ARBUTHNOT LATHAM
Bankers since 1833

Arbuthnot Latham & Co., Limited

Annual Report for the year ended 31 December 2022

Registered Number 00819519

Contents

Company Information

Directors

The Hon Sir Nigel Boardman (Chair)

Sir Henry Angest (President and Director)

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

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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	2022 £m	2021 £m
Operating income	123.3	84.8
Other income	2.5	4.4
Operating expenses	112.9	96.5
Profit/(Loss) before tax	20.0	4.6
Customer loans	2,047.6	1,882.5
Assets Available for lease	171.7	121.7
Customer deposits	3,112.5	2,856.9
Total Assets	3,628.5	3,373.4
Term Funding Scheme	225.0	225.0
Key Performance Indicators		
Assets under management	1,326.8	1,355.6
Loan to deposit ratio[1]	65.8%	65.9%
Loan to total funding ratio[2]	61.4%	61.1%
Average net margin[3]	5.1%	4.1%
Impairment loss rate on customer loans[4]	0.32%	0.19%
Average LTV on property backed loans[5]	52.5%	51.7%
Liquidity Coverage Ratio[6]	182%	183%
Tier 1 capital ratio[7]	12.0%	12.8%
Total capital ratio[7]	13.6%	14.5%

[1] *Loan to deposit ratio: Loans and advances at amortised cost divided by deposits at amortised cost*

[2] *Loan to total funding ratio: Loans and advances at amortised cost divided by deposits at amortised cost and Term Funding Scheme balance*

[3] *Average net margin: Gross interest income yield less average interest rate on customer deposits*

[4] *Impairment loss rate on customer loans: Total impairment charges divided by average gross loans and advances held at amortised cost for the year*

[5] *Average LTV on property backed loans: Loans and advances at amortised cost secured on property collateral divided by collateral*

[6] *Liquidity Coverage Ratio: Net 30 day cash outflows as a proportion of high quality liquid assets as defined by the PRA*

[7] *See note 7 for definitions*

The Bank has seen a significant increase in profitability in 2022 compared to 2021 reporting a profit before tax of £20.0m compared to £4.6m for the prior year. Multiple successive increases in the Bank of England Base Rate have increased interest income generated from not only the Bank's lending balances, but also its treasury assets, including those held at the Bank of England. In response the Bank has increased its rates payable on deposits in line with the market. However, unexpired fixed term deposits raised in prior

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periods at lower rates, have resulted in interest payable by the Bank being suppressed until the deposits mature and are renewed at current higher rates, therefore deposit pricing has increased at a slower pace compared to the loan book and treasury assets.

As the economy enters a new economic cycle, the Bank continues to maintain its long-held credit principles and discipline as a key strategy to mitigate credit losses. However, with any lending business, credit losses are inevitable. The IFRS9 impairment charge for the year is made up of two factors. Firstly, more pessimistic economic assumptions due to the economy's performance and medium-term outlook resulting in adjustments totalling £0.9m. In this regard, the Bank has applied an average 11.6% fall in residential property values and a 21.2% fall in commercial property values compared to a 1.2% increase and a 1.7% fall respectively in 2021 for its UK property-based lending business. The second element of the impairment charge comprises two specific bad debt cases totalling £3.0m, of which one was the first credit loss incurred by Arbuthnot Commercial Asset Based Lending – the specialist invoice discounting business launched in 2018. Despite these two cases, the non-performing loan book has reduced to its lowest level for over two years and is showing no signs of material stress in the credit metrics. The average loan to value ("LTV") against the loan book remains low at 52.5%, giving significant levels of security to withstand and minimise the effect of any potential falls in the property markets.

As the business model has benefitted from improved conditions resulting from the base rate increases, the major headwind on the horizon for the Group is the upward pressure on its cost base. Although higher inflation will affect all costs, the most significant will be accelerated increases in staff costs, as the cost-of-living crisis starts to interact with full employment and competition for talent intensifies. In September the Board took the decision to award a one-off payment to all employees of £1,500. The cost of this payment was approximately £1m.

During 2022, deposit balances exceeded £3bn for the first time in the Bank's history. The Bank finished the year with total deposits of £3.1bn compared to £2.8bn for the prior year. Deposit growth for 2022 was lower than in recent years. The Bank continued to pursue its strategy of funding the specialist lending divisions with cheaper yet sticky balances from relationship driven deposit account clients. Whilst the Bank experienced upward pressure on rates, it did not compete for deposits on the non-relationship aggregator platforms. Consequently, during the year up to £100m of non-relationship deposits matured and were not renewed, to be ultimately replaced by direct relationship balances.

Overall demand for lending products has continued across the divisions with balances, including lease assets, growing to £2.2bn. An increase of 10% from the previous year end 2021 balance of £2.0bn. However, given the current market uncertainty, the Bank has tightened its credit appetite, particularly in its real estate lending business, as well as stressing the affordability of interest payments to levels in excess of the 2% increase in rates as prescribed by the Prudential Regulation Authority. The effect of this reduces the LTV for new lending below the Bank's historic guidance of 60%. It is also expected that the change in appetite will reduce lending volumes in the short term. However, given the increased levels of profitability, the Bank is well positioned to retain financial resources for future opportunities that are expected to arise given the market dislocation.

Included in the result for the year is a charge of £4.6m, following the sale of the King Street property in the second half of the year. The building was valued at £60m based on a yield of 3.75%. However, following an extensive refurbishment and upgrade, the building was in the process of being let out and so two subsequent purchase price adjustments were made. Firstly, any tenant incentives outstanding at the time of completion were deducted from the proceeds and secondly, an adjustment for the void period required to find the remaining tenants to fill the building was made via an escrow account and limited to 12 months of the expected rental income for each vacant floor. As per the prior year, the profit also needs to be reduced for the profit on the sale of trucks generated by Asset Alliance of £6.5m (2021: £5.8m), which is required to be excluded from our accounts as a result of the acquisition accounting in the prior year. It is expected that the majority of the vehicles which were acquired and subject to the adjustment will be disposed of over the coming year, resulting in any gains or losses on disposal recognised in the income statements for future periods, as and when they are sold.

Following a strategic review of its portfolio of businesses in 2023, the Bank announced its intention to cease new business for Arbuthnot Specialist Finance Ltd, its specialist lending division. All committed facilities will be honoured and the book will be wound down over the next 12 to 24 months.

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Banking
The Banking business continued its track record of recent years, delivering growth in client acquisition, deposits and lending in 2022.

The acquisition of criteria clients continued to support growth in relationship call/current deposit products as well as growth in fixed term deposits, which has supported our cost of deposits in the changing market. During 2022, deposits increased by £255m to £3.1bn, equating to 9% year on year growth. Given the increased interest rate environment, the importance of continuing to attract and retain criteria clients who value the Bank's service led proposition remains a key priority.

Loan balances across Private & Commercial Banking increased to £1.5bn in 2022. In addition to this, £35m of Commercial Real Estate loans were originated under the forward flow arrangement with a third party. The strategy allows the Bank to support clients with more capital-intensive borrowing needs, whilst continuing to pursue its objectives of the "Future State" plan.

Following the global pandemic in the previous periods, the Bank tightened its credit appetite. Given the turbulent economic environment and global macro-economic developments in 2022, the Bank continued this strategy throughout the year to ensure new loans were appropriately structured. Additionally, the Bank proactively worked with existing clients to review loan structures in order to navigate the new higher rate interest rate environment.

During 2022 the Bank launched a review of its Customer Value Proposition. The outputs from this project, which encompass client feedback along with external insights are guiding key strategic initiatives for 2023. Areas of focus include improving digital capability, automation and efficiency, and enhancing client engagement, which demonstrate the Bank's commitment to its service-led proposition.

Wealth Management
Assets Under Management (AUM) finished the year at £1.3bn, resulting in a 2% decrease over the year. This was despite strong gross inflows of £209m, representing 16% of AUM at the start of the year, and an increase of 21% compared to the previous year. After taking into account outflows, there was a net increase in AUMs of £72m. However, market turbulence in part as a consequence of the Russia's war in Ukraine, along with domestic inflationary pressure resulted in adverse market performance, offsetting the net inflows during the year.

Following the pandemic, the business returned to a new normal of agile working both in the office and virtually. The business remains committed to delivering advice through a combination of face to face and virtual client meetings, with client service as the priority.

New business distribution momentum developed further with the delivery of a new strategic initiative for external Independent Financial Advisers. In the fourth quarter the Wealth Management business launched its Platform MPS proposition and Discretionary Portfolio Service for high-net-worth private clients, which has received positive initial feedback from intermediaries.

Mortgage Portfolios
Balances for the Bank's acquired mortgage portfolio were £149m at the year-end. The portfolio continues to perform to expectations.

Arbuthnot Commercial Asset Based Lending (ACABL)
ACABL reported a profit before tax of £5.2m (2021: £4.7m).

In its fifth year the ACABL business recorded strong growth in both client acquisition and lending.

At the year-end, the business reported drawn balances of £268.8m with a further £91.8m available for drawdown, equating to a 47% increase from the prior year.

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ACABL completed 30 new transactions in 2022 with £155m of facilities written. Notably, 60% of these were alongside Private Equity firms where the business saw continued demand for its products in the transactional acquisition space where ACABL has a strong reputation.

The average deal size increased from £4.8m to £5.1m with a total client base of 102 at year-end, an increase of 40% from the prior year, supported by lower than expected client attrition. This was partly a result of Private Equity firms remaining invested for longer due to the impact of the pandemic, supply chain challenges and the current economic outlook. Facility limits increased 36% on the prior year to £523m across a broad range of sectors, underlining the spread and diverse nature of the portfolio.

The business continued to participate in the Government sponsored lending schemes and was approved during the year to participate in the Recovery Loan Scheme Phase 3. The amount issued under these schemes in 2022 represented a small proportion of overall lending but allowed the business to support both existing clients and be incorporated into financing structures for new clients.

In line with the reported strong growth, the business processed £2bn of invoices during the year, up from £1.3bn and made in excess of 13,000 client payments totalling £1.85bn.

Included in the result is a £2m impairment charge for an exposure that was placed into administration by the directors of the business in December 2022.

Renaissance Asset Finance (RAF)
RAF continued to experience strong demand for its asset finance facilities. The business delivered strong balance sheet growth in 2022 with the loan book increasing by nearly 40%, finishing the year at £133.8m.

The Block Discounting business held back profitability in the year due to the investment cost of setting up this business and the time taken for new business to draw. However, overall RAF delivered a profitable outcome for the year and with balances now at the highest level ever seen. Revenue in 2023 should grow, and with the business benefits from scale in its cost base, the business is set for positive contribution in 2023.

During the pandemic the business saw a sharp increase in watchlist clients, notably in the Black-Taxi cab sector. This trend has since stabilised, with most accounts now being reclassified to performing.

Arbuthnot Specialist Finance (ASFL)
ASFL made progress during 2022 with year end balances at £15m, up £5m year on year. However, with the current economic climate, rising interest rates and a more uncertain property market, the decision was taken to exit this market and ASFL is now closed for new business. All committed facilities will be honoured and the book is expected to be wound down over the next 12 to 24 months

Asset Alliance Group (AAG)
As at 31 December 2022 AAG had assets available for lease totalling £171.7m.

The global economy limited the rate of growth in what was a strong year for AAG. The continued worldwide computer chip shortage and the immediate consequences of Russia's War in Ukraine had an adverse effect on the availability of new commercial vehicles. This was exacerbated with the fuel increases, and general economic slowdown impacting orders.

Delays in pre-ordered stock from manufacturers limited the fleet growth potential of AAG. Consequently, the leasing strategy re-focussed on contract extensions and prioritising oldest asset replacement to mitigate increasing maintenance costs. This was successfully implemented with 40% of the managed fleet replaced during the year, with the fleet size showing modest growth to over 4,100 assets.

The shortage of new assets did however result in a continued high demand for good quality, second-hand assets, which was a key factor in driving strong performance from the truck sales division with an underlying net profit of £12.4m from the sale of 1,410 end-of lease trucks and trailers during the year. £6.5m of this profit has already been included in the bargain purchase calculation as part of the fair value uplift at acquisition and is therefore reversed in the consolidated accounts.

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Owned Properties
During the year the Bank sold three properties from its Owned Property portfolio.

Firstly, following the major refurbishment completed in 2021, the King Street property was sold with gross sale proceeds of £60m. After deductions for unexpired incentives of £2.4m and void periods of £0.96m a charge of £4.6m was recognised in the income statement.

Secondly the Bank completed the sale of two of its overseas properties. The Bank retains four assets in its property portfolio of which one is overseas.

Operations
The Bank continues to see strong growth in the acquisition of new banking clients with over 1,000 new clients onboarded during 2022 and 5,000 new accounts opened.

Nearly one million inbound and outbound payments were processed in 2022, a growth of 24% on the previous year, with 98% of outbound payments originated online. In addition, there were over 870,000 card transactions in 2022, an increase of nearly 35% on the previous year. Confirmation of Payee capability was added to the Bank's online banking proposition in the first quarter, further strengthening the Bank's anti-fraud controls.

In respect of the regulatory requirements under the Supervisory Statement (SS) 1/21: Impact Tolerances for Important Business Services, the Bank completed the required self-assessment of compliance with the expected standards in March 2022. This continues to be an important area of focus as the Bank continues its investment in new IT systems.

November 2022 saw the successful implementation of a significant upgrade to the Bank's Oracle Banking Platform following an 18-month project. The new platform supports more efficient payment processes and ensures payments are compatible with future payment standards. The platform has been delivered in a new cloud hosted environment, improving resilience and agility, and enabling the Bank to more readily adapt to future market changes.

Another major programme delivered in 2022 saw the launch of a new lending automation system improving the loan origination process for commercial and private clients streamlining the operations and management of key lending artefacts.

Further investment was made in the investment operations, continuing to focus on increasing automation and streamlining of processes.

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 2022 the business continued its sustainability project with focus around five pillars to ensure a more sustainable Group: Governance, Employees, Community, Environment and Clients. Further information is given in the Sustainability Report on pages 18 to 28.

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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.

Summarised Income Statement	2022 £000	2021 £000
Net interest income	102,232	66,718
Net fee and commission income	21,049	18,123
Leasing Income	17,258	6,473
Operating income	140,539	91,314
Bargain Purchase on Acquisition of AAG	-	8,626
Loss on sale of commercial property held as inventory	(4,590)	-
Other income	2,467	4,402
Operating expenses	(112,904)	(96,512)
Impairment losses - loans and advances to customers	(5,503)	(3,196)
Profit before tax	20,009	4,634
Income tax expense	(2,146)	2,157
Profit for the year	17,863	6,791

The Group has reported a profit before tax of £20.0m (2021: £4.6m). The underlying profit before tax was £43.9m (2021: £27.6m).

There are a number of specific 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 table below.

Underlying profit reconciliation	2022 £000	2021 £000
Profit before tax	20,009	4,634
Exceptional reduction in BoE Base Rate	-	11,492
Parent recharge	12,856	10,632
Write down of Repossessed Majorcan Property	-	3,835
Arena TV Limited Impairment	-	2,055
Gain on sales of Tay mortgage portfolio	-	(2,239)
Bargain Purchase on Acquisition of AAG	-	(8,626)
Profits realised on sale of trucks previously included in bargain purchase	6,479	5,831
Loss on sale of King Street property	4,590	-
Underlying profit	**43,934**	**27,614**

* The Bank of England Base Rate which was at 0.1% for most of 2021 was estimated to have cost the Group £11.5m of interest earnings in 2021, compared to when the base rate was at 75 basis points, which is where it was prior to the onset of the COVID-19 pandemic. No pro-rata adjustment was made for lost interest income in 2022. The base rate has now moved past the pre-pandemic level.

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In the prior year the Group acquired Asset Alliance Group Holdings Limited, which completed on 1 April 2021. The business was acquired at a discount to its fair valued net assets resulting in a bargain purchase of £8.6m. In 2022 £6.5m (2021: £5.8m) of profits earned on the sale of trucks were consolidated out, as it formed part of the bargain purchase, when these assets were measured at fair value on date of acquisition.

In 2022, the King Street property was sold at a loss of £4.6m. The offer price took into consideration outstanding tenant incentives and expected void periods while tenants were found for vacant areas of the building.

The credit provisions of £5.5m under IFRS 9, include more pessimistic economic assumptions and also two specific bad debt cases totalling £3m. In 2021 there was 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.

Total operating income earned by the Group was £137.4m compared to £88.7m for the prior year. The average net margin on client assets was 5.1% (2021: 4.1%). Included in operating income is revenue from AAG leased assets. This has contributed 0.2% (2021: 0.5%) to the average yield generated from the Group's assets.

The Group's operating expenses increased to £112.9m compared to £96.5m for the prior year, with staff costs increasing by £12.2m mainly due to the accrual for staff bonuses.

Balance Sheet Strength

Summarised Balance Sheet	2022 £000	2021 £000
Assets		
Loans and advances to customers	2,047,578	1,882,461
Liquid assets	1,288,262	1,189,174
Other assets	292,706	301,736
Total assets	**3,628,546**	**3,373,371**
Liabilities		
Customer deposits	3,112,478	2,856,949
Other liabilities	293,531	306,398
Total liabilities	3,406,009	3,163,347
Equity	222,537	210,024
Total equity and liabilities	**3,628,546**	**3,373,371**

Total assets increased by £0.2bn to £3.6bn (2021: £3.4bn); £165.1m was due to loan book growth from both the Core Bank and the Specialist Lending subsidiaries, while leased assets in AAG and treasury assets increased by £50.1m and £99.1m respectively. 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 (2021: £6.6m). Also included in other assets are £19.6m of properties classified as inventory (2021: £87.1m).

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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.

Banking

Summarised Income Statement	2022 £000	2021 £000
Net interest income	64,565	45,011
Net fee and commission income	2,803	2,482
Operating income	67,368	47,493
Operating expenses	(46,683)	(41,315)
Impairment losses - loans and advances to customers	(1,547)	354
Profit before tax	**19,138**	**6,532**
Loans and advances to customers	**1,452,649**	**1,396,048**
Customer deposits	**3,112,478**	**2,655,454**

Banking reported a profit before tax of £19.1m (2021: £6.5m). This equated to a near threefold increase from the prior year. Net interest income grew by 43%, while lending increased by 4% and deposit balances by 17%. The significantly higher net interest income is the result of successive increases in the Bank of England Base Rate, with the Bank earning higher income from both customer loans and excess deposits held mainly at the Bank of England reserve account. This was partly offset by higher interest paid on deposit balances. However, this rate increase was at a slower pace as fixed term deposits only reprice at maturity.

There was a net impairment charge of £1.5m compared to a release of £0.4m for the prior year. This was due to revised economic scenarios applied in the expected credit loss models due to a more negative future outlook. The most significant and relevant to the Banking book was a net decline of 11.6% for residential property values and a net decline of 21.2% for commercial property values compared to a 1.2% increase and 1.7% fall respectively for the prior year.

Operating costs increased by £5.4m largely due to higher staff costs from a higher bonus accrual.

Customer loan balances increased by £56.6m to £1.5bn and customer deposits also increased to £3.1bn (2021: £2.7bn). The average loan to value was 52.5% (2021: 51.7%).

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Wealth Management

Summarised Income Statement	2022 £000	2021 £000
Net fee and commission income	10,689	10,563
Operating income	10,689	10,563
Operating expenses	(14,790)	(12,684)
Loss before tax	**(4,101)**	**(2,121)**
Assets under management	**1,326,836**	**1,355,560**

Wealth Management reported a loss before tax of £4.1m (2021: loss of £2.1m), but made a £1m contribution to overheads. Fee income remained flat year on year, while AUMs decreased by 2%, mainly due to market performance, and finished the year at £1.3bn (2021: £1.4bn).

RAF

Summarised Income Statement	2022 £000	2021 £000
Net interest income	5,545	5,929
Net fee and commission income	32	166
Operating income	5,577	6,095
Other income	82	78
Operating expenses	(4,697)	(3,943)
Impairment losses - loans and advances to customers	(768)	(2,292)
Profit/(Loss) before tax	**194**	**(62)**
Loans and advances to customers	**133,825**	**97,113**

Renaissance Asset Finance returned a small profit of £0.2m (2021: loss before tax of £0.1m).

