ARBUTHNOT LATHAM
Bankers since 1833

Arbuthnot Latham & Co., Limited

Annual Report for the year ended 31 December 2020

Registered Number 00819519

Contents

Company Information

Directors

Sir Henry Angest (Chairman)

Andrew A Salmon (Chief Executive)

James R Cobb (Deputy Chief Executive)

Stephen Fletcher (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)

Sir Michael C G Peat (Independent Non-Executive Director)

Secretary

Nicholas Jennings

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Auditor

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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 private banking, including wealth management and planning, private banking, commercial banking, asset financing, asset based lending and specialist finance. The Bank's strategy is to grow its existing business units, and continue to diversify its income streams into other areas of financial services.

Group Key Metrics	2020 £m	2019 £m
Operating income	75.1	74.2
Other income	1.5	5.0
Operating expenses	75.0	72.8
(Loss)/Profit before tax	(1.2)	5.6
Customer loans	1,599.3	1,610.6
Customer deposits	2,391.9	2,112.2
Total Assets	2,855.0	2,584.2
Term Funding Scheme	225.0	225.0
Key Performance Indicators		
Assets under management	1,147.5	1,107.3
Average net margin	4.1%	4.5%
Loan to deposit ratio	66.9%	76.3%
Loan to total funding ratio*	61.1%	68.9%
Impairment loss rate on customer loans	0.18%	0.05%
Average LTV on property backed loans	53.4%	51.1%
Liquidity Coverage Ratio	234%	269%
Tier 1 capital ratio	14.3%	13.1%
Total capital ratio	16.4%	15.1%

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

Arbuthnot Latham & Co., Ltd has reported a profit before tax and Group recharges of £8.3m (2019: £16.2m profit).

The decline in profit against the prior year can largely be attributed to two factors. Firstly, the fall in the Bank of England Base Rate from 0.75% to a historic low of 0.1% in March resulted in a reduction of interest generated from the loan book of £6.7m as loans for the majority of the portfolio repriced to lower rates. Secondly, this was compounded further by Arbuthnot Latham's cautious approach to liquidity; by maintaining high levels of cash reserves at the Bank of England as opposed to placing them in the higher yielding wholesale money markets or operating at higher loan to deposit ratios. This strategy cost the Bank a further £3.6m. Whilst this cautious approach means that we may forgo a small amount of potential revenues, it has protected the bank during periods of economic uncertainty and we continue to favour maintaining strong capital and liquidity positions to generate and protect value over the long-term. Additionally, in response to the emergence of the pandemic the Bank significantly reduced its credit appetite due to uncertainty in the global economy. In the third quarter the Bank re-instated its credit appetite to pre-pandemic levels and re-entered the lending markets, underwriting deals with strong fundamentals and where it could place certainty on valuations. As a result of the fall in profitability, management has responded by not awarding any discretionary bonus payments to employees.

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Other Income reduced by £3.5m from the prior year. In 2020 the Group started a significant refurbishment programme on one of its properties carried as inventory, King Street, which is expected to complete in the middle of 2021. This resulted in reduced rental income of £1.5m compared to the prior year. The prior year also included £1.5m for the adjustment of the RAF management earn out liability.

Despite the reduced lending activity the Bank grew its deposit balances by 13% in the year. A strong deposit base with balances in excess of £2bn was maintained throughout 2020 with the Commercial business exceeding £1bn in deposits for the first time during the year. Assets Under Management ("AUM") also increased by 4% in the year.

The average net margin for the Bank fell by 40bps from 4.5% to 4.1%. This was as a result of reduced yields from lending linked to BOE base rate somewhat offset by the average cost of deposits falling from 0.66% to 0.54%.

In support of the Government's unprecedented financial assistance package in response to the global pandemic, Arbuthnot Latham and Arbuthnot Commercial Asset Based Lending ("ACABL") became accredited lenders for the British Business Bank's Coronavirus Business Interruption Loan ("CBILs") and Bounce Bank Loan ("BBLs") schemes. A total of £20.8m of CBIL and £12.3m of BBL loans were issued across the Group during 2020 to 301 existing and new to bank SME clients.

