after 15 June 2021 when a cash payment would be made equal to any increase in market value.

Under this Scheme, Mr. Salmon and Mr. Cobb were granted a phantom option to acquire 200,000 and 100,000 ordinary 1p shares respectively in the Company. The fair value of these options at the grant date was £1m. The first tranche of the share options has vested, but will lapse if not exercised at 1591p before 14 June 2023. The second tranche of the share options will not vest as the performance conditions have not been met, due to the non payment of dividends. The first tranche of share options remained outstanding at 31 December 2021. The valuation of the share options are considered as level 2 within the fair value hierarchy, with the Group adopting a Black-Scholes valuation model as adjusted for an attrition rate for members of the scheme and a probability of pay-out reflecting the risk of not meeting the terms of the scheme over the vesting period. The number of share options that are expected to vest are reviewed at least annually. The fair value of the options as at 31 December 2021 was £0.03m (2020: £0.1m).

Notes to the Consolidated Financial Statements

On 23 July 2021 Mr. Salmon and Mr. Cobb were granted further phantom options to subscribe for 200,000 and 100,000 ordinary 1p shares respectively in the Company at 990p. 50% of each director's individual holding of phantom options is exercisable at any time after 23 July 2023 and the other 50% is exercisable at any time after 23 July 2026. All share options awarded 23 July 2021, regardless of first exercise date, may not be exercised later than 23 July 2028 being the day before the seventh anniversary of the date of grant. The fair value of the options as at 31 December 2021 was £0.09m (2020: £nil).

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

Also from the grant date to the date the Option is exercised, there must be no public criticism by any regulatory authority on the operation of ABG or any of its subsidiaries which has a material impact on the business of ABG.

Options are forfeited if they remain unexercised after a period of more than 7 years from the date of grant. If the participant ceases to be employed by the Group by reason of injury, disability, ill-health or redundancy; or because his employing company ceases to be a shareholder of the Group; or because his employing business is being transferred out of the Group, his option may be exercised within 6 months after such cessation. In the event of the death of a participant, the personal representatives of a participant may exercise an option, to the extent exercisable at the date of death, within 6 months after the death of the participant.

On cessation of employment for any other reason (or when a participant serves, or has been served with, notice of termination of such employment), the option will lapse although the Remuneration Committee has discretion to allow the exercise of the option for a period not exceeding 6 months from the date of such cessation.

In such circumstances, the performance conditions may be modified or waived as the Remuneration Committee, acting fairly and reasonably and taking due consideration of the circumstances, thinks fit. The number of Ordinary Shares which can be acquired on exercise will be pro-rated on a time elapsed basis, unless the Remuneration Committee, acting fairly and reasonably and taking due consideration of the circumstances, decides otherwise. In determining whether to exercise its discretion in these respects, the Remuneration Committee must satisfy itself that the early exercise of an option does not constitute a reward for failure.

The Remuneration Committee has amended the Scheme Rules due to regulatory changes to the IFPRU Remuneration Code of the Financial Conduct Authority since 2016, particularly in relation to material risk takers. A further change to the Scheme Rules relates to one of the performance conditions, that relating to the payment of dividends. Whilst the Committee is entitled to vary any condition in accordance with the Scheme Rules, specific reference has been added to the Rules to its ability to waive the dividend condition, should it consider it appropriate as this is an element that is potentially out of the control of the Board of directors.

The probability of payout has been assigned based on the likelihood of meeting the performance criteria, which is 100%. The Directors consider that there is some uncertainty surrounding whether the participants will all still be in situ and eligible at the vesting date. Therefore the directors have assumed a 15% attrition rate for the share options vesting in June 2021, July 2023 and July 2026. The attrition rate will increase by 3% per year until the vesting date. ABG had a cost £0.01m in relation to share based payments during 2021 (2020: £0.1m income), as disclosed in Note 12.

The award is made by the ultimate Parent Company and recharged to the Group.

41. 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 recognition.

	Group		Company	
	2021	2020	2021	2020
	£000	£000	£000	£000
Cash and balances at central banks (Note 16)	814,692	636,799	814,112	636,799
Loans and advances to banks (Note 17)	73,430	110,252	69,810	108,879
	888,122	747,051	883,922	745,678

Notes to the Consolidated Financial Statements

42. Related party transactions

Related parties of the Group include Arbuthnot Banking Group PLC and its Directors, subsidiaries, key management personnel, close family members of key management personnel and entities which are controlled, jointly controlled or significantly influenced, or for which significant voting power is held, by key management personnel or their close family members. Key management personnel are defined as Directors and Non-executive Directors of the Board.