Net interest income reduced by 6% to £5.5m (2021: £5.9m) as it paid £3.3m to the Bank for internal cost of funding. Operating expenses increased by £0.8m, mainly due to higher staff costs from increased staff numbers.

A more pessimistic economic outlook under the IFRS9 expected credit loss assessment resulted in higher credit provisions in 2022. However, the prior year also included a £2.2m charge for Arena TV Limited.

Customer loan balances increased by 38% to £133.8m (2021: £97.1m). The average yield for 2022 was 8.1% (2021: 8.9%).

Asset Based Lending

Summarised Income Statement	2022 £000	2021 £000
Net interest income	6,762	5,311
Net fee and commission income	5,976	4,224
Operating income	12,738	9,535
Operating expenses	(5,463)	(4,748)
Impairment losses - loans and advances to customers	(2,082)	(50)
Profit before tax	5,193	4,737
Loans and advances to customers	268,825	182,122

ACABL recorded a £5.2m profit before tax (2021: £4.7m).

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Client loan balances increased 48% to £268.8m at the end of the year (2021: £182.1m), with issued facilities increasing to £523m (2021: £384m). The higher client balances throughout the year resulted in an increase in operating income of £3.2m after paying an increased internal funding charge of £5.2m. Operating expenses increased by £0.7m, mainly due to an increase in staff costs.

The impairment charge increase is mainly due to a £2m charge relating to one client which was placed into administration.

Arbuthnot Specialist Finance

Summarised Income Statement	2022 £000	2021 £000
Net interest income	713	578
Net fee and commission income	10	7
Operating income	723	585
Operating expenses	(1,489)	(1,590)
Impairment losses - loans and advances to customers	(179)	(21)
Loss before tax	**(945)**	**(1,026)**
Loans and advances to customers	**14,869**	**10,096**

ASFL recorded a loss before tax of £0.9m (2021: loss of £1.0m).

The decision was taken to exit this market in early 2023.

Customer loan balances closed the year at £15.0m (2021: £10.1m).

Asset Alliance Group

Summarised Income Statement	2022 £000	2021 £000
Net interest income	(4,456)	(2,401)
Revenue	99,367	74,500
Cost of goods sold	(82,109)	(68,023)
Operating income	12,802	4,076
Gain from bargain purchase	-	8,626
Operating expenses	(14,507)	(7,872)
Impairment losses - loans and advances to customers	(369)	(1,001)
(Loss)/profit before tax	**(2,074)**	3,829
Assets available for Lease	**171,703**	121,563

The business generated a loss before tax of £2.1m (2021: profit of £3.8m for the period).

The prior period of 9 months included a bargain purchase credit to the income statement of £8.6m. As part of the bargain purchase at acquisition the carrying value of the truck fleet was adjusted by an overall average increase of 15.95% resulting in an uplift totalling £19.5m. £6.5m (2021: £5.8m) of this uplift has been realised through sales in the year, but this has been excluded from the consolidated result. The current year includes £4.9m internal cost of funding compared to £2.3m in the prior 9 months.

Operating expenses increased by £6.6m from the prior period. The prior period only includes 9 months of expenditure and the current year includes higher costs with the expansion of the business, mainly relating to staff.

Credit provisions reduced by £0.6m.

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As at 31 December 2022 the business had £171.7m (2021: £121.6m) of assets available for lease.

Mortgage Portfolios

Summarised Income Statement	2022 £000	2021 £000
Net interest income	5,110	4,735
Operating income	5,110	4,735
Other Income	-	2,239
Operating expenses	(935)	(1,154)
Impairment losses - loans and advances to customers	(415)	(186)
Profit before tax	**3,760**	**5,634**
Loans and advances to customers	**148,517**	**178,082**

The Mortgage Portfolios reported a profit of £3.8m (2021: £5.6m). The decrease 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.

The remaining Santiago mortgage portfolio performed as expected and the year-end balance was £149.0m (2021: £178.1m).

Other Divisions

Summarised Income Statement	2022 £000	2021 £000
Net interest income	23,993	7,555
Net fee and commission income	1,539	681
Operating income	25,532	8,236
Other income	2,385	2,081
Operating expenses	(16,074)	(12,570)
Impairment losses - loans and advances to customers	(143)	-
Profit before tax	**11,700**	**(2,253)**
Loans and advances to customers	11,500	19,000
Treasury Assets	1,172,481	1,115,744
Investment Property	6,550	6,550
Other Assets	31,103	80,340
Total Assets	**1,221,634**	**1,221,634**
Customer deposits	-	201,495
Term Funding Scheme	225,000	225,000
Other liabilities	19,598	19,598
Total Liabilities	**244,598**	**446,093**

The aggregated profit before tax of other divisions was £11.7m (2021: loss of £2.3m).

Operating income increased by £17.3m to £25.5m (2021: £8.2m), mostly due to the increase in the Bank of England Base Rate, with higher income from intercompany accounts and treasury assets.

Reported within the other divisions in other income was rental income from the property portfolio of £0.5m (2021: £0.3m). The prior year also included an adjustment to the RAF deferred consideration of £0.6m, along with dividends received totalling £0.1m.

Operating expenses increased mainly due to higher staff costs from higher staff numbers and increased bonus provisions.

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Capital ratios	2022 £000	2021 £000
Common Equity Tier 1 Capital	222,679	211,340
Deductions	(40,492)	(29,682)
Common Equity Tier 1 capital after deductions	182.187	181,658
Tier 2 capital	24,437	24,367
Own Funds	206,624	206,025
Common Equity Tier 1 capital ratio (Common Equity Tier 1 capital/Total Risk Exposure)	12.0%	12.8%
Total Capital Ratio (Own Funds/Total Risk Exposure)	13.6%	14.5%

Risks and Uncertainties
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 it businesses act consistently with the seven corporate principles. This is achieved through a central Risk Management framework 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 risk that may arise for the macroeconomic and competitive environment.

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

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

Strategic Report – Financial Review

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 Directors normally meet once a year outside a formal Board setting 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. The Group currently has a loan book of £2.2bn (2021: £1.9bn). The lending portfolio is extended to clients, the majority of which is secured against cash, property or other high quality assets. Credit risk is managed through the Credit Committee of Arbuthnot Latham.

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. However, at the current time the Group does not hedge the earnings from the free cash which currently totals £732.7m. The cost of hedging is prohibitive.

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 £19.6m. Any changes in the market value of the property will be accounted for 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 Bank. 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 its Information Technology ("IT") 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.

In line with further guidance issued by the Regulator, the Bank has continued to focus on ensuring that the design of systems and operational plans are robust to maintain operational resilience in the face of unexpected incidents.

During the year the FCA, PRA and BoE published their final policy papers on building operational resilience. The Bank completed the required self-assessment of compliance with the expected standards in March 2022. This continues to be an important area of focus as the Bank continues its investment in new IT systems.

Strategic Report – Financial Review

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 resilient 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 the Group faces 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 low 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 of Arbuthnot Latham approves an 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.

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
29 March 2023

Strategic Report – Stakeholder Engagement and s.172 Report

Non-Financial Information Statement

The requirement to include a non-financial statement in the Strategic Report has been met by the parent company, Arbuthnot Banking Group PLC ("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 3 of the Annual Report of Arbuthnot Banking Group PLC, 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 39.

The Directors are conscious that their decisions and actions have an impact on stakeholders. The stakeholders we consider in this regard are our shareholder, 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, the Company's President 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 February 2022, the Board considered a number of options to manage the capital resources of the Group, without slowing its lending plans as the divisions build towards the "future state" strategy. This was necessary because of the reintroduction by the Financial Policy Committee of the Bank of England of the countercyclical capital buffer at 1% from December 2022 with a further increase to 2% in July 2023. As a consequence, a decision was taken to allocate capital away from non-core assets and accordingly to sell the Group's long leasehold West End office property situated at 20 King Street in July with completion in October.

In February 2022, as part of its planning for the future, the Board approved the appointment of Sir Nigel Boardman as Chairman, subject to regulatory approval, in succession to Sir Henry Angest. In July 2022, it appointed Sir Henry President, as permitted by the Company's Articles of Association, with effect from the date on which Sir Nigel's appointment was approved by the regulators.

Strategic Report – Stakeholder Engagement and s.172 Report

Interests of the Company's employees
Also in July 2022, the Directors endorsed the decision of the Remuneration Committee to approve a one-off payment to all executive directors and employees in the Group of £1,500 in order to assist them with the increased costs of living being experienced. It was determined that the payment would be reduced pro rata to part time employees and for those who had been with the business less than one year. The Directors were able to agree to this payment of c. £1m, having assured themselves that the business had the resources to make it because of its trading considerably in excess of the planned budget.

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 30, 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. It is also kept informed of the results of employee surveys including one on Diversity & Inclusion which received a 76% response rate. In November it considered the results of an engagement survey, launched to assess how engaged employees felt with the business, obtaining feedback on key areas that affect engagement including Leadership, 'My Manager', Wellbeing, Cultural Values, Diversity & Inclusion, Reward & Recognition and employees' views in relation to 2022 ways of working and effectiveness of the Agile Working approach which was established and endorsed by the Board in 2021 to enable the business and its employees to benefit from a practical combination of office and remote working. The Agile Working Policy resumed at the end of February 2022 with all employees normally having to work in the office for a minimum of three days per week. This followed its suspension in mid-December 2021 with the introduction of temporary working arrangements in light of the Government's request in response to the Omicron variant that where individuals can work from home they should do so.

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 throughout the year, including the resumption of meetings in the office again since February 2022.

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
An illustration of the balancing of the interests of our stakeholders in their long-term interest was the Board's decision in July 2022 to return to its progressive dividend policy, resolving to pay an interim dividend of £2,550,000 to ABG, its shareholder. This was an increase of £150,000 from the normal interim dividend paid in 2021. This decision followed the removal of restrictions on the ability of banks to pay dividends.

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

Strategic Report – Stakeholder Engagement and s.172 Report

As part of the management information reviewed at its regular meetings, the Board receives a Risk Management report, containing a report on Environmental, Social and Governance (ESG) matters which includes a Climate Change Dashboard, monitoring climate change measures in place including Scope 1, 2 and 3 GHG emissions. The Board is updated on the steps the Group is taking to become more sustainable, given its exposure to climate change transition risk as the UK evolves to a low carbon economy. It is also kept informed of the formal approach to ESG established to develop over time, which will underpin the Arbuthnot Principles and Values within the workplace under five 'pillars of sustainability' – governance, employees, community, environment and clients (ESG Pillars). The ESG actions taken are in recognition of the Group's responsibility to make a positive societal impact and the 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 3 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.

Strategic Report – Sustainability Report

Introduction
The Group is committed to ensuring its business activities have a positive impact not just for clients and shareholders, but also for employees, society and the environment. Two of our key business principles, reciprocity and stability, rely on 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. Climate change is an important topic for consumers and investors alike. In parallel, inclusive growth and the impact organisations have on society is increasingly a focus. More than ever before, organisations are being held accountable for their impacts on society.

We focus on how we can improve to build a future that delivers growth, sustainability and inclusion. This means operating with a strong emphasis on our environmental and societal impact and on our governance procedures.

The Group approaches ESG by considering 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 Sir Henry Angest, the ultimate majority shareholder, and compliance with PRA and FCA regulations, is fundamental to our success as a business.

Employees
Our employees and culture set us apart from others in our industry. Our high engagement scores are a testament to this: from a response rate of 89% to the most recent employee engagement survey, conducted in September 2022, 87% of employees state they are proud to work for the Group. As a relationship-led bank, our employees are at the heart of everything we do.

We are committed to providing a healthy working environment and improving the quality of working lives for all our employees. Our wellbeing strategy and offering aims to support and reflect the Group's mission and core values of Integrity, Respect, Empowerment, Energy & Drive and Collaboration in the recognition that our employees are our greatest asset.

February 2022 saw the resumption of the Group's Agile Working Policy, introduced in October 2021 to enable the business and its employees to benefit from a practical combination of office and remote working. The policy reflects the Board's view that there are substantial benefits from balancing office working with working from home. The policy resumed following its suspension during January 2022 owing to the necessity for employees to work from home in line with the Government's advice regarding the Covid-19 Omicron variant. The vast majority of employees indicated their support for the policy. In July 2022, following a review of the policy, a small adjustment was made to it with the Senior Leadership Team attending the office four days a week and for key governance meetings to be held in the office, given our culture to be mainly office-based. As a service and relationship business, it is important that we meet clients and that our employees meet on a regular and frequent basis.

At the same time the Board agreed to make a cost of living payment to all employees in September 2022 due to the prevailing high inflation rate in order to help alleviate some of the burden of these increased costs on employees. A further cost of living payment is to be made in 2023 to those employees earning salaries of up to £50,000 pa. and who joined the Group before 1 January 2023.

Flexibility is applied to the Agile Working Policy, as shown by its relaxation at the time of the Met Office extreme weather warnings in mid-July 2022, during teachers' strikes and during the regular rail and underground strikes which have affected the London office since June 2022. On strike days, employees unable to travel to the London office are encouraged to work from home, thereby mitigating the disruption that would previously have been caused, the pandemic having demonstrated the ability of the business to function remotely when necessary.

Strategic Report – Sustainability Report

Our wellbeing strategy focuses on the physical, financial, mental and social wellbeing of our employees. We have a range of structured internal wellbeing programmes and established an Active Hub to set up team challenges for health wellbeing, building on the solo initiatives launched during the pandemic. In February 2023 we launched the Champion Health app, our new all-in-one wellbeing platform. The platform was created by more than sixty health professionals to make one unified platform that covers all areas of wellbeing for employees and up to three of their friends or family members. We also hold employee webinars on financial wellbeing and education. A Pension Scheme Governance Committee was established in January 2022 and the matters discussed at its six-monthly meetings are communicated to employees, continuing the focus on their financial wellbeing.

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.

The feedback from our first Diversity & Inclusion Survey, conducted in November 2021, is being used to create an even better working environment for employees and to help attract the best talent. The Group's D&I strategy, approved and communicated to employees during 2022, sets out the value put on the difference people bring and how we are consciously inclusive in all aspects of the way we work, recognising the commercial advantage this brings. We are committed to fostering a more inclusive and dynamic environment, allowing everyone to achieve their full potential. Employees are encouraged to speak about what matters to them and to give feedback on our performance in this area.

The objectives of this strategy are to develop a culture and environment that allow people of various backgrounds, mindsets and ways of thinking to work effectively together and to perform to their highest potential to achieve their objectives and ours; to improve diversity in the Senior Leadership Team; and to increase diversity at all levels. Pilot management D&I programme workshops have been launched in three specific business areas as part of the wider HR agenda and, as part of the Group-wide training strategy, we will include a D&I module each quarter. Our current gender mix emphasises the need for us to develop internal talent to enable internal progression, whilst continuing to attract diverse talent into roles at all levels.

Early Careers: 2022 saw the launch of our first Structured Graduate and Apprenticeship Programmes for a total of 14 participants, along with the second year of our Industrial Placement and Summer internship programmes. The Group now offers five different Early Careers Programmes, including work experience, summer internships, one-year placements, graduate placements and apprenticeships. We also launched our Leadership Development Academy in October 2022, with 14 participants, and have more programmes scheduled for 2023 for existing and aspiring leaders. In January 2023, we hosted an evening inviting 100 female students interested in a career in banking, providing 80 spaces to Year 13 students from the Young Professionals network and 20 for female student referrals from employees. We have partnered with the Young Professionals network, an organisation which works with schools across the UK from different social backgrounds to provide an insight and introduction to different industries, in order to grow the quality and diversity of our Early Careers talent pool.

In November 2022, the existing benefits package was increased as part of the annual benefits window by giving eligible employees the opportunity to enhance at favourable rates their cover for certain benefits including life assurance.

Community

The Group recognises that we must commit to driving positive community impact, creating an impact within the communities in which we exist and operate, and connecting the dots between the charities we support and the social initiatives we run.

Our Corporate Social Responsibility activities are being reviewed with plans for a new strategy to accelerate our efforts. Once this new CSR strategy is in place our primary community focus for 2023 will be around financial education and literacy. We will also expand our place-based and skills-based outreach, with greater promotion and engagement from employees. The Group continues to promote philanthropy and fundraising, supported by our volunteer days and pound for pound matching scheme. We are also looking to expand our partnerships with others to help facilitate positive change.

Strategic Report – Sustainability Report

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. Being 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 Score (NPS) which is reviewed every two years. Our 2022 NPS increased to 64, up from 47% in 2020, a reflection of our clients' advocacy. Our bankers have been engaging pro-actively with customers, following the tightening of Credit appetite in order to help those struggling due to the impact of increasing interest rates, inflation and high cost of living.

Policies

The Group has adopted a wide range of policies that straddle the five pillars to ensure that employees 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.

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 by 2050. As a consequence, we have in place an Environmental Management policy which sets outs the Group's high-level approach to managing environmental issues and provides requirements in helping the Bank work towards achieving 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 continuing 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.

Our transition towards sustainability

We are taking steps, guided by our five pillars, to help us to become more sustainable. Further information is given on the Group's website at Sustainability | Arbuthnot Latham.

Pillar	Current status
Ensure responsible and transparent corporate **governance** which aligns to business goals while making a positive societal impact	• 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. In May 2022, governance in this vital area was further enhanced by the appointment of the former Head of Compliance as the dedicated Head of Financial Crime and Money Laundering Reporting Officer. • Anti-Bribery and Corruption Policy, expressing our condemnation of such practice, prohibiting employees from engaging in it and expecting third parties providing services to have similar commitments. • 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.

Strategic Report – Sustainability Report

Creating a supportive and diverse workplace in which **employees** can thrive	• We promote a working environment that seeks to develop employee skills, and ensures employees are treated fairly and supports their wellbeing. • In January 2023, we were named as a Five Star Employer by WorkBuzz for the second year running for sustained high levels of employee engagement. • We operate an Arbuthnot Achievers employee recognition scheme • We conduct annual and pulse employee surveys (conducted anonymously) • We have adopted agile and flexible working policies • We pay all employees a living wage and have market aligned job families. We are also considering applying for Living Wage accreditation. • All employees are eligible for a bonus, pension contribution, sick pay and other benefits. From 2023 we have also offered eligible employees the opportunity to enhance at favourable rates their cover for life assurance and related cover. • We publish details of our gender pay gap annually.
Having a positive impact on the **community** in which we operate	**Diversity & Inclusion** • We are committed to the promotion of a workplace culture that provides an equitable, diverse, and inclusive environment. • In 2022 we communicated a Diversity & Inclusion strategy, following the first survey for employees the previous year. **Corporate Social Responsibility (CSR)** • We currently support philanthropy through matching charity donations, payroll giving, and volunteer days. • Our CSR activities are being reviewed for 2023, with plans for a new strategy to accelerate our efforts. • We are increasing our community and volunteer offering, with a focus for 2023 on financial education and literacy. • We aim to secure new accreditations and signatories that align with our CSR activities and values. **Suppliers** • We developed a Supplier Code of Conduct, engaging with suppliers to build mutually sustainable relationships in line with our values. • We currently screen suppliers with regards 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.
Ensuring that our business practices have a positive impact on the **environment**	We will set targets and progress against these with a view to reaching net-zero carbon emissions as a business by 2050. **Energy** • As part of the review of our working environment and practices to reduce our energy consumption, we signed up for a green tariff for our main office in Wilson Street, London in February 2022. The introduction of agile working is continuing to have a positive impact on our energy usage. We are actively reviewing our premises strategy with specific reference to environmental factors and agile working. • Our Wilson Street office has an Energy efficiency B rating. **Waste** • We have reduced paper usage in the office by issuing laptops to all employees and in 2022 by reducing the number of our photocopiers by more than a quarter. • We continue to reduce the printing of client communications and marketing materials.