Credit provisions increased to £2.8m for the year (2019: £0.9m). £1.2m of the charge was in Renaissance Asset Finance ("RAF") mainly as a result of its exposure to the London Taxi market which has experienced significant slow-down from the pandemic. In response to wider economic uncertainty, the Bank also revised its future economic scenarios as part of its IFRS9 expected credit losses assessment. The Bank has applied an average net decline of 5.5% compared to 1.8% in 2019 for its UK property based lending, which resulted in an increase in provisions of £0.3m.

The Bank's strategy to maintain strong levels of capital and liquidity allowed it to take advantage of the opportunity to acquire Asset Alliance Group Holdings Limited, a business based in Wolverhampton that specialises in leasing commercial trucks, buses and coaches across various sectors, with a current portfolio of around 4,000 vehicles. The Bank has received all necessary regulatory approval and the acquisition is planned to complete on 31 March 2021.

During the year the Bank also launched its rebranded website and observed internet traffic of up to 20,000 visitors a month. The brand evolution and the current digital marketing campaign have been shown to boost the Bank in the search rankings and is generating more client introductions to the business.

Banking

During the year the Group changed the way it manages and reports the Banking sector, combining the Private Banking and Commercial Banking sector into a single Banking sector. This is the level at which management decisions are made and how the Group will manage the overall business sectors going forward with the anticipated growth in subsidiary businesses.

The Private Bank's loan book returned to growth in 2020 reporting a modest increase of 1.3% to finish the year at £576m. The Bank continued to develop its strategy for a relationship-led service for clients who value the proposition. It continued to deepen existing relationships, as well as acquiring new criteria clients, with the latter continuing at the same pace as pre-pandemic levels. The Bank refused to compromise on its pricing models to attract new or retain existing lending, as well as taking a conservative stance on credit decisions given the economic uncertainty.

Private Banking deposits increased 4% to £1,080m. Following the base rate reduction in 2020, the business deployed a strategy to effectively manage the cost of deposits down whilst growing overall balances from existing and new clients.

The Commercial Bank loan book increased by 5.7% to £557m. This was against the backdrop of the pandemic and strategically moving the emphasis away from commercial real estate towards professional buy to let landlords. At the outset of the pandemic the immediate focus of the relationship teams was to support existing clients with payment deferrals or additional finance, to support them during short-term difficulties. As part of its accreditation to the Government's Coronavirus Business Support Schemes the business issued 278 BBL loans totalling £12.3m.

Commercial Banking deposits increased by £255m in 2020 to exceed £1bn and finish the year with balances totalling £1,079m. The cost of deposits was closely managed by growing existing relationships as well as attracting new criteria clients to the Commercial Bank.

Wealth Management

Assets Under Management ("AUM") increased by during 2020 in part due to record gross inflows nearly 10% higher than the prior year and representing 14% of AUM at the start of the year.

Despite volatility in global equity markets, Wealth Management continued to attract new criteria clients requiring Wealth Planning and Investment Management services, The Investment Management division saw net inflows of client assets (excluding market movement) increase AUM to close the year at a record £1.15bn.

Wealth planning fees were £0.4m supporting £54m of gross AUM flows into Investment Management. The business completed its first full year providing event based financial planning with clients paying for each piece of specific advice on a transactional basis with no ongoing advice fees attached.

The business continued to offer bespoke advice with client services delivered through virtual client meetings. The online client experience has been well received and clients have responded positively with over 600 client consultations taking place in the year.

Investment returns for 2020 recovered steadily from the March lows, with strong gains in the final quarter. All investment services recorded positive absolute returns for the calendar year.