A number of banking transactions are entered into with related parties in the normal course of business on normal commercial terms. These include loans and deposits. The volumes of related party transactions, outstanding balances at year end, and related expense and income for the year are as follows:

	Group and Company	
	2021	2020
	£000	£000
Loans with parent company		
Loans outstanding at 1 January	11,499	11,499
Loans outstanding at 31 December	11,499	11,499
Interest income earned	201	96

	Company	
	2021	2020
	£000	£000
Loans with subsidiaries		
Loans outstanding at 1 January	169,972	174,769
Loans outstanding at 31 December	386,598	169,972
Interest income earned	7,617	4,627

	Group and Company	
	2021	2020
	£000	£000
Deposits on behalf of parent company		
Deposits at 1 January	26,656	26,810
Deposits at 31 December	19,070	26,656
Interest expense on deposits	22	50

	Company	
	2021	2020
	£000	£000
Deposits on behalf of subsidiaries		
Deposits at 1 January	5,076	7,518
Deposits at 31 December	9,436	5,076
Interest expense on deposits	225	247

Notes to the Consolidated Financial Statements

	Group		Company	
	2021	2020	2021	2020
	£000	£000	£000	£000
Amounts recharged				
Amounts recharged to the parent company	1,550	840	1,550	840
Amounts recharged to subsidiaries and associates	-	-	1,040	681
Amounts recharged from the parent company	11,143	9,537	11,143	9,537

	Group		Company	
	2021	2020	2021	2020
	£000	£000	£000	£000
Intergroup balances				
Balances due from subsidiaries and associates	-	-	3,982	8,387

	Group & Company	
	2021	2020
	£000	£000
Intergroup balances		
Balances due from/(to) the parent company	(333)	1,321

The Bank paid dividends of £nil per share (2020: £nil per share) during the year to Arbuthnot Banking Group PLC.

The board of directors proposed dividends on ordinary shares in 2020. The dividends were due to be approved at the AGM on 19 May 2020. However, due to the COVID-19 coronavirus pandemic and a request by the Bank of England the board of directors decided to cancel these dividends and to suspend discretionary dividend payments during 2020.

Directors and Key Management includes solely Executive and Non-executive Directors.

	Group		Company	
	2021	2020	2021	2020
	£000	£000	£000	£000
Directors and Key Management				
Loans				
Loans outstanding at 1 January	502	503	502	503
Loans advanced during the year	38	-	38	-
Loan repayments during the year	(39)	(1)	(39)	(1)
Loans outstanding at 31 December	501	502	501	502
Interest income earned	1	15	1	15

	Group		Company	
	2021	2020	2021	2020
	£000	£000	£000	£000
Directors and Key Management				
Deposits				
Deposits at 1 January	4,456	3,594	4,456	3,594
Deposits placed during the year	2,715	3,645	2,715	3,645
Deposits repaid during the year	(2,649)	(2,783)	(2,649)	(2,783)
Deposits at 31 December	4,522	4,456	4,522	4,456
Interest expense on deposits	-	12	-	12

Notes to the Consolidated Financial Statements

The loans to directors are mainly secured on property, shares or cash and bear interest at rates linked to base rate. No provisions have been recognised in respect of loans given to related parties (2020: £nil).

Emoluments for Directors and Key Management Personnel (including pension contributions and benefits in kind) for the year

	Group & Company	
	2021	2020
	£000	£000
Salary payments	4,428	3,316
Pension contributions	122	131
	4,550	3,447

Pension contributions are being accrued under money purchase schemes for 3 directors (2020: 3 directors) in respect of qualifying service. The emoluments of Sir Henry Angest, JR Cobb, and AA Salmon were paid by the Parent Company. Their total emoluments are disclosed in the financial statements of the Parent Company. An allocation of these costs are included in this disclosure to reflect the efforts incurred by these individuals in exercising their roles as executive directors of Arbuthnot Latham & Co., Limited.

Share based payments to Directors are disclosed in Note 37.
or the tax assets and liabilities will be realised simultaneously.