	• We ensure the responsible disposal of computer equipment and have a waste recycling programme in place. **Transport** • 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. • We continue to finance electric vehicles through our RAF subsidiary while AAG strives to finance the most environmentally friendly trucks in the UK which we seek to keep as up to date as possible. AAG is actively considering how the market in renewable energy develops.
Ensuring best outcomes for our **clients**	• We seek regular feedback from our clients to reinforce our proposition and service. • In 2022 we conducted an in-depth review of our client value proposition which included a client survey and deep-dive individual client interviews. • We also have a robust complaints process and take dissatisfaction seriously, remediating issues promptly. • We take the protection of our client data seriously and have robust measures in place to protect client data in line with our legal and regulatory requirements. • We offer a Sustainable Investment Service which incorporates environmental, social, and governance factors to achieve a positive impact without sacrificing long-term financial returns. • We make regular anti-fraud communications to clients, alerting them to the different techniques used by criminals to seek to steal people's data and money. • We have set up a project, planning for the implementation of the FCA's new Consumer Duty for all new and existing products and services that will be on sale at the end of July 2023. The aim is to deliver good outcomes for retail customers, reflecting the new, higher standard of the Consumer Duty. • In 2022 Aon on behalf of the Group conducted an in-depth client experience survey, as part of the wider Client Value Proposition project. • We have continued to invest in the Bank's core banking system, completing a major project in 2022, thereby demonstrating that operational resilience and the ability to make services available to our clients is of the utmost importance. • We continue to invest in our risk management capabilities across Credit, Compliance, Operational Risk and Financial Crime with a view to ensuring good client outcomes through the continuing stability of the Bank.

Progress Towards Task Force on Climate-related Financial Disclosures (TCFD) Alignment

During the year, further progress was made in preparation for reporting on the Group's climate-related risks in line with the recommendations of the global TCFD. For large private companies, new regulations will come into force for the Annual Report for the year ending December 2023, requiring us to provide information on climate change related risks and opportunities, where material. The information to be given will cover how climate change is addressed in corporate governance; the impacts on strategy; how climate related risks and opportunities are managed; and on the performance measures and targets applied in managing these issues.

The TCFD encourages consistent, reliable and clear measurement and reporting of climate-related financial risks. Its recommendations provide a framework for understanding and analysing how climate change affects our customers, our own

operations and our strategy. The recommendations are to assess disclosures around governance, strategy, risk management and metrics and targets.
As stated in the section on Risks and Uncertainties on page 12 above, we have assessed the Group against the TCFD recommended disclosures and in preparation for the new requirements coming into force next year, we set out below our initial assessments.

Section	**Requirement**	**Our Response**
Governance	a. Describe the board's oversight of climate-related risks and opportunities.	The "Climate Change Risk Appetite, Risk Assessment and Scenarios" are reviewed annually and approved by the Risk Committee on behalf of the Board. • The ESG dashboard (that includes Climate Change) is a standing item on the Risk Committee agenda and forms part of the Chief Risk Officer's regular update to the Board. • The ESG dashboard details climate-change related actions and performance against risk tolerances. The tolerances are partly based on the climate change scenarios outputs. • Climate change risk is considered in acquisitions or divestitures decisions, most recently in the case of the acquisition of AAG in 2021.
Governance	b. Describe management's role in assessing and managing climate-related risks and opportunities.	First Line • Accountability for managing the financial risks of climate change sits with the CEO, Andrew Salmon. Second line • The Senior Management Function (SMF) accountability for the financial risks of climate change sits with Stephen Kelly, the CRO. He has responsibility for assessing climate-related issues. • Climate change is managed within the Group's existing governance and risk management frameworks. It is not proportionate to operate further structures. • The Risk Committee has oversight for Climate Change and it is included in its Terms of Reference. • The Credit Committee considers implications of climate change on new and existing lending. All new lending includes a climate change assessment.

		• The Investment Committee considers implications of climate change on investment decisions. • The Product Governance Committee considers climate change on propositions • The ICAAP includes climate change scenarios.
Strategy	a. Describe the climate-related risks and opportunities the organisation has identified over the short, medium, and long term.	The Climate Change Risk Appetite, Risk Assessment and Scenarios consider the risks and opportunities for the business model and lending book over following time periods: Short term (0-1 years); Medium term (1-5 years); and Long term (5-30 years) • The key opportunities and risks are as follows: • AL Core transition risk and opportunity on the rising EPC requirements for buy to let residential property • AL Core physical risk (flood risk) on residential property. • RAF transition risk and opportunity from the demise of combustion engines and switch to electric engines. • AAG transition risk and opportunity from the demise of combustion engines and switch to alternatives.

Strategy	b. Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning.	• The Group has minimal exposure to the Energy or Utility sectors. • AL Core residential property loan risks are mitigated by the loan durations (typically less than five years) and strong loan to values. New lending includes a costing to get properties to EPC 'C'. In addition, the business is planning to launch green lending products aimed at attracting higher EPC portfolios and financing EPC improvements. • RAF combustion engine risk is mitigated by the short loan durations (typically less than five years). In addition, RAF captures the opportunity by financing electric and hybrid vehicles. • AAG combustion engine risk is mitigated by the short leasing durations (typically less than 5 years), lack of viable alternate technologies and by the strategic objective to keep the fleet focused on latest Euro 6 models and as young as possible. AAG is well positioned to finance the transition to cleaner technology vehicles.
Strategy	c. Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.	Based on the risk assessment, the Group's business model is considered resilient to climate-related risks and opportunities.

Strategic Report – Sustainability Report

Risk Management	a. Describe the organisation's processes for identifying and assessing climate-related risks.	• The "Climate Change Risk Appetite, Risk Assessment and Scenarios" are reviewed annually and approved by the Risk Committee on behalf of the Board. • The risk assessment and scenarios consider existing and emerging regulatory requirements and other relevant factors, as well as the potential size and scope of climate-related risks. • The scenarios are informed by the Bank of England "Key elements of the 2021 Biennial Exploratory Scenario: Financial risks from climate change" published on 8 June 2021. • The risk assessment is informed by the scenarios. It identifies and assesses the transition and physical risks to the business model and lending book. • Climate Change is referenced in the • ICAAP • Risk Appetite Framework • Credit Policy
Risk Management	b. Describe the organisation's processes for managing climate-related risks.	• The Credit Committee considers implications of climate change on new and existing lending. All new lending includes a climate change assessment. • The Investment Committee considers implications of climate change on investment decisions. • The Product Governance Committee considers climate change impact on propositions.
Risk Management	c. Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management.	• The Risk Hierarchy includes Climate Change as a risk within the Enterprise & Strategic Risk Category as per the Board-approved Risk Appetite Framework.

Strategic Report – Sustainability Report

Metrics and Targets	a. Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process.	The ESG dashboard details climate-change related actions, metrics and performance against risk tolerances. Metrics are disclosed on energy usage. It is not considered proportionate to disclose metrics on water, land use and waste management. Climate-related performance metrics are not incorporated into remuneration policies, based on the inherent risk to the Group. The Group does not operate an internal carbon price mechanism on the basis of proportionality. The Risk Assessment documents the Group's exposure to carbon-related assets (defined as Energy and Utility sectors) as <1% at June 2022. This analysis was based on the Regulatory Reporting Sector Analysis (SIC code based).
Metrics and Targets	b. Disclose Scope 1, Scope 2 and, if appropriate, Scope 3 greenhouse gas (GHG) emissions and the related risks.	Scope 1,2 and 3 emissions and have been reported in the ABG Annual Report since 2020. Scope 1, 2 and 3 emissions are also reported on the ESG dashboard.
Metrics and Targets	c. Describe the targets used by the organization to manage climate-related risks and opportunities and performance against targets.	The Group is committed to the following: • To be Net Zero by 2050. • For AAG vehicles, this will require technology advances as emissions are expected to increase in line with business growth. • As part of our London premises strategy, we will consider energy efficiency as one of the criteria with further gains expected. The remaining gap to Net Zero post the premises review will be addressed by further initiatives and potentially carbon off-setting.

Strategic Report – Sustainability Report

Streamlined Energy & Carbon Reporting (SECR)

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. The Group has worked again with a specialist energy management consultancy, Carbon Decoded, to gather the required information. This work has revealed a number of energy efficiency actions.

Energy Efficiency Actions

AAG have implemented sub-metering effectively at Wolverhampton and have also taken steps to clarify the Diesel used by the business and by clients when HGVs are leased. They have also looked at possible energy savings during the cleaning processes for vehicles.

At our Wilson Street head office, profile data demonstrates that there is improved control of out of office electricity. To improve the understanding of energy use at Wilson Street, sub-metering is being reviewed to enable the site to look for further savings. Lighting reviews were undertaken for Wilson Street and these are now being considered.

In terms of improvement in transport emissions the Company has changed three company cars to electric vehicles representing 60% of the company fleet. AAG are continuing to improve the emissions of company vehicles.

Directors' Report

The Directors present their report for the year ended 31 December 2022.

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 28.

Results and Dividends
The results for the year are shown on page 48 of the financial statements. The profit after tax for the year of £17.9m (2021: £6.8m) is included in reserves.

A dividend of £2,550,000 was paid on 1 September 2022.

Going Concern
In assessing the Company's and the Group's Going Concern position, the Directors have made appropriate enquiries which assessed the following factors:

- the Group's strategy, profitability and funding;
- the Group's risk management (see Note 6 to the financial statements) and capital resources (see Note 7);
- the results of the Group's capital and liquidity stress testing;
- the results of the Group's reverse stress testing and the stress levels that have the potential to cause its business plan failure; and
- the Group's recovery plan and potential management actions to mitigate stress impacts on capital and liquidity.

The key Macro-Economic Risks for the stress testing included:

- Property market falls of up to 45% in property values;
- Stock market falls of up to 45% in UK equity prices;
- Interest rate rise/fall; and
- Regulation change.

The key Idiosyncratic Risks for the stress testing included:

- Credit losses;
- Operational events (i.e. fraud, cyber event, etc.);
- Decline in profitability; and
- Liquidity event (i.e. significant deposit outflow).

As a result of the assessment, the Directors are satisfied that the Company and the Group have adequate resources to continue in operation for a period of at least twelve months from when the financial statements are authorised for issue. 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 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' Report

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

Sir Nigel Boardman	Chairman (since 1 August 2022)
Sir Henry Angest	President (Chairman to 31 July 2022 and President from 1 August 2022)
AA Salmon	Chief Executive
JR Cobb	Finance Director
DP Dagg	Chief Operating Officer
SP Kelly	Chief Risk Officer
RK Gabbertas	
AA Knight	
P Marrow	

All the Directors were directors of the Company throughout the year. Sir Nigel Boardman was appointed to the Board as a non-executive director and Deputy Chairman on 1 January 2022, becoming Chairman on 1 August 2022.

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.

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.

At 31 December 2022, one Director had a loan from the Company amounting to £1.4m (2021 £0.5m) and six Directors had deposits amounting to £5.1m (2021 £4.5m), all on normal commercial terms as disclosed in note 42 to the financial statements.

Sir Nigel Boardman, 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 33 to 39.

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 pages 18 and 19.

Engagement with Suppliers, Customers and Others
Information on engagement with suppliers, customers and other stakeholders is given in the Strategic Report on pages 19 and 20.

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 2022 ABG Annual Report & Accounts for further information.

Political Donations
No political donations were made by the Company during the year (2021: £nil).

Events after the balance sheet date
Details of material post balance sheet events are given in Note 46.

Directors' Report

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

Statement of Disclosure of Information to the Auditor
The 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 UK-adopted 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 International Financial Reporting Standards (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
29 March 2023

Corporate Governance

Introduction and Overview

Arbuthnot Latham & Co., Limited is a bank authorised by the PRA and regulated by the FCA and the PRA. Three of its subsidiaries, Asset Alliance Leasing Limited, Forest Asset Finance Limited and Renaissance Asset Finance Limited, are regulated by the FCA. Accordingly, 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 comprises nine members: Sir Nigel Boardman, the non-executive Chairman; four executive directors, Andrew Salmon, James Cobb, Stephen Kelly and Dan Dagg; three independent non-executive directors, Richard Gabbertas, Angela Knight and Paul Marrow; and Sir Henry Angest, a non-independent director who was appointed Life President from 1 August 2022.

The Board sets the long-term focus and customer-oriented culture of the Group. The responsibilities of Sir Nigel Boardman 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 sustainable growth over the longer-term with a culture to match. Investment in resources has been strong and has continued where and as appropriate, 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 holding six scheduled meetings, 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. The Directors also held a separate strategy meeting, together with the ABG Directors, in September. 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.

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

Corporate Governance

Board Evaluation

The annual Board Effectiveness Review was conducted internally. The 2022 evaluation took the form of a confidential online questionnaire which assessed the performance of the Board and its Committees. The questions were augmented, particularly those concerning clarity of the business, strategy and risk and accountability, whilst continuing 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 results were discussed by the Board in November 2022 and proposed actions arising were considered in February 2023. 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.

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 2022, 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 Nigel Boardman, Sir Henry Angest, Andrew Salmon, and James Cobb are Directors. The other Directors also participate 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 that 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 purpose of considering and approving credit transactions.

Audit Committee

Membership and meetings

Membership of the Audit Committee comprises Richard Gabbertas (as Chairman), Angela Knight and Paul Marrow. All of the Committee's members are therefore independent non-executive Directors. Sir Nigel Boardman was also a member from 1 January 2022 until his appointment as Board Chairman on 1 August 2022. 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 2022
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 (CASS) 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 2022 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.

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.

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:

Corporate Governance

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 currently owns two commercial office properties and two repossessed properties. Of these properties, two 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 an external valuation report. 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 internal expert to review management's valuations.

As at 31 December 2022, the Group's property investment totalled £29.4m. 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, 25 and 31 to the financial statements.

Residual Value Risk
The Committee discussed the fair value adjustment for the portfolio of leased assets of Asset Alliance Group where an uplift had been applied to represent markets at the time of acquisition at 31 March 2021. The Committee also reviewed the maintenance provision, recognised to eliminate temporarily inflated values. It established that the uplift in lease values at that date appeared to have been completely justified by the subsequent asset sales experience where in aggregate losses had not been made on sales of trucks at the uplifted values. It also established that the residual value provision was deemed sufficient to cover the shortfall between the value of the portfolio and the estimated net sales value.

Going Concern
The financial statements are prepared on the basis that the Group and Company are each a going concern for a period of at least twelve months from when the financial statements are authorised for issue. 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
In September 2022, the Committee agreed to the transfer of the reporting line from the Risk Committee of the Financial Regulatory Reporting Committee whose main responsibility is to ensure that the Company meets the PRA's regulatory reporting expectations. This decision was made on the grounds that the Audit Committee is concerned with financial reporting as well as with external reporting which is consistent with how CASS is treated. As a result, the Committee now reviews and discusses the minutes of meetings of the Financial Regulatory Reporting Committee.

In November 2022, 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. In March 2023 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.

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 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.

Nomination Committee
Membership and meetings
The Nomination Committee is chaired by Sir Nigel Boardman (since 1 August 2022) and its other members are Sir Henry Angest (Chairman until 31 July 2022), Angela Knight and Paul Marrow, all non-executive directors. The General Counsel, Nicole Smith, 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 2022

The Nomination Committee met twice during the year. It met first to consider the appointment of Sir Nigel Boardman, then Deputy Chairman and independent non-executive director, to the role of Chairman of the Board, and additionally Chair of the Nomination Committee and of the Remuneration Committee, committees of which he was already a member. In both instances, this was to be as a replacement for Sir Henry Angest who would remain as a Director and a member of both committees, the latter Committee role being appropriate in the context of his ultimate majority shareholding of ABG.

The Committee discussed the benefits Sir Nigel's appointment as a director of both ABG and of the Company had brought to bear on the group as a whole and that as such, he was well placed to be appointed as Chairman, noting also that he is a highly regarded and experienced leader and strategist, both in law and across the private and public sectors generally. It was noted that in terms of the diversity of the Board and its individual and collective expertise and experience, Sir Nigel's banking, legal, commercial acumen and experience is significant and his appointment as Chairman would ensure a strength in continuity in that role. In relation to cultural fit with Arbuthnot Latham and its Values, it was noted that in his role as a director of ABG, Sir Nigel had demonstrated alignment with and a clear understanding of the Arbuthnot Principles and Values. It was not considered appropriate to widen the search to third parties, given Sir Nigel's status and profile and his knowledge of the Arbuthnot Group, and his then role as Deputy Chairman, with his appointment also being in line with the Succession Plan.

The Nomination Committee met subsequently to assess and confirm 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 Directors had been able to carry out sufficient training both in person and 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 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 18, though the gender balance of senior management and their direct reports has not been given. The Committee has been made aware of the considerable work being undertaken around this issue with a view to understanding and addressing the gender balance of senior management and their direct reports. The current mix emphasises the need for the Group to develop internal talent to enable internal progression, whilst continuing to attract diverse talent into roles at all levels.

In November 2022, the Nomination Committee agreed that it continued to operate effectively.

Remuneration Committee

Membership and meetings

The Remuneration Committee is chaired by Sir Nigel Boardman (since 1 August 2022) and its other members are Sir Henry Angest (Chairman until 31 July 2022), Angela Knight and Paul Marrow, all non-executive directors. Nicole Smith 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, Financial Crime, Credit, Internal Audit and Risk and reviews the remuneration of all Material Risk Takers. The Committee also deals with remuneration-related issues, taking into account the requirements established by the PRA and FCA.

Activity in 2022

The Remuneration Committee met six 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, agreeing a subsidiary company bonus scheme and noting the annual Gender Pay Gap review Report. It agreed the remuneration of Sir Nigel Boardman to be paid as Chairman of the Board and as Chair of the Nomination and Remuneration Committees. It also met to approve a payment of £1,500 to all executive directors and Group employees in order to help them with the increased costs of living. The Committee determined that a set amount would be most beneficial to those on lower salaries where the increased cost of living being experienced was likely to be causing the most difficulty. The payment was also intended to aid employee retention at a time when recruitment was proving more challenging. The Committee also approved the appointment of Turning Point HR Solutions Ltd to provide annual reward services to the Company.

From the comments about the Remuneration Committee made by directors in the Board Effectiveness Questionnaire, it agreed that it continued to operate effectively.

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. In order for a meeting to be quorate, one non-executive director is required to be present and to approve all decisions. The Company Secretary acts as its Secretary. The Committee normally meets six 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, Financial Crime, 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 Committee, the Operational Risk Committee and the Retail Mortgages Management Committee. Each of these sub-committees meets regularly. Until September 2022, the Financial Regulatory Reporting Committee also reported to it before the transfer of its reporting line to the Audit Committee.

Activity in 2022

The Risk Committee held five regular meetings during the year, together with two ad-hoc meetings, one to review the ICAAP, and secondly in October 2022 to consider and approve the implementation of the new Consumer Duty.

The Committee's meeting agenda was reviewed and the pack redesigned leading to a reduction in its size with the aim of enabling the Committee to focus more on key and emerging risks and to hold a better debate.

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 detail for inclusion in the ILAAP and the ICAAP including for the latter the Business Model Assessment. Risk Management Framework, Internal changes including changes to the external environment due to the war in Ukraine and Operational Risk scenarios and the Recovery Plan, together with ESG matters including Climate Change and Diversity and Inclusion. It also approved the Resolution Plan.

The Committee oversaw the Company's risk management and overall risk and control framework. It 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 re-designed 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, the Operational Resilience Framework and endorsed the Self-Assessment report of the Impact Tolerances for Important Business Services and the Cyber Strategy 2022.

It discussed actions taken to assess the Bank's exposure to Russia where there was a limited number of Russian clients, no oligarchs as clients and no clients still working in Russia, reflecting the decision always to have very limited appetite to having clients from higher-risk jurisdictions.

It reviewed ESG Risk Dashboard, setting out the Group's approach to managing ESG and Climate Risk. It considered various climate change opportunities and initiatives, approving a Climate Change Risk Appetite, Risk Assessment, and Scenarios and a Managing Financial Risk of Climate Change Framework which sets out the Group's approach to managing the financial risks of climate change through the risk management framework.

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. The Company Secretary acts as its Secretary. The Committee normally 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 the analysis of the deposit book and assessments for the ICAAP and the ILAAP including, for the latter, Interest Rate Risk in the Banking Book. It also endorsed the Recovery Plan.