The business also launched its Investor Visa Service in the fourth quarter, which comprised a series of risk managed discretionary portfolios specifically designed to comply with the Home Office's requirements for Tier 1 Investor Visas.

The number of Banking clients grew in 2020, with 789 new clients which was approximately the same level as seen in 2019. Similarly, the number of Investment Management clients grew by 5.6% in the year.

Dubai

Following a strategic review of its international representation the Bank concluded that in the current market the Dubai office no longer fitted with its future growth plans and so consequently took the decision to close the Dubai office.

The business has generated a good volume of client relationships for the Bank. However, its contribution versus its high cost base makes it unviable for the Bank's future growth aspirations. Existing client assets have always been held in London and will now be serviced from the London office. The office is scheduled to close at the end of May 2021.

Mortgage Portfolios

The Santiago mortgage portfolio acquired in August 2019 performed as expected generating a gross yield of 3.5% consistent with the prior year (2019: 3.8%). Customers taking advantage of payment holidays as a result of the Pandemic peaked at 27% during the year falling to 1.7% at the year end.

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After being approached by Charter Court Financial Services Ltd (a subsidiary of OneSavings Bank), who provide the third party servicing of the portfolio, the Bank decided to sell the Tay portfolio as the yield had declined and it was becoming uneconomical to service. The sale completed on 26 February 2021 and generated a net gain of £2.2m for the 2021 financial year.

Renaissance Asset Finance ("RAF")

Renaissance Asset finance reported a profit of £2.3m (2019: £2.1m). The combined effects of a decline in vehicle and capital equipment demand from the SME sector together with a tightened approach to risk resulted in customer loan balances falling to £91.9m (2019: £102.2m) as amortisation of the existing loans exceeded new lending. It is expected that the decline will stabilise and then reverse as increased levels of new business activity return and as business sectors such as those involved in food distribution, internet delivery, the essential services and IT sectors experience an increased demand for asset finance facilities.

At the peak of the pandemic RAF saw 71% of its loan balances under forbearance measures. This fell to 16.7% at the year end. It is apparent that business sectors such as the London taxi market, which alone accounts for 86% of loan balances under forbearance, along with hospitality and media have been more impacted than others and are taking a longer time to recover. As a consequence, credit provisions have increased to £1.2m for the year compared to £0.7m for the previous year due to increased IFRS 9 Stage 2 provisions.

Despite the reduction in loan book and additional provisions required under IFRS 9 the business remained profitable. Lead indicators have continued to show good performance with no erosion of margin on new business written, remaining stable at 8% (2019: 8%). Credit quality of new originations has improved due to a revised credit appetite and reduced competition from other asset finance providers – especially those independent non bank owned funders.

Arbuthnot Commercial Asset Based Lending

ACABL continued to generate monthly profits throughout 2020 and during the year recovered all start-up costs incurred.

The business completed 21 new transactions with facilities totalling £92m. In addition, following the accreditation by the British Business Bank in June to provide CBILs, the business wrote 23 CBIL loans totalling £20.8m to both existing clients and as part of financing structures to attract new clients.

The client base at the year end stood at 55, representing a 60% increase on 2019, with total facility limits of £244m, an 87% increase against the prior year. Since inception, the business has generated clients from 29 different sectors, underlining the spread and diverse nature of the book.

At the year end, the business reported drawn balances of £87.3m with a further £60.4m available for drawdown. This is an increase of 50% from £103.4m at the end of 2019.

During the year the business made 5,500 payments to clients totalling £750m, a 66% increase.

Maintaining a low client to portfolio manager ratio has enabled the team to support clients effectively throughout the pandemic, responding quickly to individual circumstances and challenges, while ensuring prudent risk management. This personal, service-driven approach is supported by an advanced technology-led front end system that has allowed clients to provide data from their accounting systems daily, enabling them to view their available funds and draw down remotely, throughout the lockdown.

Arbuthnot Specialist Finance Limited ("ASFL")

ASFL was only established in 2019 and then due to the economic environment resulting from the pandemic ASFLs credit appetite was severely curtailed which significantly supressed new lending volumes.