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

	Group & Company	
	2021	2020
	£000	£000
Salary payments	596	517
Pension contributions	26	35
	622	552

43. Interests in subsidiaries

Company	Investment at cost	Impairment provisions	Net
	£000	£000	£000
At 1 January 2020	19,602	-	19,602
Capital contribution to Pinnacle Universal Limited	5,168	-	5,168
At 31 December 2020	24,770	-	24,770
Investment in Asset Alliance Group Holdings Limited	9,998	-	9,998
Liquidation Arbuthnot Real Estate Fund	(4,332)	-	(4,332)
Capital contribution to Arbuthnot Specialist Finance Limited	1,500	-	1,500
Capital contribution to Pinnacle Universal Limited	3,819	-	3,819
At 31 December 2021	35,755	-	35,755

(a) List of subsidiaries

The table below provides details of the subsidiaries of Arbuthnot Latham & Co., Ltd at 31 December:

Notes to the Consolidated Financial Statements

	% shareholding	Country of incorporation	Principal activity
Direct shareholding			
Arbuthnot Latham (Nominees) Limited	100.0%	UK	Dormant
Arbuthnot Securities Limited	100.0%	UK	Dormant
John K Gilliat & Co., Limited	100.0%	UK	Dormant
Arbuthnot Specialist Finance Limited	100.0%	UK	Specialist finance
Pinnacle Universal Limited	100.0%	UK	Property development
Pinnacle Universal	100.0%	BVI	Property development
Renaissance Asset Finance Limited	100.0%	UK	Asset finance
Arbuthnot Commercial Asset Based Lending Ltd	100.0%	UK	Asset based lending
Asset Alliance Group Holdings Limited	100.0%	UK	Commercial vehicle financing
Arbuthnot Latham Real Estate Holdings Ltd	100.0%	UK	Dormant
Arbuthnot Latham Real Estate PropCo 1 Ltd (Jersey)	100.0%	Jersey	Property investment

*Arbuthnot Latham Real Estate Holdings Ltd was dissolved on 22 February 2022.

All subsidiaries are 100% owned for the current and prior year. All the subsidiary and related undertakings above are unlisted and none are banking institutions. All entities are included in the consolidated financial statements and have an accounting reference date of 31 December. All the above interests relate wholly to ordinary shares. No investments in subsidiary undertakings are impaired.

All Jersey entities have their registered office as 26 New Street, St Helier, Jersey, JE2 3RA. Pinnacle Universal's registered office is 9 Columbus Centre, Pelican Drive, Road Town, Tortola, BVI. All other entities listed above have their registered office as 7 Wilson Street, London, EC2M 2SN.

(b) Non-controlling interests in subsidiaries

There are no subsidiaries with non-controlling interests.

44. Country by Country Reporting

Article 89 of the EU Directive 2013/36/EU otherwise known as the Capital Requirements Directive IV ('CRD IV') was implemented into UK domestic legislation through statutory instrument 2013 No. 3118, the Capital Requirements (Country-by-Country Reporting) Regulations 2013 (the Regulations), which were laid before the UK Parliament on 10 December 2013 and which came into force on 1 January 2014.

Article 89 requires credit institutions and investment firms in the EU to disclose annually, specifying, by Member State and by third country in which it has an establishment, the following information on a consolidated basis for the financial year: name, nature of activities, geographical location, turnover, number of employees, profit or loss before tax, tax on profit or loss and public subsidies received.

Notes to the Consolidated Financial Statements

31 December 2021	Turnover	Number FTE	Profit/(loss)	Tax paid
Location	(£m)	employees	before tax (£m)	(£m)
Arbuthnot Latham Banking	84.8	581	5.2	2.6
Dubai - Branch	-	6	(0.6)	-
31 December 2020	Turnover	Number FTE	Profit/(loss)	Tax paid
Location	(£m)	employees	before tax (£m)	(£m)
Arbuthnot Latham Banking	75.1	480	(0.6)	1.5
Dubai - Branch	-	14	(0.6)	-

The Dubai branch income was booked through the UK; hence the turnover is nil in the above analysis. Offsetting this income against Dubai branch costs would result in a £0.4m profit (2020: £1.7m). No public subsidies were received during 2021 or 2020.

Following a strategic review of the company's operations, the Dubai branch was closed in May 2021.

45. Ultimate controlling party

The Directors regard the immediate parent company, Arbuthnot Banking Group PLC, a company registered in England and Wales, as 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. A copy of the consolidated financial statements of Arbuthnot Banking Group PLC may be obtained from 7 Wilson Street, London, EC2M 2SN.

46. Events after the balance sheet date

There were no material post balance sheet events to report.