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 who also acts as its Secretary. 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
29 March 2023

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 2022 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 2022 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 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 and mathematical integrity of 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's scenario and reverse stress testing which includes sensitivity analysis, and including consideration of principal and emerging risks on liquidity and regulatory capital;
- Assessing the accuracy of management's forecast through a review of post year end performance.
- Evaluating the Group's Resolution and Recovery plans 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

- 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**
Allowances for expected credit losses Group - £6.6m; 2021: £6.4m. Parent - £3.4m; 2021: £3.4m (note 4, note 24 and 25) 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 and Parent Company's loan portfolio requires the Directors to make judgements over the ability of the Groups' customers to make future loan repayments. The most significant risk relates to loans and advances to customers where the Group and Parent Company is exposed to secured and unsecured lending to private and commercial customers. As set out in note 3.4, ECL is measured based on a three-stage model. For loans with no significant deterioration in	Our audit procedures included but were not limited to: *Planning* We have assessed the methodology of identifying significant increase in credit risk. As part of our audit of the methodology, we tested the model design and model implementation. We also performed benchmarking and sensitivity analysis. *Controls* 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: • attendance at the Potential & Problem Debt Management Committee meetings; • missed payments monitoring; • credit reviews at origination and annual review; • review of watch list movements throughout the year; and • controls testing over collateral revaluations

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

credit risk since origination (stage I), ECL is determined through the use of a model. The model used by the Group and Parent Company to determine expected losses requires judgement to the input parameters and assumptions; in particular, uncertainty around macro-economic assumptions. 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'). The most significant areas where we identified greater levels of management judgement and estimate are: • Staging of loans and the identification of significant increase in credit risk; • Key assumptions in the model including PD and LGD including the present value of future cash flows from collateral; • Use of macro-economic variables reflecting a range of future scenarios; and • Post model adjustments to capture uncertainties not captured by the models. Refer to Note 3 for the accounting policies note, Note 4 for the critical accounting estimates and judgements in applying accounting policies note and Note 24 and Note 25 disclosures in the financial statements. We consider the risk to have increased in the year given the economic uncertainty.	*Test of detail* 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). *ECL models* We have assessed the models used by management to determine ECL calculations. We have: • 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 assess 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 commercial and residential property prices; • we have assessed the valuation, completeness and appropriateness of post model adjustments; • tested the compliance of the model in line with IFRS 9; and • performed a re-calculation of the key components such as PD, LGD, EAD and final ECL. *Stand back assessment* • 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 *Disclosures* • We assessed the adequacy and appropriateness of disclosures made within the financial statements.

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

	Our observations We found the approach taken in respect of expected credit losses to be consistent with the requirements of IFRS 9 and judgements made were reasonable.

In the prior year, our audit report included key audit matters in relation to the acquisition of Asset Alliance Group (AAG) and investment property valuation. We determined that the nature and complexity of these areas no longer contribute significantly to our audit efforts and therefore are no longer considered as key audit matters.

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:

	Group financial statements	Parent Company financial statements
Overall materiality	£1.0m (2021: £1.1m)	£1.0m (2021: £0.9m)
How we determined it	0.5% of Net assets but capped at component materiality levels for the Parent Company (2021: 0.5% of net assets but capped at component materiality levels)	
Rationale for benchmark applied	We typically consider profit before tax to be the key focus for banks. However, as the Bank's profits have not established a track record following the pandemic and the current interest rate environment, we consider net assets to be the main focus at this time for the users of the financial statements being an approximation of regulatory capital resources and the importance of regulatory capital to the Group and Parent Company's solvency.	
Performance materiality	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. We set performance materiality at £0.7m (2021: £0.7m) for the Group and £0.7m (2021: £0.7m) for the Parent Company, which represents 70% of overall materiality (2021: 70%). In determining the performance materiality, we considered a number of factors, including the level and nature of uncorrected and corrected misstatements in the prior year and the robustness of the control environment, and concluded that an amount toward the upper end of our normal range was appropriate.	
Reporting threshold	We agreed with the directors that we would report to them misstatements identified during our audit above £30,000 (2021: £27,000) for the Group and £30,000 (2021: £26,000) for the Parent Company as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.	

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

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.

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.

We performed a full scope audit on all entities within the Group which is consistent with the prior year. We used Mazars UK component audit teams as component auditors for five components (2021: one component).

Our component materiality ranged from £0.02m to £1.0m (2021: £0.04m to £1.1m). Full scope audits were carried out on all companies in the Group and therefore, account for 100% (2021: 100%) of the Group's net interest income, profit before tax, net assets and total assets.

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

Working with our component audit teams
We determined the level of involvement we needed as the Group team in the work of the component audit teams to be able to conclude whether sufficient and appropriate audit evidence was obtained to provide a basis for our opinion on the Group financial statements as a whole. We maintained oversight of the component audit teams, directing and supervising their activities related to our audit of the Group. 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 video conference. We issued instructions to our component audit teams and interacted with them throughout the audit process. In the absence of component visits, we used video conferencing to review key workpapers prepared by the component teams 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.

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

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 in Respect of the Strategic Report and the Directors' Report and the Financial Statements' set out on page 32, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the 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 Prudential Regulation Authority (PRA) and 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;
- 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.

We also considered those laws and regulations that have a direct effect on the preparation of the financial statements, such as Streamlined Energy & Carbon Reporting requirements, tax legislation and the Companies Act 2006.

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;
- Addressing the risks of fraud through management override of controls by performing journal entry testing on a sample basis; and
- Being sceptical to the potential of management bias through judgements and assumptions in significant accounting estimates.

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 four years, covering the years ended 31 December 2019 to 31 December 2022.

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.

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

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
30 Old Bailey
London
EC4M 7AU
29 March 2023

Consolidated Statement of Comprehensive Income

	Note	Year ended 31 December 2022 £000	Year ended 31 December 2021 £000
Interest income	8	120,013	77,102
Interest expense	8	(17,781)	(10,384)
Net interest income	8	**102,232**	**66,718**
Fee and commission income	9	21,586	18,472
Fee and commission expense		(537)	(349)
Net fee and commission income		**21,049**	**18,123**
Operating income from banking activities		**123,281**	**84,841**
Income from leasing activities			
Revenue	10	99,367	74,500
Cost of goods sold	10	(82,109)	(68,027)
Gross profit from leasing activities	10	**17,258**	**6,473**
Total group operating income		**140,539**	**91,314**
Impairment loss on financial assets	11	(5,503)	(3,196)
Other income	13	2,467	4,402
Profit from bargain purchase	12	-	8,626
Loss on sale of commercial property held as inventory		(4,590)	-
Operating expenses	14	(112,904)	(96,512)
Profit before tax		**20,009**	**4,634**
Income tax (expense) / credit	15	(2,146)	2,157
Profit for the year		**17,863**	**6,791**
Other comprehensive income			
Items that may not be reclassified to profit or loss			
Movement in fair value reserve		627	763
Tax on other comprehensive income		(128)	(124)
Other comprehensive income for the period, net of tax		**499**	**639**
Total comprehensive income for the period		**18,362**	**7,430**

All amounts relate to continuing operations.

The notes on pages 55 to 153 are an integral part of these consolidated financial statements.

Consolidated Statement of Financial Position

	Note	At 31 December 2022 £000	At 31 December 2021 £000
ASSETS			
Cash and balances at central banks	17	732,728	814,692
Loans and advances to banks	18	115,781	73,430
Debt securities at amortised cost	19	439,753	301,052
Assets classified as held for sale	20	3,279	3,136
Derivative financial instruments	21	6,322	1,753
Loans and advances to customers	23	2,047,578	1,882,461
Other assets	25	52,110	110,065
Financial investments	26	3,404	3,169
Deferred tax asset	27	1,902	2,040
Intangible assets	28	36,281	33,595
Property, plant and equipment	29	175,144	125,753
Right-of-use assets	30	7,714	15,675
Investment property	31	6,550	6,550
Total assets		**3,628,546**	**3,373,371**
EQUITY AND LIABILITIES			
Equity attributable to owners of the parent			
Share capital	38	15,000	15,000
Retained earnings	39	59,957	47,533
Other reserves	39	147,580	147,491
Total equity		**222,537**	**210,024**
LIABILITIES			
Deposits from banks	32	236,027	240,333
Derivative financial instruments	21	135	171
Deposits from customers	33	3,112,478	2,856,949
Current tax liability		870	652
Other liabilities	34	24,189	19,598
Lease liabilities	35	7,873	21,277
Debt securities in issue	36	24,437	24,367
Total liabilities		**3,406,009**	**3,163,347**
Total equity and liabilities		**3,628,546**	**3,373,371**

The financial statements on pages 48 to 153 were approved and authorised for issue by the Board of directors on 29 March 2023 and were signed on their behalf by:

AA Salmon, Director

JR Cobb, Director

Registered Number: 00819519

The notes on pages 55 to 153 are an integral part of these consolidated financial statements.

Company Statement of Financial Position

	Note	At 31 December 2022 £000	At 31 December 2021 £000
ASSETS			
Cash and balances at central banks	17	732,727	814,112
Loans and advances to banks	18	111,881	69,810
Debt securities at amortised cost	19	439,753	301,052
Assets classified as held for sale	20	3,279	3,136
Derivative financial instruments	21	6,322	1,753
Loans and advances to customers	23	2,198,166	1,975,325
Other assets	25	31,755	96,368
Financial investments	26	3,404	3,169
Deferred tax asset	27	-	747
Interests in subsidiaries	43	33,640	35,755
Intangible assets	28	27,765	24,155
Property, plant and equipment	29	2,648	3,615
Right-of-use assets	30	6,231	14,607
Total assets		**3,597,571**	**3,343,604**
EQUITY AND LIABILITIES			
Equity attributable to owners of the parent			
Share capital	38	15,000	15,000
Retained earnings*	39	41,392	34,173
Other reserves	39	147,580	147,491
Total equity		**203,972**	**196,664**
LIABILITIES			
Deposits from banks	32	236,027	240,333
Derivative financial instruments	21	135	171
Deposits from customers	33	3,113,540	2,858,266
Current tax liability		313	-
Other liabilities	34	12,353	8,676
Lease liabilities	35	6,364	15,127
Deferred tax liability	27	430	-
Debt securities in issue	36	24,437	24,367
Total liabilities		**3,393,599**	**3,146,940**
Total equity and liabilities		**3,597,571**	**3,343,604**

*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 Parent Company recorded a profit after tax for the year of £12,658k (2021: loss £1,754k).

The financial statements on pages 48 to 153 were approved and authorised for issue by the Board of directors on 29 March 2023 and were signed on their behalf by:

AA Salmon, Director

JR Cobb, Director

Registered Number: 00819519

The notes on pages 55 to 153 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 2021	**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**
Total comprehensive income for the period					
Profit for 2022	-	17,863	-	-	17,863
Other comprehensive income, net of tax					
Fair value reserve - net change in fair value	-	-	-	628	628
Sale of financial assets carried at FVOCI	-	411	-	(411)	-
Tax on other comprehensive income	-	-	-	(128)	(128)
Total other comprehensive income	**-**	**411**	**-**	**89**	**500**
Total comprehensive income for the period	**-**	**18,274**	**-**	**89**	**18,363**
Transactions with owners, recorded directly in equity					
Contributions by and distributions to owners					
Final dividend relating to 2021	-	(3,300)	-	-	(3,300)
Interim dividend relating to 2022	-	(2,550)	-	-	(2,550)
Total contributions by and distributions to owners	**-**	**(5,850)**	**-**	**-**	**(5,850)**
Balance at 31 December 2022	**15,000**	**59,957**	**146,512**	**1,068**	**222,537**

The notes on pages 55 to 153 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 2021	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**
Total comprehensive income for the period					
Profit for 2022	-	12,658	-	-	12,658
Other comprehensive income, net of tax					
Fair value reserve - net change in fair value	-	-	-	628	628
Sale of financial assets carried at FVOCI	-	411	-	(411)	-
Tax on other comprehensive income	-	-	-	(128)	(128)
Total other comprehensive income	**-**	**411**	**-**	**89**	**500**
Total comprehensive income for the period	**-**	**13,069**	**-**	**89**	**13,158**
Transactions with owners, recorded directly in equity					
Contributions by and distributions to owners					
Final dividend relating to 2021	-	(3,300)	-	-	(3,300)
Interim dividend relating to 2022	-	(2,550)	-	-	(2,550)
Total contributions by and distributions to owners	**-**	**(5,850)**	**-**	**-**	**(5,850)**
Balance at 31 December 2022	**15,000**	**41,392**	**146,512**	**1,068**	**203,972**

The notes on pages 55 to 153 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

	Note	Year ended 31 December 2022 £000	Year ended 31 December 2021* £000
Cash flows from operating activities			
Profit before tax		20,009	4,634
Adjustments for:			
- Depreciation and amortisation	28, 29, 30	7,180	7,929
- Impairment loss on loans and advances		214	1,760
- Net interest income		70	59
- Elimination of exchange differences on debt securities		(9,524)	(1,023)
- Gain from bargain purchase	12	-	(8,626)
- Other non-cash or non-operating items included in profit before tax		(276)	454
- Tax expense		(2,146)	2,157
Cash flows from operating profit before changes in operating assets and liabilities		15,527	7,344
Changes in operating assets and liabilities:			
- net increase in derivative financial instruments		(4,605)	(388)
- net increase in loans and advances to customers		(165,331)	(280,645)
- net (increase)/decrease in assets held for leasing		(50,175)	14,855
- net decrease/(increase) in other assets		57,955	(12,558)
- net increase in amounts due to customers		255,529	465,088
- net increase in other liabilities		4,593	12,651
Net cash inflow from operating activities		**113,493**	**206,347**
Cash flows from investing activities			
Purchase of subsidiary undertakings	12	-	(9,998)
Cash balance acquired through Asset Alliance Holdings Limited acquisition	12	-	3,883
Acquisition of financial investments		(53)	-
Disposal of financial investments		640	2,400
Purchase of computer software	28	(5,837)	(5,100)
Purchase of property, plant and equipment	29	(1,065)	(655)
Disposal of assets held for sale		-	149
Purchase of debt securities		(799,341)	(590,492)
Proceeds from redemption of debt securities		670,164	635,155
Net cash (outflow)/inflow from investing activities		**(135,492)**	**35,342**
Cash flows from financing activities			
Decrease in borrowings		(4,306)	(117,675)
Dividends paid		(5,850)	(5,550)
Capital contribution received		-	25,500
Capital element of lease payments	35	(7,458)	(2,893)
Net cash outflow from financing activities		**(17,614)**	**(100,618)**
Net (decrease)/increase in cash and cash equivalents		(39,613)	141,071
Cash and cash equivalents at 1 January		888,122	747,051
Cash and cash equivalents at 31 December	41	**848,509**	**888,122**

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

The notes on pages 55 to 153 are an integral part of these consolidated financial statements.

Company Statement of Cash Flows

	Note	Year ended 31 December 2022 £000	Year ended 31 December 2021* £000
Cash flows from operating activities			
Profit / (loss) before tax		14,342	(2,717)
Adjustments for:			
- Depreciation and amortisation	28, 29, 30	6,128	7,002
- Impairment loss on loans and advances		(13)	(221)
- Net interest income		70	59
- Elimination of exchange differences on debt securities		(9,524)	(1,023)
- Other non-cash or non-operating items included in profit before tax		(228)	(127)
- Tax expense		(1,684)	963
Cash flows from operating profits before changes in operating assets and liabilities		9,091	3,936
Changes in operating assets and liabilities:			
- net increase in derivative financial instruments		(4,605)	(388)
- net increase in loans and advances to customers		(222,898)	(391,005)
- net decrease in other assets		67,146	2,377
- net increase in amounts due to customers		255,274	461,403
- net increase in other liabilities		4,424	2,908
Net cash inflow from operating activities		**108,432**	**79,231**
Cash flows from investing activities			
Purchase of subsidiary undertakings	12	-	(9,998)
Acquisition of financial investments		(53)	-
Disposal of financial investments		640	2,400
Purchase of computer software	28	(6,524)	(5,100)
Purchase of property, plant and equipment	29	(508)	(481)
Disposal of asset held for sale		-	149
Purchase of debt securities		(799,341)	(590,492)
Proceeds from redemption of debt securities		670,164	635,155
Net cash (outflow)/inflow from investing activities		**(135,622)**	**31,633**
Cash flows from financing activities			
Decrease in borrowings		(4,306)	10,243
Dividends paid		(5,850)	(5,550)
Capital contribution received		1	25,500
Capital element of lease payments	35	(1,969)	(2,813)
Net cash (outflow)/inflow from financing activities		**(12,124)**	**27,380**
Net (decrease)/increase in cash and cash equivalents		(39,314)	138,244
Cash and cash equivalents at 1 January		883,922	745,678
Cash and cash equivalents at 31 December	41	**844,608**	**883,922**

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

The notes on pages 55 to 153 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 2022 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 UK-adopted international accounting standards in conformity with the requirements of the Companies Act 2006.

The consolidated financial statements were authorised for issue by the Board of Directors on 29 March 2023.

(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), capital resources (see Note 7), and the potential impact of the climate-related risks, the directors are satisfied that the Company and the Group have adequate resources to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue. 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.

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.

(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).

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 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.

(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.

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.

Notes to the Consolidated Financial Statements

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.

The Group monitors the ongoing appropriateness of the transfer criteria, and any proposed amendments will be reviewed and approved by the Group's 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; upside; downside 1; downside 2 and extreme downside. 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' contractual term as the maximum period to consider credit losses. 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.

Notes to the Consolidated Financial Statements

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 28.

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.

3.8. Adoption of new and revised reporting standards

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 2022 or later periods, that will have any material impact on the Group's financial statements.

Notes to the Consolidated Financial Statements

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.

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

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, 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, which is the central scenario, developed internally based on consensus forecast, and four less likely scenarios, one upside and three downside scenarios (downside 1, downside 2 and extreme downside), 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 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
- Upside
- Downside 1
- Downside 2
- Extreme Downside

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

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	Group & Company Probability weighting 2022	2021
Economic Scenarios		
Baseline	53.0%	52.0%
Upside	13.0%	25.0%
Downside 1	12.0%	16.0%
Downside 2	11.0%	5.0%
Extreme Downside	11.0%	2.0%

Due to changes in the UK economic outlook the baseline (central) scenario used at 31 December 2022 is less optimistic than the baseline scenario at 31 December 2021. The tables below show the five-year forecasted average for property prices growth, UK unemployment rate and UK real GDP growth:

31 December 2022	Base	Upside	Downside 1	Downside 2	Extreme downside
Five-year summary					
UK House price index - average growth	(0.8%)	1.7%	(1.9%)	(3.0%)	(4.2%)
UK Commercial real estate price - average growth	(2.6%)	0.2%	(3.4%)	(4.1%)	(4.9%)
UK Unemployment rate - average	4.3%	2.8%	5.3%	6.3%	7.3%
UK GDP - average growth	1.2%	2.1%	0.8%	0.4%	0.0%

31 December 2021	Base	Upside	Decline	Moderate Decline	Severe Decline
Five-year summary					
UK House price index - average growth	2.0%	5.6%	(0.7%)	(2.8%)	(4.8%)
UK Commercial real estate price - average growth	1.4%	5.1%	(1.2%)	(1.8%)	(2.4%)
UK Unemployment rate - average	4.2%	3.8%	5.7%	7.5%	9.4%
UK GDP - average growth	2.3%	3.9%	1.3%	0.6%	(0.1%)

The tables below list the macroeconomic assumptions at 31 December 2022 used in the base, upside and downside scenarios over the five-year forecast period. The assumptions represent the absolute percentage unemployment rates and year-on-year percentage change for GDP and property prices.

UK House price index - four quarter growth

Year	Baseline	Upside	Downside 1	Downside 2	Extreme downside
2023	(6.8%)	(3.9%)	(8.2%)	(9.6%)	(11.0%)
2024	(3.2%)	(0.7%)	(7.8%)	(12.3%)	(16.9%)
2025	1.1%	3.2%	(1.5%)	(4.1%)	(6.8%)
2026	2.2%	4.8%	3.9%	5.5%	7.2%
2027	2.8%	4.9%	4.1%	5.3%	6.6%
5 year average	(0.8%)	1.7%	(1.9%)	(3.0%)	(4.2%)

UK Commercial real estate price - four quarter growth

Year	Baseline	Upside	Downside 1	Downside 2	Extreme downside
2023	(14.0%)	(4.0%)	(19.3%)	(24.7%)	(30.0%)
2024	(3.0%)	-	(8.2%)	(13.4%)	(18.6%)
2025	-	1.0%	2.3%	4.7%	7.0%
2026	2.0%	2.0%	4.2%	6.3%	8.5%
2027	2.0%	2.0%	4.2%	6.4%	8.6%
5 year average	(2.6%)	0.2%	(3.4%)	(4.1%)	(4.9%)

UK Unemployment rate - annual average

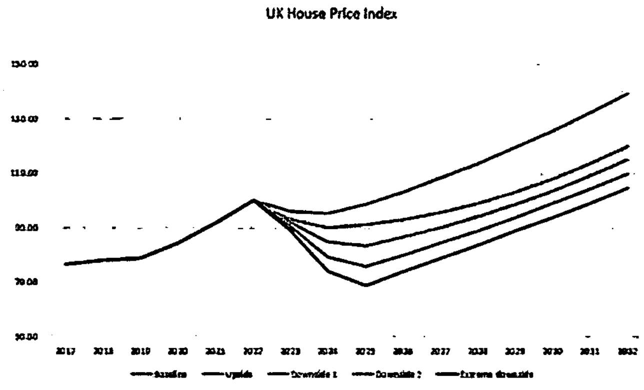
Year	Baseline	Upside	Downside 1	Downside 2	Extreme downside
2023	4.6%	3.2%	5.1%	5.5%	6.0%
2024	4.3%	2.8%	5.7%	7.0%	8.4%
2025	4.1%	2.5%	5.4%	6.7%	8.0%
2026	4.2%	2.5%	5.3%	6.3%	7.4%
2027	4.2%	2.8%	5.0%	5.9%	6.7%
5 year average	4.3%	2.8%	5.3%	6.3%	7.3%

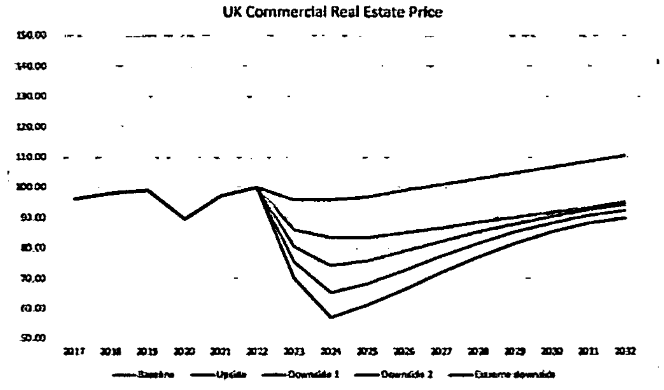
UK GDP - annual growth

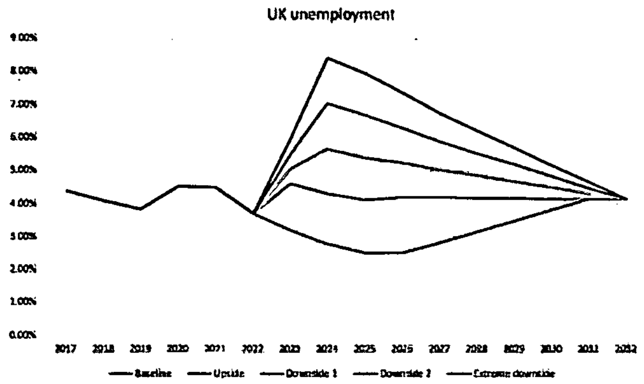
Year	Baseline	Upside	Downside 1	Downside 2	Extreme downside
2023	(0.9%)	0.7%	(2.3%)	(3.7%)	(5.0%)
2024	1.4%	2.4%	1.3%	1.3%	1.2%
2025	2.0%	2.7%	1.7%	1.5%	1.2%
2026	1.8%	2.5%	1.6%	1.4%	1.2%
2027	1.8%	2.3%	1.6%	1.4%	1.2%
5 year average	1.2%	2.1%	0.8%	0.4%	0.0%

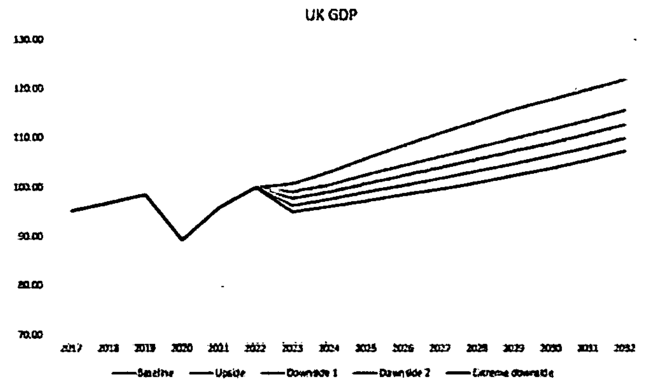
The graphs below plot the historical data for HPI, Commercial real estate price, unemployment rate and GDP growth rate in the UK as well as the forecasted data under each of the five scenarios.

Notes to the Consolidated Financial Statements









The table below compares the 31 December 2022 ECL provision using the 31 December 2022 economic scenarios and the 31 December 2022 ECL provision using the 31 December 2021 economic scenarios.

	Group		Company	
	Economic Scenarios as at			
	2022	2021	2022	2021
	£,000	£,000	£,000	£,000
ECL Provision				
Stage 1	1,148	546	637	278
Stage 2	130	67	70	46
Stage 3	5,325	5,107	2,693	2,502
At 31 December 2022	6,602	5,721	3,400	2,826

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	
	2022	2021	2022	2021
	£m	£m	£m	£m
Extreme Downside	(19.1)	(13.6)	(14.2)	(8.6)
Downside 2	(7.5)	(4.0)	(6.5)	(3.0)
Downside 1	(2)	(0.8)	(1.7)	(0.7)
Baseline	0.7	0.1	0.5	-
Upside	1.0	0.1	0.6	0.1

(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 2022 the Group recognised £Nil (2021: £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 £0.7m (2021: £0.6m), due to acceleration of fee income.

In 2022 the Group recognised £0.1m additional (2021: reversal £0.3m) 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 2022 by £0.1m (2021: £0.1m) while a 10% increase in principal repayments will increase interest income in 2022 by £0.2m (2021: £0.3m) through a cash flow reset adjustment.

(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.

The uncertainty due to Brexit, rising inflation and interest rates has 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 (2021: 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 2022: £6.6m; (2021: £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 2022 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: 6.75%
- total topped up rental income per annum: £0.47m

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

(d) Inventory
The Group owns one commercial property (2021: two properties) and one repossessed properties (2021: four), classified as inventory. 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.

Similarly to investment property, the uncertainty due to Brexit, rising inflation and interest rates resulted in less market evidence being available for Management in making its judgement on the key assumptions of property yield and market rent.

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 £0.3m and a reduction of 10% would impact profit or loss by £1.1m (or 5.6% 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 RV 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) Climate change
The Group has considered the potential impact of climate change on the Group's financial position and performance.
This included performing an assessment over the Group's financial and non-financial assets and evaluating information about the observable effects of physical and transition risk of climate change on the Group's financial position and performance. Many of the

effects of climate change will be less significant in the short term and will have limited impact on accounting estimates and judgements in the current year. The following items represent the most significant effects:

- The Group's loan portfolio is exposed to the potential impact of climate-related risks, due to the ECL implications and expectations on the ability of the borrowers to meet their loan obligations. As the Group has limited appetite for financial and reputational risk emanating from climate change, the potential ECL impact as a result of climate change is not expected to be material in the short term.
- The assessment of asset impairment and the Group's deferred tax asset depends on the Group's future performance and cash flows. The Group has incorporated market expectations on climate risk it its profitability and cash flow forecasts and does not consider any additional adjustments are required.

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 2022:

At 31 December 2022	Due within one year £000	Due after more than one year £000	Total £000
ASSETS			
Cash and balances at central banks	732,728	-	732,728
Loans and advances to banks	115,781	-	115,781
Debt securities at amortised cost	328,988	110,765	439,753
Assets classified as held for sale	3,279	-	3,279
Derivative financial instruments	113	6,209	6,322
Loans and advances to customers	701,646	1,345,932	2,047,578
Other assets	30,959	21,151	52,110
Financial investments	-	3,404	3,404
Deferred tax asset	-	1,902	1,902
Intangible assets	8,716	27,565	36,281
Property, plant and equipment	77,599	97,545	175,144
Right of use assets	3,134	4,580	7,714
Investment property	-	6,550	6,550
	2,002,943	**1,625,603**	**3,628,546**
LIABILITIES			
Deposits from banks	11,027	225,000	236,027
Derivative financial instruments	135	-	135
Deposits from customers	3,061,012	51,466	3,112,478
Current tax liability	870	-	870
Other liabilities	24,189	-	24,189
Lease liabilities	3,325	4,548	7,873
Debt securities in issue	-	24,437	24,437
	3,100,558	**305,451**	**3,406,009**

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

At 31 December 2021	Due within one year £000	Due after more than one year £000	Total £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**

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

At 31 December 2022	Due within one year £000	Due after more than one year £000	Total £000
ASSETS			
Cash and balances at central banks	732,727	-	732,727
Loans and advances to banks	111,881	-	111,881
Debt securities at amortised cost	328,988	110,765	439,753
Assets classified as held for sale	3,279	-	3,279
Derivative financial instruments	113	6,209	6,322
Loans and advances to customers	1,047,388	1,150,778	2,198,166
Other assets	16,584	15,171	31,755
Financial investments	-	3,404	3,404
Investment in subsidiary	-	33,640	33,640
Intangible assets	8,213	19,552	27,765
Property, plant and equipment	1,168	1,480	2,648
Right of use assets	2,632	3,599	6,231
	2,252,973	**1,344,598**	**3,597,571**
LIABILITIES			
Deposits from banks	11,027	225,000	236,027
Derivative financial instruments	135	-	135
Deposits from customers	3,047,856	65,684	3,113,540
Current tax liability	313	-	313
Other liabilities	12,353	-	12,353
Deferred tax liability	-	430	430
Lease liabilities	2,897	3,467	6,364
Debt securities in issue	-	24,437	24,437
	3,074,581	**319,018**	**3,393,599**

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

At 31 December 2021	Due within one year £000	Due after more than one year £000	Total £000
ASSETS			
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**

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 rising inflation and interest rates 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).

Rising inflation and interest rates have created a 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 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 as the potential trajectory of the subsequent recovery.

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
- 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

Notes to the Consolidated Financial Statements

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 11.

The below tables represent the maximum credit risk exposure to the Group and Company at 31 December 2022 and 2021 without taking account of any collateral held or other credit enhancements attached. For on-balance-sheet assets, the exposures are based on the carrying amounts as reported in the Statement of Financial Position.

	2022							
Group Credit risk exposures (all stage 1, unless otherwise stated)	Banking	Mortgage Portfolios	RAF	ABL	ASFL	AAG	All Other Divisions	Total
	£000	£000	£000	£000	£000	£000	£000	£000
On-balance sheet:								
Cash and balances at central banks	-	-	-	-	-	-	732,513	732,513
Loans and advances to banks	-	-	-	-	-	-	115,781	115,781
Debt securities at amortised cost	-	-	-	-	-	-	439,753	439,753
Assets classified as held for sale	-	-	-	-	-	-	3,279	3,279
Derivative financial instruments	-	-	-	-	-	-	6,322	6,322
Loans and advances to customers (Gross of ECL)	1,455,608	148,957	134,724	270,999	14,950	17,442	11,500	2,054,180
Stage 1	1,363,573	126,726	128,807	267,962	13,756	17,066	11,500	1,929,390
Stage 2	59,904	10,777	2,454	-	1,001	376	-	74,512
Stage 3	32,131	11,454	3,463	3,037	193	-	-	50,278
Other assets	-	-	-	-	-	-	14,161	14,161
Financial investments	-	-	-	-	-	-	3,404	3,404
Off-balance sheet:								
Guarantees	2,591	-	-	-	-	662	-	3,253
Loan commitments and other credit related liabilities	219,490	-	-	250,276	1,312	-	-	471,078
At 31 December	**1,677,689**	**148,957**	**134,724**	**521,275**	**16,262**	**18,104**	**1,326,713**	**3,843,724**

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	2021							
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
On-balance sheet:								
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 (Gross 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
Off-balance sheet:								
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**

Notes to the Consolidated Financial Statements

Company Credit risk exposures (all stage 1, unless otherwise stated)	Banking	Mortgage Portfolios	RAF	ABL	ASFL	AAG	All Other Divisions	Total
	2022							
	£000	£000	£000	£000	£000	£000	£000	£000
On-balance sheet:								
Cash and balances at central banks	-	-	-	-	-	-	732,513	732,513
Loans and advances to banks	-	-	-	-	-	-	111,881	111,881
Debt securities at amortised cost	-	-	-	-	-	-	439,753	439,753
Assets classified as held for sale	-	-	-	-	-	-	3,279	3,279
Derivative financial instruments	-	-	-	-	-	-	6,322	6,322
Loans and advances to customers (Gross of ECL)	1,455,608	148,957	-	-	-	-	597,045	2,201,610
Stage 1	1,363,573	126,726	-	-	-	-	597,045	2,087,344
Stage 2	59,904	10,777	-	-	-	-	-	70,681
Stage 3	32,131	11,454	-	-	-	-	-	43,585
Other assets	-	-	-	-	-	-	13,787	13,787
Financial investments	-	-	-	-	-	-	3,404	3,404
Off-balance sheet:								
Guarantees	2,591	-	-	-	-	-	-	2,591
Loan commitments and other credit related liabilities	219,490	-	-	-	-	-	-	219,490
At 31 December	**1,677,689**	**148,957**	-	-	-	-	**1,907,984**	**3,734,630**

Company	Banking	Mortgage Portfolios	RAF	ABL	ASFL	AAG	All Other Divisions	Total
	2021							
On-balance sheet:								
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 (Gross 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
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

The above tables represent the maximum credit risk exposure of financial assets to the Group and Company at 31 December 2022, 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.

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

	2022					
	Banking		Mortgage Portfolios		Total	
	Loan Balance	Collateral	Loan Balance	Collateral	Loan Balance	Collateral
Group & Company	£000	£000	£000	£000	£000	£000
Less than 60%	844,024	1,869,734	53,759	131,561	897,783	2,001,295
Stage 1	797,219	1,781,638	45,833	113,996	843,052	1,895,634
Stage 2	38,781	73,946	4,037	10,277	42,818	84,223
Stage 3	8,024	14,150	3,889	7,288	11,913	21,438
60%-80%	553,383	864,566	62,113	92,996	615,496	957,562
Stage 1	525,296	823,256	53,692	80,529	578,988	903,785
Stage 2	20,900	31,250	4,295	6,209	25,195	37,459
Stage 3	7,187	10,060	4,126	6,258	11,313	16,318
80%-100%	11,911	13,976	20,961	23,563	32,872	37,539
Stage 1	9,776	11,626	17,109	19,136	26,885	30,762
Stage 2	-	-	1,231	1,426	1,231	1,426
Stage 3	2,135	2,350	2,621	3,001	4,756	5,351
Greater than 100%*	24,182	13,005	17,142	13,925	41,324	26,930
Stage 1	11,142	6,880	13,191	10,623	24,333	17,503
Stage 2	-	-	1,741	1,586	1,741	1,586
Stage 3	13,040	6,125	2,210	1,716	15,250	7,841
Total	**1,433,500**	**2,761,281**	**153,975**	**262,045**	**1,587,475**	**3,023,326**

**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 £9.4m in the form of cash deposits and security over Arbuthnot Latham Investment Management Portfolios and personal guarantees of £13.1m. Non property collateral reduces loan to value below 100% for all such exposures in the banking segment.

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

	2021					
	Banking		Mortgage Portfolios		Total	
	Loan Balance	Collateral	Loan Balance	Collateral	Loan Balance	Collateral
Group & Company	£000	£000	£000	£000	£000	£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 £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.

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

	2022	
	Total	
	Loan commitments	Collateral
Group	£000	£000
Less than 60%	122,582	387,942
60%-80%	35,807	51,828
80%-100%	11,100	12,432
Greater than 100%	31,347	19,606
Total	**200,836**	**471,808**

	2021	
	Total	
	Loan commitments	Collateral
Group	£000	£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**

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.

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.

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

As at 31 December 2022, loans for which forbearance measures were in place totalled 3.03% (2021: 3.82%) of total value of loans to customers for the Group.

These are set out in the following tables:

Group	2022 Stage 1 Number	2022 Stage 1 Loan Balance £000	2022 Stage 2 Number	2022 Stage 2 Loan Balance £000	2022 Stage 3 Number	2022 Stage 3 Loan Balance £000
Time for Asset Sale	-	-	3	8,836	1	35
Term Extension	-	-	24	1,905	-	-
Time for Refinance with third party	-	-	1	2,360	-	-
Payment holiday	-	-	3	4,002	-	-
Covenant waived	-	-	3	28,142	-	-
Modification in terms and conditions	-	-	64	9,184	32	6,073
Restructure	-	-	7	1,567	-	-
Total forbearance	**-**	**-**	**105**	**55,996**	**33**	**6,108**

Group	2021 Stage 1 Number	2021 Stage 1 Loan Balance £000	2021 Stage 2 Number	2021 Stage 2 Loan Balance £000	2021 Stage 3 Number	2021 Stage 3 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	2022 Stage 1 Number	2022 Stage 1 Loan Balance £000	2022 Stage 2 Number	2022 Stage 2 Loan Balance £000	2022 Stage 3 Number	2022 Stage 3 Loan Balance £000
Time for Asset Sale	-	-	3	8,836	1	35
Term Extension	-	-	2	1,546	-	-
Time for Refinance with third party	-	-	1	2,360	-	-
Payment holiday	-	-	3	4,002	-	-
Covenant waived	-	-	3	28,142	-	-
Modification in terms and conditions	-	-	64	9,184	32	6,073
Total forbearance	**-**	**-**	**76**	**54,070**	**33**	**6,108**

Company	2021 Stage 1 Number	2021 Stage 1 Loan Balance £000	2021 Stage 2 Number	2021 Stage 2 Loan Balance £000	2021 Stage 3 Number	2021 Stage 3 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**

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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 2022 £000	Loans and advances to customers 2021 £000	Loan Commitments 2022 £000	Loan Commitments 2021 £000
Concentration by collateral type				
Asset Based Lending	268,825	182,306	250,276	200,478
Asset finance	148,788	104,613	1,312	2,115
Cash collateralised	25,642	189,196	611	3,083
Commercial lending	156,252	209,617	25,720	41,865
Investment portfolio secured	24,485	26,353	2,086	8,689
Residential mortgages	1,339,789	1,107,301	109,948	174,452
Mixed collateral*	69,433	37,250	44,590	17,589
Unsecured**	14,364	25,825	36,535	16,119
At 31 December	**2,047,578**	**1,882,461**	**471,078**	**464,390**

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

** Included within unsecured are £9.0m (2021: £11.6m) of loans which are backed by government guarantee under the BBLS.

Group	Loans and advances to customers 2022 £000	Loans and advances to customers 2021 £000	Loan Commitments 2022 £000	Loan Commitments 2021 £000
Concentration by location				
East Anglia	28,668	25,350	2,776	21,389
London	771,083	779,467	178,576	148,046
Midlands	86,444	97,102	4,778	11,248
North East	3,593	4,707	18	3,122
North West	42,897	50,276	3,531	3,681
Northern Ireland	94,341	111,400	-	-
Scotland	20,220	33,952	-	50
South East	236,658	230,384	884	15,049
South West	179,034	189,685	5,273	12,243
Wales	15,174	16,179	5,001	5,662
Non-property collateral	569,466	343,959	270,241	243,900
At 31 December	**2,047,578**	**1,882,461**	**471,078**	**464,390**

Notes to the Consolidated Financial Statements

Company	Loans and advances to customers 2022 £000	Loans and advances to customers 2021 £000	Loan Commitments 2022 £000	Loan Commitments 2021 £000
Concentration by collateral type				
Asset Based lending	251,720	173,101	-	-
Asset Finance	316,481	206,682	-	-
Cash collateralised	25,642	189,196	611	3,083
Commercial Lending	156,252	209,617	25,720	41,865
Investment portfolio secured	24,485	26,353	2,086	8,689
Mixed Collateral*	69,433	37,250	44,590	17,589
Residential mortgages	1,339,789	1,107,301	109,948	174,452
Unsecured**	14,364	25,825	36,535	16,119
At 31 December	**2,198,166**	**1,975,325**	**219,490**	**261,797**

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

** Included within unsecured are £9.0m (2021: £11.6m) of loans which are backed by government guarantee under the BBLS

Company	Loans and advances to customers 2022 £000	Loans and advances to customers 2021 £000	Loan Commitments 2022 £000	Loan Commitments 2021 £000
Concentration by location				
East Anglia	28,668	25,350	2,776	21,389
London	771,083	779,467	178,576	148,046
Midlands	86,444	97,102	4,778	11,248
North East	3,593	4,707	18	3,122
North West	42,897	50,276	3,531	3,681
Northern Ireland	94,341	111,400	-	-
Scotland	20,220	33,952	-	50
South East	236,658	230,384	884	15,049
South West	179,034	189,685	5,273	12,243
Wales	15,174	16,179	5,001	5,662
Non-property collateral	720,054	436,823	18,653	41,307
At 31 December	**2,198,166**	**1,975,325**	**219,490**	**261,797**

(b) 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 its Information Technology ("IT") 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.

In line with further guidance issued by the Regulator, the Bank has continued to focus on ensuring that the design of systems and operational plans are 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.

During the year the FCA, PRA and BoE published their final policy papers on building operational resilience. The Bank completed the required self-assessment of compliance with the expected standards in March 2022. This continues to be an important area of focus as the Bank continues its investment in new IT systems.

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 low 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.

(c) Macroeconomic and competitive environment

The group is exposed to indirect risk that may arise for the macroeconomic and competitive environment.

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

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 Risk Committee. Arbuthnot Latham has been assessed against the 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.

Notes to the Consolidated Financial Statements

(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 26, a severe decline of 10% (2021: 10%) in market prices, would result in a £Nil (2021: £12k) decrease in the Company and Group's income and a decrease of £0.3m (2021: £0.3m) 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 2022. Included in the table below are the Group's assets and liabilities at carrying amounts, categorised by currency.

	GBP (£)	USD ($)	Euro (€)	Other	Total
At 31 December 2022	£000	£000	£000	£000	£000
ASSETS					
Cash and balances at central banks	732,576	78	71	3	732,728
Loans and advances to banks	18,137	13,581	75,787	8,276	115,781
Debt securities at amortised cost	280,956	158,797	-	-	439,753
Assets classified as held for sale	-	-	3,279	-	3,279
Derivative financial instruments	6,216	100	6	-	6,322
Loans and advances to customers	2,029,326	8,451	8,933	868	2,047,578
Other assets	13,658	-	503	-	14,161
Financial investments	-	3,404	-	-	3,404
	3,080,869	**184,411**	**88,579**	**9,147**	**3,363,006**
LIABILITIES					
Deposits from banks	236,026	-	-	1	236,027
Derivative financial instruments	7	107	8	13	135
Deposits from customers	2,834,714	180,483	87,787	9,494	3,112,478
Other liabilities	4,886	188	942	-	6,016
Debt securities in issue	24,437	-	-	-	24,437
	3,100,069	**180,778**	**88,737**	**9,508**	**3,379,093**
Net on-balance sheet position	**(19,201)**	**3,632**	**(158)**	**(361)**	**(16,087)**
Credit commitments	**471,078**	**-**	**-**	**-**	**471,078**

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

At 31 December 2021	GBP (£) £000	USD ($) £000	Euro (€) £000	Other £000	Total £000
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 held-to-maturity	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	**(59,533)**	**36,141**	**(16,741)**	**755**	**(39,377)**
Credit commitments	**464,390**	**-**	**-**	**-**	**464,390**

Notes to the Consolidated Financial Statements

Derivative financial instruments (see note 21) 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 £35k decrease (2021: a £4k decrease) in the Group's profits, while a 10% weakening of the pound against the US dollar would lead to the same increase in the Bank's profits. Additionally the Group holds £3.3m of properties as assets held for sale (2021: £3.1m) and £Nil has been classified as inventory (2021: £7.7m). 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 £3.3m (2021: positive £6.1m) for the Group.

The table below summarises the Company's exposure to foreign currency exchange risk at 31 December 2022:

At 31 December 2022	GBP (£) £000	USD ($) £000	Euro (€) £000	Other £000	Total £000
ASSETS					
Cash and balances at central banks	732,575	78	71	3	732,727
Loans and advances to banks	14,237	13,581	75,787	8,276	111,881
Debt securities at amortised cost	280.956	158.797	-	-	439.753
Assets classified as held for sale	-	-	3,279	-	3,279
Derivative financial instruments	6,216	100	6	-	6,322
Loans and advances to customers	2,182,358	7,558	7,369	881	2,198.166
Other assets	13,284	-	503	-	13,787
Financial investments	-	3,404	-	-	3,404
	3,229,626	183,518	87,015	9,160	3,509,319
LIABILITIES					
Deposits from banks	236,026	-	-	1	236,027
Derivative financial instruments	7	107	8	13	135
Deposits from customers	2,838,180	179,606	86,247	9,507	3,113,540
Other liabilities	2,592	188	942	-	3,722
Debt securities in issue	24,437	-	-	-	24,437
	3,101,242	179,901	87,197	9,521	3,377,861
Net on-balance sheet position	128,384	3,617	(182)	(361)	131,458
Credit commitments	219,490	-	-	-	219,490

Notes to the Consolidated Financial Statements

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

At 31 December 2021	GBP (£) £000	USD ($) £000	Euro (€) £000	Other £000	Total £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 held-to-maturity	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**

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 (2021: adverse impact of £0.3m) for a positive 200bps shift and a favourable impact of £0.3m (2021: favourable impact of £37k) for a negative 200bps movement. An upward change of 50bps on variable rates would decrease pre-tax profits and equity by £23k (2021: increase pre-tax profits and equity by £51k), while a downward change of 50bps (capped at 25bps) would increase pre-tax profits and equity by £23k (2021: increase pre-tax profits and equity by £29k).

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 2022	£000	£000	£000	£000	£000	£000	£000
ASSETS							
Cash and balances at central banks	732,728	-	-	-	-	-	732,728
Loans and advances to banks	115,730	51	-	-	-	-	115,781
Debt securities at amortised cost	334,700	13,301	85,752	6,000	-	-	439,753
Derivative financial instruments	6,322	-	-	-	-	-	6,322
Loans and advances to customers	1,826,306	15,785	38,073	146,119	5,633	15,662	2,047,578
Other assets*	-	-	-	-	-	282,980	282,980
Financial investments	-	-	-	-	-	3,404	3,404
	3,015,786	**29,137**	**123,825**	**152,119**	**5,633**	**302,046**	**3,628,546**
LIABILITIES							
Deposits from banks	236,027	-	-	-	-	-	236,027
Derivative financial instruments	135	-	-	-	-	-	135
Deposits from customers	2,326,881	353,107	240,934	188,556	3,000	-	3,112,478
Other liabilities**	-	-	-	-	-	32,932	32,932
Debt securities in issue	-	-	-	-	24,437	-	24,437
Equity	-	-	-	-	-	222,537	222,537
	2,563,043	**353,107**	**240,934**	**188,556**	**27,437**	**255,469**	**3,628,546**
Impact of derivative instruments	51,376	-	-	(51,376)	-	-	
Interest rate sensitivity gap	**504,119**	**(323,970)**	**(117,109)**	**(87,813)**	**(21,804)**	**46,577**	
Cumulative gap	**504,119**	**180,149**	**63,040**	**(24,773)**	**(46,577)**	**-**	

**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 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 held-to-maturity	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)**	**-**	

**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 **As at 31 December 2022**	Within 3 months £000	More than 3 months but less than 6 months £000	More than 6 months but less than 1 year £000	More than 1 year but less than 5 years £000	More than 5 years £000	Non-interest bearing £000	Total £000
ASSETS							
Cash and balances at central banks	732,727	-	-	-	-	-	732,727
Loans and advances to banks	111,830	51	-	-	-	-	111,881
Debt securities at amortised cost	334,700	13,301	85,752	6,000	-	-	439,753
Derivative financial instruments	6,322	-	-	-	-	-	6,322
Loans and advances to customers	2,102,164	5,059	10,145	60,565	4,571	15,662	2,198,166
Other assets*	-	-	-	-	-	105,318	105,318
Financial investments	-	-	-	-	-	3,404	3,404
	3,287,743	**18,411**	**95,897**	**66,565**	**4,571**	**124,384**	**3,597,571**
LIABILITIES							
Deposits from banks	236,027	-	-	-	-	-	236,027
Derivative financial instruments	135	-	-	-	-	-	135
Deposits from customers	2,453,815	353,107	240,934	62,684	3,000	-	3,113,540
Other liabilities**	-	-	-	-	-	19,460	19,460
Debt securities in issue	-	-	-	-	24,437	-	24,437
Equity	-	-	-	-	-	203,972	203,972
	2,689,977	**353,107**	**240,934**	**62,684**	**27,437**	**223,432**	**3,597,571**
Impact of derivative instruments	51,376	-	-	(51,376)	-	-	
Interest rate sensitivity gap	**649,142**	**(334,696)**	**(145,037)**	**(47,495)**	**(22,866)**	**(99,048)**	
Cumulative gap	**649,142**	**314,446**	**169,409**	**121,914**	**99,048**	**-**	

**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.*

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 held-to-maturity	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.*

(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. There has been an increase in deposits of 9% 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 2022:

At 31 December 2022	Carrying amount £000	Gross inflow/ (outflow) £000	Not more than 3 months £000	More than 3 months but less than 1 year £000	More than 1 year but less than 5 years £000	More than 5 years £000
Financial liability by type						
Non-derivative liabilities						
Deposits from banks	236,027	(236,027)	(236,027)	-	-	-
Deposits from customers	3,112,478	(3,184,382)	(1,764,073)	(763,156)	(657,153)	-
Other liabilities	6,016	(6,016)	(6,016)	-	-	-
Debt securities in issue	24,437	(25,510)	-	-	-	(25,510)
Issued financial guarantee contracts	-	(3,253)	(3,253)	-	-	-
Unrecognised loan commitments	-	(470,870)	(470,870)	-	-	-
	3,378,958	**(3,926,058)**	**(2,480,239)**	**(763,156)**	**(657,153)**	**(25,510)**
Derivative liabilities						
Risk management:	135					
- Outflows		(135)	(135)	-	-	-
	135	**(135)**	**(135)**	**-**	**-**	**-**

At 31 December 2022	Carrying amount £000	Gross inflow/ (outflow) £000	Not more than 3 months £000	More than 3 months but less than 1 year £000	More than 1 year but less than 5 years £000	More than 5 years £000
Financial asset by type						
Non-derivative assets						
Cash and balances at central banks	732,728	732,728	732,728	-	-	-
Loans and advances to banks	115,781	115,781	115,781	-	-	-
Debt securities at amortised cost	439,753	443,409	336,299	101,110	6,000	-
Loans and advances to customers	2,047,578	2,532,312	517,192	276,657	1,285,151	453,312
Other assets	14,162	14,162	14,162	-	-	-
Financial investments	3,404	3,404	3,404	-	-	-
	3,353,406	**3,841,796**	**1,719,566**	**377,767**	**1,291,151**	**453,312**
Derivative assets						
Risk management:	6,322					
- Inflows		6,322	113	-	6,209	-
	6,322	**6,322**	**113**	**-**	**6,209**	**-**

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

At 31 December 2021	Carrying amount £000	Gross inflow/ (outflow) £000	Not more than 3 months £000	More than 3 months but less than 1 year £000	More than 1 year but less than 5 years £000	More than 5 years £000
Financial liability by type						
Non-derivative liabilities						
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)	-	-	-

At 31 December 2021	Carrying amount £000	Gross inflow/ (outflow) £000	Not more than 3 months £000	More than 3 months but less than 1 year £000	More than 1 year but less than 5 years £000	More than 5 years £000
Financial asset by type						
Non-derivative assets						
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 held-to-maturity	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	-

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

At 31 December 2022	Carrying amount £000	Gross inflow/ (outflow) £000	Not more than 3 months £000	More than 3 months but less than 1 year £000	More than 1 year but less than 5 years £000	More than 5 years £000
Financial liability by type						
Non-derivative liabilities						
Deposits from banks	236,027	(236,027)	(236,027)	-	-	-
Deposits from customers	3,113,540	(3,172,742)	(2,337,384)	(758,870)	(76,488)	-
Other liabilities	3,722	(3,722)	(3,722)	-	-	-
Debt securities in issue	24,437	(25,510)	-	-	-	(25,510)
Issued financial guarantee contracts	-	(2,591)	(2,591)	-	-	-
Unrecognised loan commitments	-	(219,490)	(219,490)	-	-	-
	3,377,726	**(3,660,082)**	**(2,799,214)**	**(758,870)**	**(76,488)**	**(25,510)**
Derivative liabilities						
Risk management:	135					
- Outflows		(135)	(135)	-	-	-
	135	**(135)**	**(135)**	**-**	**-**	**-**

At 31 December 2022	Carrying amount £000	Gross inflow/ (outflow) £000	Not more than 3 months £000	More than 3 months but less than 1 year £000	More than 1 year but less than 5 years £000	More than 5 years £000
Financial asset by type						
Non-derivative assets						
Cash and balances at central banks	732,727	732,727	732,727	-	-	-
Loans and advances to banks	111,881	111,798	111,798	-	-	-
Debt securities at amortised cost	439,753	443,409	336,299	101,110	6,000	-
Loans and advances to customers	2,198,166	2,656,954	953,314	186,012	1,070,937	446,691
Other assets	13,787	13,787	13,787	-	-	-
Financial investments	3,404	3,404	3,404	-	-	-
	3,499,718	**3,962,079**	**2,151,329**	**287,122**	**1,076,937**	**446,691**
Derivative assets						
Risk management:	6,322					
- Inflows		6,322	113	-	6,209	-
	6,322	**6,322**	**113**	**-**	**6,209**	**-**

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 2021:

At 31 December 2021	Carrying amount £000	Gross inflow/ (outflow) £000	Not more than 3 months £000	More than 3 months but less than 1 year £000	More than 1 year but less than 5 years £000	More than 5 years £000
Financial liability by type						
Non-derivative liabilities						
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)**	-	-	-

At 31 December 2021	Carrying amount £000	Gross inflow/ (outflow) £000	Not more than 3 months £000	More than 3 months but less than 1 year £000	More than 1 year but less than 5 years £000	More than 5 years £000
Financial asset by type						
Non-derivative assets						
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 held-to-maturity	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

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 2022 were £225m (2021: £225m). 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.

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 £1.3bn (2021: £1.4bn). 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:

At 31 December 2022	Fair value through profit or loss £000	Fair value through other comprehensive income £000	Amortised cost £000	Total carrying amount £000	Fair value £000
ASSETS					
Cash and balances at central banks	-	-	732,728	732,728	732,728
Loans and advances to banks	-	-	115,781	115,781	115,781
Debt securities at amortised cost	-	-	439,753	439,753	439,389
Derivative financial instruments	6,322	-	-	6,322	6,322
Loans and advances to customers	-	-	2,047,578	2,047,578	1,991,075
Other assets	-	-	14,385	14,385	14,385
Financial investments	-	3,404	-	3,404	3,404
	6,322	3,404	3,350,225	3,359,951	3,303,084
LIABILITIES					
Deposits from banks	-	-	236,027	236,027	236,027
Derivative financial instruments	135	-	-	135	135
Deposits from customers	-	-	3,112,478	3,112,478	3,112,478
Other liabilities	-	-	6,016	6,016	6,016
Debt securities in issue	-	-	24,437	24,437	24,437
	135	-	3,378,958	3,379,093	3,379,093

At 31 December 2021	Fair value through profit or loss £000	Fair value through other comprehensive income £000	Amortised cost £000	Total carrying amount £000	Fair value £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 held-to-maturity	-	-	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

Notes to the Consolidated Financial Statements

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

At 31 December 2022	Fair value through profit or loss £000	Fair value through other comprehensive income £000	Amortised cost £000	Total carrying amount £000	Fair value £000
ASSETS					
Cash and balances at central banks	-	-	732,727	732,727	732,727
Loans and advances to banks	-	-	111,881	111,881	111,881
Debt securities at amortised cost	-		439,753	439,753	439,389
Derivative financial instruments	6,322	-	-	6,322	6,322
Loans and advances to customers	-	-	2,198,166	2,198,166	2,159,055
Other assets	-	-	13,787	13,787	13,787
Financial investments	-	3,404	-	3,404	3,404
	6,322	**3,404**	**3,496,314**	**3,506,040**	**3,466,565**
LIABILITIES					
Deposits from banks	-	-	236,027	236,027	236,027
Derivative financial instruments	135	-	-	135	135
Deposits from customers	-	-	3,113,540	3,113,540	3,113,540
Other liabilities	-	-	3,722	3,722	3,722
Debt securities in issue	-	-	24,437	24,437	24,437
	135	**-**	**3,377,726**	**3,377,861**	**3,377,861**

At 31 December 2021	Fair value through profit or loss £000	Fair value through other comprehensive income £000	Amortised cost £000	Total carrying amount £000	Fair value £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 held-to-maturity	-	-	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**

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

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).

Group **At 31 December 2022**	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
ASSETS				
Derivative financial instruments	-	6,322	-	6,322
Financial investments	-	-	3,404	3,404
Investment property	-	-	6,550	6,550
	-	**6,322**	**9,954**	**16,276**
LIABILITIES				
Derivative financial instruments	-	135	-	135
	-	**135**	**-**	**135**

Company **At 31 December 2022**	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
ASSETS				
Derivative financial instruments	-	6,322	-	6,322
Financial investments	-	-	3,404	3,404
	-	**6,322**	**3,404**	**9,726**
LIABILITIES				
Derivative financial instruments	-	135	-	135
	-	**135**	**-**	**135**

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**

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 Movement in level 3	2022 £000	2021 £000
At 1 January	9,719	9,120
Purchases	53	670
Distribution received	(640)	-
Movements recognised in other comprehensive income	822	(57)
Movements recognised in the profit and loss	-	(14)
At 31 December	**9,954**	**9,719**

Company Movement in level 3	2022 £000	2021 £000
At 1 January	3,169	2,570
Purchases	53	670
Distribution received	(640)	-
Movements recognised in other comprehensive income	822	(57)
Movements recognised in the profit and loss	-	(14)
At 31 December	**3,404**	**3,169**

Notes to the Consolidated Financial Statements

Visa Inc. investment
Arbuthnot Latham currently holds preference shares in Visa Inc., valued at £2.0m (2021: £1.6m) as at 31 December 2022. These shares have been valued at their future conversion value into Visa Inc. common stock.

In 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. In 2022 Visa awarded the Group extra 28 preference shares with a carrying value of £501k. These can be automatically converted into freely tradeable Class A common stock.

There is a haircut of 31% (2021: 31%) on the original shares comprising 25% (2021: 25%) due to a contingent liability disclosed in Visa Europe's accounts in relation to litigation and 6% (2021: 6%) based on a liquidity discount.

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$132.5m. At 31 December 2022 the company had made capital contributions into the Fund of $1.8m (2021: $1.8m).

The investment is classified as FVOCI and is valued at fair value by Hetz Ventures, L.P. at £1.4m as at 31 December 2022 (2021: £1.4m). 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.

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

Group **At 31 December 2022**	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
ASSETS				
Cash and balances at central banks	-	732,728	-	732,728
Loans and advances to banks	-	115,781	-	115,781
Debt securities at amortised cost	-	439,389	-	439,389
Loans and advances to customers	-	-	1,991,075	1,991,075
Other assets	-	-	14,385	14,385
	-	1,287,898	2,005,460	3,293,358
LIABILITIES				
Deposits from banks	-	236,027	-	236,027
Deposits from customers	-	3,112,478	-	3,112,478
Other liabilities	-	-	6,016	6,016
Debt securities in issue	-	-	24,437	24,437
	-	3,348,505	30,453	3,378,958

Group **At 31 December 2021**	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
ASSETS				
Cash and balances at central banks	-	814,692	-	814,692
Loans and advances to banks	-	73,430	-	73,430
Debt securities held-to-maturity	-	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**

Notes to the Consolidated Financial Statements

Company At 31 December 2022	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
ASSETS				
Cash and balances at central banks	-	732,727	-	732,727
Loans and advances to banks	-	111,881	-	111,881
Debt securities at amortised cost	-	439,389	-	439,389
Loans and advances to customers	-	-	2,159,055	2,159,055
Other assets	-	-	13,787	13,787
	-	1,283,997	2,172,842	3,456,839
LIABILITIES				
Deposits from banks	-	236,027	-	236,027
Deposits from customers	-	3,113,540	-	3,113,540
Other liabilities	-	-	3,722	3,722
Debt securities in issue	-	-	24,437	24,437
	-	3,349,567	28,159	3,377,726

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 held-to-maturity	-	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**

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.

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

In accordance with the parameters set out in 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. The Group'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 Group's regulatory capital is divided into two tiers:

- Common equity Tier 1 which comprises shareholder funds less regulatory deductions for intangible assets, including goodwill, and deferred tax assets that do not arise from temporary differences.
- Tier 2 comprises qualifying subordinated loans.

The following table shows the regulatory capital resources as managed by the Group:

Notes to the Consolidated Financial Statements

	2022 £000	2021 £000
Common Equity Tier 1 Capital		
Share capital	15,000	15,000
Retained earnings*	59,576	47,249
Fair value reserve	1,068	979
Capital contribution reserve	146,512	146,512
IFRS 9 transitional arrangement	523	1,600
Deduction for goodwill	(8,935)	(8,935)
Deduction for other intangibles**	(27,346)	(18,665)
Deduction for deferred tax assets that do not arise from temporary differences	(4,201)	(2,077)
Deduction for prudent valuation	(10)	(5)
Common Equity Tier 1 capital resources	**182,187**	**181,658**
Subordinated debt	24,437	24,367
Total Tier 2 capital	**24,437**	**24,367**
Own Funds (sum of Tier 1 and Tier 2)	**206,624**	**206,025**
Common Equity Tier 1 capital ratio (Common Equity Tier 1 capital/Total Risk Exposure)*	**12.0%**	**12.8%**
Total Capital Ratio (Own Funds/Total Risk Exposure)*	**13.6%**	**14.5%**

*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 all regulated entities have complied with all of the externally imposed capital requirements to which they are subject.

Pillar 3 complements the minimum capital requirements (Pillar 1) and the supervisory review process (Pillar 2). Its aim is to encourage market discipline by developing a set of disclosure requirements which will allow market participants to assess key pieces of information on a firm's capital, risk exposures and risk assessment processes. Our Pillar 3 disclosures for the year ended 31 December 2022 are published as a separate document on the Group website under Investor Relations.

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.

	2022	2021
	£000	£000
Cash and balances at central banks	8,681	521
Loans and advances to banks	6	(165)
Debt securities at amortised cost	6,374	1,156
Loans and advances to customers	104,952	75,590
Total interest income	**120,013**	**77,102**
Deposits from banks	(3,269)	387
Deposits from customers	(13,880)	(9,747)
Interest on lease assets	(632)	(1,024)
Total interest expense	**(17,781)**	**(10,384)**
Net interest income	**102,232**	**66,718**

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 2022	£000	£000	£000	£000	£000	£000	£000	£000
Banking commissions	2,233	-	32	6,178	10	-	405	8,858
Foreign exchange fees	1,296	-	-	-	-	-	840	2,136
Investment management fees	-	10,285	-	-	-	-	-	10,285
Wealth planning Fees	-	307	-	-	-	-	-	307
Total fee and commission income	**3,529**	**10,592**	**32**	**6,178**	**10**	**-**	**1,245**	**21,586**

Group	Banking	Wealth Planning	RAF	ABL	ASFL	AAG	Other	Total
At 31 December 2021	£000	£000	£000	£000	£000	£000	£000	£000
Banking and services fees	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**

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 a vehicle is transferred to a buyer, and the buyer obtains control of the vehicle.
- 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	2022 £000	2021 £000
Income from lease or rental of commercial vehicles	42,456	33,577
Sale of commercial vehicles	44,385	32,123
Income from service and maintenance contracts	12,088	8,800
Other income	438	-
Revenue	**99,367**	**74,500**
Depreciation and rental costs of commercial vehicles held for lease or rent	(31,218)	(25,197)
Carrying amount of vehicles disposed	(38,259)	(31,339)
Service & maintenance cost	(12,632)	(11,491)
Cost of goods sold	**(82,109)**	**(68,027)**
Gross profit from leasing activities	**17,258**	**6,473**

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 17), loans and advance to banks (note 18) and debt securities at amortised cost (note 19). 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;
- Any additional reasons whereby the Probability of Default is considered to have increased significantly since inception of the facility.

• 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.

	2022	2021
	£000	£000
Net impairment losses on financial assets	5,503	3,196
Of which:		
Stage 1	1,078	664
Stage 2	52	(456)
Stage 3	4,231	2,966
Impairment losses on financial investments	142	22
	5,503	**3,196**

During the year, the Bank recovered £55k (2021: £60k) of loans which had previously been written-off.

12. Acquisition of Asset Alliance Group Holdings Limited

On 1st 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 were 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 as set out in the table on the next page. The fair value of intangibles acquired included £3.5m for the brand.

The acquisition contributed £0.2m to interest income and £3.8m to profit before tax in the prior period.

	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)**

13. Other income

In prior year, other income mainly included the profit on sale of the Tay Mortgage portfolio of £2.2m, an adjustment of £0.6m gain to the contingent consideration for the acquisition of Renaissance Asset Finance Ltd and dividends received on the shares held in STB of £0.5m.

Other items reflected in other income include rental income from the investment property (see note 31) of £0.9m (2021: £0.3m).

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.

14. Operating expenses

Operating expenses comprise:	2022 £000	2021 £000
Staff costs, including Directors:		
Wages, salaries and bonuses	54,863	44,503
Social security costs	6,560	5,021
Pension costs	2,683	2,353
Amortisation of intangibles (note 28)	4,025	3,210
Depreciation (note 29)	1,764	1,790
Profit on disposals of property, plant and equipment	(9)	3
Expenses relating to short-term leases	550	608
Write down of repossessed properties	646	3,835
Parent company management charge	17,803	10,354
Other administrative expenses	24,019	24,835
Total operating expenses from continuing operations	**112,904**	**96,512**

Remuneration of the auditor and its associates, excluding VAT, was as follows:	2022 £000	2021 £000
Fees payable to the Group's auditor for the audit of the Group's annual accounts	320	265
Fees payable to the Group's auditor and its associates for other services:		
Audit of the accounts of subsidiaries	244	217
Audit related assurance services	116	113
Total fees payable	**680**	**594**

15. 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.

United Kingdom corporation tax at 19% (2021: 19%)	2022 £000	2021 £000
Current taxation		
Corporation tax charge - current year	2,360	1,625
Corporation tax charge - adjustments in respect of prior years	250	16
	2,610	**1,641**
Deferred taxation		
Origination and reversal of temporary differences	285	(3,736)
Adjustments in respect of prior years	(749)	(62)
	(464)	**(3,798)**
Income tax expense/(credit)	**2,146**	**(2,157)**

Tax reconciliation		
Profit before tax	20,009	4,634
Tax at 19% (2021: 19%)	3,802	881
Tax transfer pricing	(1,393)	(992)
Permanent differences	(240)	(760)
Tax rate change	477	(1,237)
Adjustments in respect of prior years	(500)	(49)
Corporation tax charge/(credit) for the year	**2,146**	**(2,157)**

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.

16. Average number of employees

	2022	2021
Banking	251	223
RAF	37	-
ACABL	28	246
ASFL	9	34
AAG	125	24
All Other Divisions	250	9
Group Centre	-	51
	700	**587**

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.

17. Cash and balances at central banks

	Group		Company	
	2022	2021	2022	2021
	£000	£000	£000	£000
Cash and balances at central banks	732,728	814,692	732,727	814,112

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.

18. Loans and advances to banks

	Group		Company	
	2022	2021	2022	2021
	£000	£000	£000	£000
Placements with banks included in cash and cash equivalents (note 41)	**115,781**	**73,430**	**111,881**	**69,810**

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	
	2022	2021	2022	2021
	£000	£000	£000	£000
A1	115,588	61,521	111,688	57,901
A2	-	11,909	-	11,909
A3	193	-	193	-
	115,781	**73,430**	**111,881**	**69,810**

None of the loans and advances to banks are past due (2021: £nil).

ECL has been assessed to be insignificant.

19. Debt securities at amortised cost

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

	Group & Company	
	2022	2021
	£000	£000
At 1 January	301,052	344,692
Exchange difference	9,524	1,023
Additions	799,341	590,492
Redemptions	(670,164)	(635,155)
At 31 December	**439,753**	**301,052**

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	
	2022	2021
	£000	£000
Aaa	41,907	56,783
Aa1	89,805	33,314
Aa2	44,902	16,403
Aa3	50,000	11,105
A1	213,139	183,447
	439,753	**301,052**

ECL has been assessed to be insignificant.

None of the debt securities at amortised cost are past due. (2021: £nil).

20. 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	
	2022	2021
	£000	£000
Repossessed property held for sale	3,279	3,136
	3,279	**3,136**

Repossessed property held for sale

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

21. 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.

	2022			2021		
	Contract/ notional amount	Fair value assets	Fair value liabilities	Contract/ notional amount	Fair value assets	Fair value liabilities
Group & Company	£000	£000	£000	£000	£000	£000
Currency swaps	3,049	113	135	8,686	118	132
Interest rate swaps	51,376	6,209	-	57,889	1,635	39
	54,425	6,322	135	66,575	1,753	171

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.

The Group primarily 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 counterparty bank at 31 December, based on Moody's long-term ratings:

	Group & Company	
	2022	2021
	£000	£000
Aa1	250	7,797
A1	52,840	58,778
Unrated	1,335	-
	54,425	66,575

22. 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.

	2022		2021	
	Fair value assets	Fair value liabilities	Fair value assets	Fair value liabilities
Group	£000	£000	£000	£000
Interest rate - Designated fair value hedges	6,184	-	1,635	-
Total interest rate derivatives	**6,184**	-	**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.

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- 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.

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 2022 and 31 December 2021, the Group held the following interest rate swaps as hedging instruments in fair value hedges of interest risk.

	Maturity 2022			Maturity 2021		
Group	Less than 1 year	1–5 years	More than 5 years	Less than 1 year	1–5 years	More than 5 years
Risk category: Interest rate risk - Hedge of loans and advances						
Nominal amount (in £000)	-	48,120	-	-	5,335	33,750
Average fixed interest rate	-	1.79%	-	-	0.88%	0.09%

The amounts relating to items designated as hedging instruments and hedge ineffectiveness at 31 December 2022 were as follows:

	2022		
		Carrying amount	
	Nominal amount	Assets	Liabilities
Group	£000	£000	£000
Interest rate risk			
Interest rate swaps – hedge of loans and advances	48,120	6,184	-

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

	2021		
		Carrying amount	
	Nominal amount	Assets	Liabilities
Group	£000	£000	£000
Interest rate risk			
Interest rate swaps – hedge of loans and advances	39,085	1,635	-

The amounts relating to items designated as hedged items at 31 December 2022 were as follows:

	2022 Carrying amount	
	Assets	Liabilities
Group	£000	£000
Loans and advances	42,383	-

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

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

Group	2022		
Line item in the statement of financial position where the hedging instrument is included	Change in fair value used for calculating hedge ineffectiveness £000	Ineffectiveness recognised in profit or loss £000	Line item in profit or loss that includes hedge ineffectiveness
Derivative financial instruments	4,549	303	Net interest income

Group	2021		
Line item in the statement of financial position where the hedging instrument is included	Change in fair value used for calculating hedge ineffectiveness £000	Ineffectiveness recognised in profit or loss £000	Line item in profit or loss that includes hedge ineffectiveness
Derivative financial instruments	1,635	144	Net interest income

Group	2022		
		Accumulated amount of fair value hedge adjustments on the hedged item included in the carrying amount of the hedged item	
Line item in the statement of financial position in which the hedged item is included	Change in value used for calculating hedge ineffectiveness	Assets	Liabilities
	£000	£000	£000
Loans and advances to customers	(4,246)	(5,737)	-

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Group	2021		
Line item in the statement of financial position in which the hedged item is included	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	£000
Loans and advances to customers	(1,490)	(1,490)	-

23. Loans and advances to customers

	2022			
	Stage 1	Stage 2	Stage 3	Total
Group loans and advances to customers	£000	£000	£000	£000
At 1 January 2022	1,749,409	95,462	43,978	1,888,849
Originations and (repayments)	217,525	(36,398)	(10,822)	170,305
Write-offs	-	-	(4,974)	(4,974)
Transfer to Stage 1	30,323	(29,720)	(603)	-
Transfer to Stage 2	(57,245)	59,912	(2,667)	-
Transfer to Stage 3	(10,605)	(14,743)	25,348	-
At 31 December 2022	**1,929,407**	**74,513**	**50,260**	**2,054,180**
Less allowances for ECLs (see note 24)	(1,147)	(130)	(5,325)	(6,602)
Net loans and advances at 31 December 2022	**1,928,260**	**74,383**	**44,935**	**2,047,578**

	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 24)	(388)	(77)	(5,922)	(6,387)
Net loans and advances at 31 December 2021	**1,749,021**	**95,385**	**38,055**	**1,882,461**

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

	2022			
	Stage 1	Stage 2	Stage 3	Total
Company loans and advances to customers	£000	£000	£000	£000
At 1 January 2022	1,856,543	83,859	38,334	1,978,736
Originations and (repayments)	266,929	(33,462)	(8,517)	224,950
Write-offs	-	-	(2,122)	(2,122)
Transfer to Stage 1	24,437	(23,834)	(603)	-
Transfer to Stage 2	(55,000)	57,667	(2,667)	-
Transfer to Stage 3	(5,613)	(13,548)	19,161	-
At 31 December 2022	2,087,296	70,682	43,586	2,201,564
Less allowances for ECLs (see note 24)	(635)	(70)	(2,693)	(3,398)
Net loans and advances at 31 December 2022	2,086,661	70,612	40,893	2,198,166

	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 24)	(162)	(41)	(3,208)	(3,411)
Net loans and advances at 31 December 2021	1,856,381	83,818	35,126	1,975,325

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

Notes to the Consolidated Financial Statements

	2022							
Group Loans and advances to customers by division (net of ECL)	Banking	Mortgage Portfolios	RAF	ABL	ASFL	AAG	All Other Divisions	Total
	£000	£000	£000	£000	£000	£000	£000	£000
Stage 1	1,362,951	126,713	128,594	267,812	13,675	17,016	11,500	1,928,261
Stage 2	59,844	10,767	2,394	-	1,001	376	-	74,382
Stage 3	29,855	11,037	2,837	1,013	193	-	-	44,935
At 31 December 2022	1,452,650	148,517	133,825	268,825	14,869	17,392	11,500	2,047,578

	2021							
Group Loans and advances to customers by division (net of ECL)	Banking	Mortgage Portfolios	RAF	ABL	ASFL	AAG	All Other Divisions	Total
	£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

Company

	2022				
	Banking	Wealth Management	Mortgage portfolios	Other	Total
Loans and advances to customers split by division (net of ECL)	£000	£000	£000	£000	£000
Stage 1	1,364,035	-	126,713	595,915	2,086,663
Stage 2	59,844	-	10,767	-	70,611
Stage 3	29,855	-	11,037	-	40,892
At 31 December 2022	1,453,734	-	148,517	595,915	2,198,166

Company

	2021				
	Banking	Wealth Management	Mortgage portfolios	Other	Total
Loans and advances to customers split by division (net of ECL)		£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

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:

2022

Group loans and advances in arrears	Banking £000	Wealth Management £000	Mortgage portfolios £000	RAF £000	ABL £000	ASFL £000	AAG £000	Other £000	Total £000
Up to 30 days	119,113		9,216	2,240	-	-		-	130,569
Stage 1	113,121	-	8,056	1,858	-	-	-	-	123,035
Stage 2	5,626	-	1,013	215	-	-	-	-	6,854
Stage 3	366	-	147	167	-	-	-	-	680
30 - 60 days	1,633		2,277	43	-	1,001		-	4,954
Stage 2	1,625	-	2,147	43	-	1,001	-	-	4,816
Stage 3	8	-	130	-	-	-	-	-	138
60 - 90 days	5,555		1,136	116	-	-		-	6,807
Stage 2	5,044	-	898	52	-	-	-	-	5,994
Stage 3	511	-	237	64	-	-	-	-	812
Over 90 days	37,564		8,302	3,214	-	193		-	49,273
Stage 2	9,524	-	-	-	-	-	-	-	9,524
Stage 3	28,040	-	8,302	3,214	-	193	-	-	39,749
At 31 December 2022	**163,865**	-	**20,931**	**5,613**	-	**1,194**	-	-	**191,603**

2021

Group loans and advances in arrears	Banking £000	Wealth Management £000	Mortgage portfolios £000	RAF £000	ABL £000	ASFL £000	AAG £000	Other £000	Total £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**

Notes to the Consolidated Financial Statements

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

	2022				
	Banking	Wealth Management	Mortgage portfolios	Other	Total
Company loans and advances in arrears	£000	£000	£000	£000	£000
Up to 30 days	119,113	-	9,216	-	128,329
Stage 1	113,121	-	8,056	-	121,177
Stage 2	5,626	-	1,013	-	6,639
Stage 3	366	-	147	-	513
30 - 60 days	1,633	-	2,277	-	3,910
Stage 2	1,625	-	2,147	-	3,772
Stage 3	8	-	130	-	138
60 - 90 days	5,555	-	1,136	-	6,691
Stage 2	5,044	-	898	-	5,942
Stage 3	511	-	237	-	748
Over 90 days	37,564	-	8,302	-	45,866
Stage 2	9,524	-	-	-	9,524
Stage 3	28,040	-	8,302	-	36,342
At 31 December 2022	**163,865**	-	**20,931**	-	**184,796**

	2021				
	Banking		Mortgage portfolios	Other	Total
Company loans and advances in arrears	£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**

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

	Group		Company	
	2022	2021	2022	2021
	£000	£000	£000	£000
Gross investment in finance lease receivables:				
- No later than 1 year	54,086	45,368	-	-
- Later than 1 year and no later than 5 years	117,179	72,392	-	-
- Later than 5 years	748	119	-	-
	172,013	117,879	-	-
Unearned future finance income on finance leases	(20,798)	(12,368)	-	-
Net investment in finance leases	151,215	105,511	-	-
The net investment in finance leases may be analysed as follows:				
- No later than 1 year	43,537	38,609	-	-
- Later than 1 year and no later than 5 years	106,979	66,777	-	-
- Later than 5 years	699	125	-	-
	151,215	105,511	-	-

(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 (2021: £nil).

(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 £69.2m (2021: £42.6m), against loans of £50.3m (2021: £38.3m). The weighted average loan-to-value of loans and advances in Stage 3 is 73% (2021: 73.4%).

24. Allowances for impairment of loans and advances

Group	Stage 1 £000	Stage 2 £000	Stage 3 £000	Total £000
Loans and advances to customers	1,147	130	5,325	6,602
At 31 December 2022	**1,147**	**130**	**5,325**	**6,602**

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

Group	Stage 1 £000	Stage 2 £000	Stage 3 £000	Total £000
At 1 January 2022	388	77	5,922	6,387
Transfer to Stage 1	15	(15)	-	-
Transfer to Stage 2	(57)	57	-	-
Transfer to Stage 3	(8)	(70)	78	-
Current year charge	208	18	4,081	4,307
Change in assumptions	601	63	218	882
Repayments and write-offs	-	-	(4,974)	(4,974)
At 31 December 2022	**1,147**	**130**	**5,325**	**6,602**

Group	Stage 1 £000	Stage 2 £000	Stage 3 £000	Total £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:

Group	Stage 1 £000	Stage 2 £000	Stage 3 £000	Total £000
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**

Notes to the Consolidated Financial Statements

Company	Stage 1 £000	Stage 2 £000	Stage 3 £000	Total £000
Loans and advances to customers	635	70	2,693	3,398
At 31 December 2022	**635**	**70**	**2,693**	**3,398**

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

Company	Stage 1 £000	Stage 2 £000	Stage 3 £000	Total £000
Balance as at 1 January 2022	162	41	3,208	3,411
Transfer to Stage 1	15	(15)	-	-
Transfer to Stage 2	(56)	56	-	-
Transfer to Stage 3	(4)	(61)	65	-
Current year charge	161	25	1,351	1,537
Change in assumptions	357	24	191	572
Repayments and write-offs	-	-	(2,122)	(2,122)
At 31 December 2022	**635**	**70**	**2,693**	**3,398**

Company	Stage 1 £000	Stage 2 £000	Stage 3 £000	Total £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:

Company	Stage 1 £000	Stage 2 £000	Stage 3 £000	Total £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**

Notes to the Consolidated Financial Statements

25. Other assets

	Group		Company	
	2022	2021	2022	2021
	£000	£000	£000	£000
Trade receivables	14,161	13,095	10,417	7,820
Inventory	19,559	87,065	10,187	78,079
Prepayments and accrued income	8,739	8,183	7,781	6,820
Other debtors	9,651	1,722	-	-
Amount due from group companies	-	-	3,370	3,649
	52,110	110,065	31,755	96,368

Trade receivables				
Gross balance	14,507	13,890	10,417	7,820
Allowance for bad debts	(346)	(795)		
Net receivables	14,161	13,095	10,417	7,820

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 Limited is a 100% owned subsidiary company 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 2022 is £9.4m (2021: £16.7m).

In 2019 two properties were reclassified from investment property to inventory due to being under development with a view to sell. The Group has sold its King Street property in 2022. At 31 December 2022 the remaining property was valued at cost of £10.2m (2021: £70.6m).

26. Financial investments

	Group & Company	
	2022	2021
	£000	£000
Designated at fair value through profit or loss		
- Debt securities	-	124
Designated at fair value through other comprehensive income		
- Unlisted securities	3,404	3,045
Total financial investments	**3,404**	**3,169**

Unlisted securities
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. In 2022 Visa awarded the Group extra 28 preference shares with a carrying value of £501k. 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 £2.0m (2021: £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 (2021: £nil).

A further investment in an unlisted investment vehicle was made in 2022. The carrying value at year end is £1.4m (2021: £1.5m) and the Group received a distribution of £0.6m (2021: £nil) which included a gain of £0.5m (2021: £nil) in the year.

All unlisted securities have been designated as FVOCI as they are held for strategic reasons. These securities are measured at fair value in the Statement of Financial Position with fair value gains/losses recognised in OCI.

27. 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	
	2022	2021	2022	2021
	£000	£000	£000	£000
Accelerated capital allowances and other short-term timing differences	(2,206)	27	(3,371)	(1,266)
Movement in fair value of Financial investments at fair value through other comprehensive income	(356)	(299)	(356)	(299)
Unutilised tax losses	4,201	2,004	3,040	2,004
IFRS 9 adjustment	263	308	257	308
Deferred tax asset	1,902	2,040	(430)	747

At 1 January	2,040	614	747	484
On acquisition of AAG	-	(1,315)	-	-
Other comprehensive income	(57)	(70)	(57)	(70)
Profit and loss account - accelerated capital allowances and other short-term timing differences	(2,233)	1,919	(2,105)	(559)
Profit and loss account - tax losses	2,197	857	1,036	857
IFRS 9 adjustment *	(45)	35	(51)	35
Deferred tax asset at 31 December	1,902	2,040	(430)	747

*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.

28. 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. 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.

Notes to the Consolidated Financial Statements

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 2021	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**
Additions	-	6,524	-	6,524
Disposals	-	-	(687)	(687)
At 31 December 2022	**8,935**	**36,963**	**6,290**	**52,188**
Accumulated amortisation				
At 1 January 2021	-	(8,344)	(1,115)	(9,459)
Amortisation charge	-	(2,714)	(583)	(3,297)
At 31 December 2021	**-**	**(11,058)**	**(1,698)**	**(12,756)**
Amortisation charge	-	(2,963)	(188)	(3,151)
At 31 December 2022	**-**	**(14,021)**	**(1,886)**	**(15,907)**
Net book amount				
At 31 December 2021	8,935	19,381	5,279	33,595
At 31 December 2022	**8,935**	**22,942**	**4,404**	**36,281**

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 (2021: 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 (2021: 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.

Notes to the Consolidated Financial Statements

A growth rate of 3.1% (2021: 3.6%) was used for income and 8.1% (2021: 4.5%) for expenditure from 2022 to 2024 (these rates were the best estimate of future forecasted performance), while a 3% (2021: 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% (2021: 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 14.7% (2021: 12%) to their net present value. The discount rate of 14.7% 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.

Company	Goodwill £000	Computer software £000	Other intangibles £000	Total £000
Cost				
At 1 January 2021	5,415	24,542	213	30,170
Additions	-	5,100	-	5,100
At 31 December 2021	**5,415**	**29,642**	**213**	**35,270**
Additions	-	6,524	-	6,524
At 31 December 2022	**5,415**	**36,166**	**213**	**41,794**
Accumulated amortisation				
At 1 January 2021	-	(8,245)	(213)	(8,458)
Amortisation charge	-	(2,657)	-	(2,657)
At 31 December 2021	**-**	**(10,902)**	**(213)**	**(11,115)**
Amortisation charge	-	(2,914)		(2,914)
At 31 December 2022	**-**	**(13,816)**	**(213)**	**(14,029)**
Net book amount				
At 31 December 2021	5,415	18,740	-	24,155
At 31 December 2022	5,415	22,350	-	27,765

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

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	2 to 7 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.

Commercial vehicles are subject to operating leases. The other assets are owned and used by the Group.

Group	Leasehold improvements £000	Commercial and other motor vehicles	Computer and other equipment £000	Total £000
Cost or valuation				
At 1 January 2021	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**
Additions	92	115,636	506	116,234
Disposals	-	(29,085)	-	(29,085)
At 31 December 2022	**7,748**	**210,881**	**5,946**	**224,575**
At 1 January 2021	(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)**
Depreciation charge	(825)	(36,994)	(855)	(38,674)
Disposals	-	916	-	916
At 31 December 2022	**(5,786)**	**(38,720)**	**(4,925)**	**(49,431)**
Net book amount				
At 31 December 2021	**2,695**	**121,688**	**1,370**	**125,753**
At 31 December 2022	**1,962**	**172,161**	**1,021**	**175,144**

Notes to the Consolidated Financial Statements

Company	Leasehold improvements £000	Computer and other equipment £000	Total £000
Cost or valuation			
At 1 January 2021	7,410	5,311	12,721
Additions	137	344	481
At 31 December 2021	**7,547**	**5,655**	**13,202**
Additions	49	459	508
At 31 December 2022	**7,596**	**6,114**	**13,710**
At 1 January 2021	(4,456)	(3,545)	(8,001)
Depreciation charge	(692)	(894)	(1,586)
At 31 December 2021	**(5,148)**	**(4,439)**	**(9,587)**
Depreciation charge	(734)	(741)	(1,475)
At 31 December 2022	**(5,882)**	**(5,180)**	**(11,062)**
Net book amount			
At 31 December 2021	**2,399**	**1,216**	**3,615**
At 31 December 2022	**1,714**	**934**	**2,648**

Minimum lease payments receivable under operating and contract hire leases fall due as follows:

	2022 £000	2021 £000
Maturity analysis for operating lease receivables:		
- No later than 1 year	35,848	25,675
- Later than 1 year and no later than 5 years	46,582	25,439
- Later than 5 years	1,095	476
	83,525	**51,590**

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 2021	-	17,430	273	17,703
Additions	-	738	77	815
Amortisation	-	(2,651)	(192)	(2,843)
At 31 December 2021	**-**	**15,517**	**158**	**15,675**
Additions	-	1,254	365	1,619
Amortisation	-	(2,564)	323	(2,241)
Derecognition	-	(6,796)	(543)	(7,339)
At 31 December 2022	**-**	**7,411**	**303**	**7,714**

Company	Investment property £000	Properties £000	Equipment £000	Total £000
At 1 January 2021	-	16,904	273	17,177
Additions	-	189	-	189
Amortisation	-	(2,578)	(181)	(2,759)
At 31 December 2021	**-**	**14,515**	**92**	**14,607**
Additions	-	337	365	702
Amortisation	-	(2,088)	349	(1,739)
Derecognition	-	(6,796)	(543)	(7,339)
At 31 December 2022	**-**	**5,968**	**263**	**6,231**

In the year, the Group received £0.8m (2021: £0.8m) of rental income from subleasing right of use assets through an operating lease.

The Group recognised £0.7m (2021: £0.8m) of interest expense related to lease liabilities. The Group also recognised £0.6m (2021: £0.6m) of expense in relation to leases with a duration of less than 12 months.

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	
	2022	2021	2022	2021
Group	£000	£000	£000	£000
Opening balance	6,550	6,550	-	-
At 31 December	6,550	6,550	-	-

Crescent Office Park, Bath

The property represents a freehold office building in Bath and 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.

The Group has elected to apply the fair value model (see note 4.1(c))

The Group recognised £0.5m (2021: £0.3m) rental income during the year and incurred £0.07m (2021: £0.08m) of direct operating expenses. The property remained tenanted during 2022.

32. Deposits from banks

	2022	2021
Group & Company	£000	£000
Deposits from other banks	**236,027**	**240,333**

Deposits from banks include £225m (2021: £225m) obtained through the Bank of England Term Funding Scheme with additional incentives for small and medium-sized enterprises ("TFSME"). For a maturity profile of deposits from banks, refer to Note 5.

Notes to the Consolidated Financial Statements

33. Deposits from customers

	Group		Company	
	2022	2021	2022	2021
Group	£000	£000	£000	£000
Current/demand accounts	1,943,964	1,878,497	1,945,026	1,879,814
Notice accounts	296,400	309,488	296,400	309,488
Term deposits	872,114	668,964	872,114	668,964
	3,112,478	**2,856,949**	**3,113,540**	**2,858,266**

Included in customer accounts are deposits of £15.4m (2021: £14.7m) 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	
	2022	2021	2022	2021
	£000	£000	£000	£000
Trade payables	4,726	4,849	3,722	1,007
Other creditors	-	2,027	-	-
Amount due to Group companies	1,290	333	-	-
Accruals and deferred income	18,173	12,389	8,631	7,669
	24,189	**19,598**	**12,353**	**8,676**

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 2021	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**
Additions	848	186	1,034
Interest expense	709	9	718
Lease payments	(3,089)	(5,087)	(8,176)
Derecognition	(6,980)	-	(6,980)
At 31 December 2022	**7,588**	**285**	**7,873**

Company	Properties £000	Equipment £000	Total £000
At 1 January 2021	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**
Additions	-	186	186
Interest expense	621	8	629
Lease payments	(2,598)	-	(2,598)
Derecognition	(6,980)	-	(6,980)
At 31 December 2022	**6,118**	**246**	**6,364**

Maturity analysis

	2022 £000	2021 £000
Less than one year	3,675	6,669
One to five years	3,502	8,592
More than five years	8,561	57,894
Total undiscounted lease liabilities at 31 December	**15,738**	**73,154**
Lease liabilities included in the statement of financial position at 31 December	**7,873**	**21,277**
Current	3,398	5,802
Non-current	4,475	15,475

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).

Group and Company	2022 £000	2021 £000
Subordinated loan notes	**24,437**	**24,367**

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 2022, the Group had capital commitments of £558k (2021: £542k) 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:

	Group		Company	
	2022	2021	2022	2021
	£000	£000	£000	£000
Guarantees and other contingent liabilities	3,253	4,560	2,591	2,931
Commitments to extend credit:				
- Original term to maturity of one year or less	471,078	464,390	219,490	261,797
	474,331	**468,950**	**222,081**	**264,728**

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 2021	15,000,000	15,000
At 31 December 2021 & December 2022	15,000,000	15,000

The Ordinary share capital is fully authorised and comprises £15m (2021: £15m) ordinary shares with a nominal value of £1 per share.

39. Reserves and retained earnings

	Group		Company	
	2022	2021	2022	2021
	£000	£000	£000	£000
Retained earnings	59,957	47,533	41,392	34,173
Capital contribution reserve	146,513	146,512	146,513	146,512
Fair value reserve/Available-for-sale reserve	1,067	979	1,067	979
Total reserves at 31 December	207,537	195,024	188,972	181,664

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

ABG - 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 ABG 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 2022. 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 2022 was £Nil (2021: £0.03m).

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 2022 was £0.13m (2021: £0.09m).

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 ABG 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 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 £0.02m in relation to share based payments during 2022 (2021: £0.01m income), as disclosed in Note 14.

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	
	2022	2021	2022	2021
	£000	£000	£000	£000
Cash and balances at central banks (Note 17)	732,728	814,692	732,727	814,112
Loans and advances to banks (Note 18)	115,781	73,430	111,881	69,810
	848,509	888,122	844,608	883,922

42. Related party transactions

Related parties of the Group include ABG 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	
	2022	2021
	£000	£000
Loans with parent company		
Loans outstanding at 1 January	11,500	11,499
Loans outstanding at 31 December	**11,500**	**11,499**
Interest income earned	**292**	**201**

	Company	
	2022	2021
	£000	£000
Loans with subsidiaries		
Loans outstanding at 1 January	386,598	169,972
Loans outstanding at 31 December	**579,987**	**386,598**
Interest income earned	**16,482**	**7,617**

	Group and Company	
	2022	2021
	£000	£000
Deposits on behalf of parent company		
Deposits at 1 January	19,070	26,656
Deposits at 31 December	**19,928**	**19,070**
Interest expense on deposits	**69**	**22**

	Company	
	2022	2021
	£000	£000
Deposits on behalf of subsidiaries		
Deposits at 1 January	9,436	5,076
Deposits at 31 December	**17,657**	**9,436**
Interest expense on deposits	**348**	**225**

Notes to the Consolidated Financial Statements

Amounts recharged	Group 2022 £000	Group 2021 £000	Company 2022 £000	Company 2021 £000
Amounts recharged to the parent company	1,227	1,550	1,227	1,550
Amounts recharged to subsidiaries and associates	36	-	1,140	1,040
Amounts recharged from the parent company	12,943	11,143	12,943	11,143

Intergroup balances	Group 2022 £000	Group 2021 £000	Company 2022 £000	Company 2021 £000
Balances due from subsidiaries and associates	-	-	2,815	3,982

Intergroup balances	Group & Company 2022 £000	Group & Company 2021 £000
Balances due to the parent company	1,297	333

The Bank paid dividends of 42p per share (2021: 59p per share) during the year to Arbuthnot Banking Group PLC.

Directors and Key Management includes solely Executive and Non-executive Directors.

Directors, Key Management and close family members	Group 2022 £000	Group 2021 £000	Company 2022 £000	Company 2021 £000
Loans				
Loans outstanding at 1 January	501	502	501	502
Loans advanced during the year	1,014	38	1,014	38
Loan repayments during the year	(106)	(39)	(106)	(39)
Loans outstanding at 31 December	**1,409**	**501**	**1,409**	**501**
Interest income earned	**2**	**1**	**2**	**1**

Directors, Key Management and close family members	Group 2022 £000	Group 2021 £000	Company 2022 £000	Company 2021 £000
Deposits				
Deposits at 1 January	4,522	4,456	4,522	4,456
Deposits placed during the year	6,313	2,715	6,313	2,715
Deposits repaid during the year	(5,767)	(2,649)	(5,767)	(2,649)
Deposits at 31 December	**5,068**	**4,522**	**5,068**	**4,522**

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 (2021: £nil).

Emoluments for Directors and Key Management Personnel (including pension contributions and benefits in kind) for the year were

	Group & Company	
	2022	2021
	£000	£000
Salary payments	4,743	4,428
Pension contributions	97	122
	4,840	**4,550**

Pension contributions are being accrued under money purchase schemes for 3 directors (2021: 3 directors) in respect of qualifying service. The emoluments of Sir Nigel Boardman, 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	
	2022	2021
	£000	£000
Salary payments	421	596
Pension contributions	23	26
	444	**622**

43. Interests in subsidiaries

Company	Investment at cost £000	Impairment provisions £000	Net £000
At 1 January 2021	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
Capital contribution to Arbuthnot Specialist Finance Limited	1,000	(3,500)	(2,500)
Capital contribution to Pinnacle Universal Limited	385	-	385
At 31 December 2022	**37,140**	**(3,500)**	**33,640**

(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
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 PropCo 1 Ltd (Jersey)	100.0%	Jersey	Property investment
Indirect shareholding via intermediate holding companies			
Asset Alliance Finance Limited**	100.0%	UK	Commercial Vehicle Financing
Asset Alliance Group Finance No.2 Limited**	100.0%	UK	Commercial Vehicle Financing
Asset Alliance Leasing Limited**	100.0%	UK	Commercial Vehicle Financing
Asset Alliance Limited**	100.0%	UK	Commercial Vehicle Financing
ATE Truck & Trailer Sales Limited**	100.0%	UK	Dormant
Forest Asset Finance Limited**	100.0%	UK	Commercial Vehicle Financing
Hanbury Riverside Limited**	100.0%	UK	Dormant
AAG Traffic Management Limited**	100.0%	UK	Dormant
The Peacocks Management Company Limited***	100.0%	UK	Property Management
Valley Finance Limited**	100.0%	UK	Dormant

* On 22 February 2022, Arbuthnot Latham Real Estate Holdings Limited was dissolved.
**Entities acquired as part of the Asset Alliance Group acquisition on 1 April 2021.
***The Peacocks Management Company Limited was incorporated on 2 November 2022 as a subsidiary of Pinnacle Universal Limited.

Pinnacle Universal Limited (BVI) was dissolved on 7 June 2022.

All the subsidiaries above were 100% owned during the current and prior year and 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.

The Jersey entity's registered office is 26 New Street, St Helier, Jersey, JE2 3RA. All other entities listed above have their registered office as 7 Wilson Street, London, EC2M 2SN.

(b) Non-controlling interests in subsidiaries
There were no non-controlling interests at the end of 2022 or 2021.

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.

31 December 2022 Location	Turnover (£m)	Number FTE employees	Profit/(loss) before tax (£m)	Tax paid (£m)
Arbuthnot Latham Banking	123.3	732	20.0	2.1

31 December 2021 Location	Turnover (£m)	Number FTE employees	Profit/(loss) before tax (£m)	Tax paid (£m)
Arbuthnot Latham Banking	84.8	581	5.2	2.6
Dubai - Branch	-	6	(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 £nil profit (2021: £0.4m). No public subsidies were received during 2022 or 2021.

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 56.3% of the issued Ordinary share capital of Arbuthnot Banking Group PLC and is regarded by the Directors as the controlling entity. A copy of the consolidated financial statements of Arbuthnot Banking Group PLC may be obtained from 7 Wilson Street, London, EC2M 2SN.

46. Events after the balance sheet date

Following a strategic review of the business, the management has taken the decision to exit the short-term specialist lending market and as a result, Arbuthnot Specialist Finance Limited (ASFL) will be closed to new business with immediate effect as formally communicated at 11 January 2023. The exiting loan book will be managed down over the coming months and any current undrawn commitments will be honoured. The wind-down of the major part of the lending book is anticipated to take a number of months.