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The business restored its credit appetite early in the fourth quarter and received a strong level of new business enquiries month on month which converted into a pipeline of business expected to draw in early 2021.

Operations & Technology

As a result of the pandemic, the Bank responded with a rapid move to remote working in March 2020. Due to a number of years of continuing investment in IT systems, with a focus on ensuring strong levels of resilience and the ability to respond quickly to incidents, the Bank was able to move relatively quickly to all employees working remotely.

The Bank continued to invest in new IT systems and upgrading the underlying IT infrastructure and networks. In July 2020 a new Salesforce CRM platform was launched, providing employees with easier access to client information and providing automated case management for a large number of the operational processes used to fulfil clients' requests.

Despite the extended period of people working remotely, a high level of operational performance over the year continued to be maintained, with an effective control environment and a strong focus on supporting clients through the significant period of disruption.

Non card payments increased by 13.1% and as a result the Bank processed nearly 390,000 transactions, which is attributed to changes in customer behaviour as a result of the pandemic. Over 85% of these transactions were instructed via the online banking system. Unsurprisingly, due to the more limited access to high street retailers, there were 126,796 fewer card transactions made in 2020 when compared to 2019 and spending levels on cards still show little sign of returning to pre-pandemic levels. To support card holders, a new card app was launched in the Spring of 2020, providing clients with functionality to manage their cards online.

To improve the client experience when using online and mobile banking, an upgrade to the Mobile Banking App was delivered in the Autumn of 2020 and in December the Bank upgraded its payment systems, enabling clients to send and receive faster payments at all times, having previously only offered this service within traditional banking business hours. To support this, access to client support teams was extended beyond standard banking hours.

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 stakeholders we consider in this regard are our shareholder, Arbuthnot Banking Group PLC (ABG), of which the Company is a wholly owned subsidiary, and its shareholders, our employees, customers, suppliers, regulators and the environment in which we operate.

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The Arbuthnot Principles and Values set out on page 1 of the Annual Report of ABG, the Company's holding company explain the Board's approach to its stakeholders. Details of how the Directors had regard to the interests of its key stakeholders during the year are set out below, in the Group Directors Report on page 19.

Likely consequences of any decision in the long term

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

In November 2020, notwithstanding the uncertainties arising from the pandemic and Brexit, the Board approved the acquisition of Asset Alliance Group Holdings. It judged this to be complementary to the Group's strategy to diversify its income stream with higher yielding assets, whilst not affecting its risk profile. It was also seen as a typical Arbuthnot opportunistic moment to buy a good business, constrained by external uncertainties and by funding which the Bank is able to supply.

Secondly the Board reaffirmed its decision, taken as part of the annual budget, to maintain significant investment in modern technology in order to grow the Group's businesses, principally the new integrated Client Relationship Management (CRM) platform introduced in July. Investment in technology continued with the roll out ahead of the first national lockdown of Microsoft 365, including Teams for meetings, which enabled efficient remote working. Amortisation of this investment began at a time of pressure on the Group's profitability due to the shortfall in income resulting from the impact on margins of the Bank of England base rate cuts in March 2020. Income was further reduced by the absence of growth in lending as a result of the decision to tighten credit appetites which was relaxed in September once the impact of the unprecedented extent of Government intervention in the economy became known. This typically cautious long-term approach led to a slower recovery from the damaging impact of the base rate cuts than would have otherwise occurred.

A further illustration of the balancing of the interests of our stakeholders in their long term interest was the decision to withdraw the final dividend proposed in March 2020. This followed the decision of the board of ABG to withdraw its second interim dividend in response to the statement by the PRA on deposit takers' approach to dividends since the Board had previously agreed that the Company would fund ABG's dividends to its shareholders. Following the relaxation of the PRA's position in December 2020, advising that it is for bank boards to determine the appropriate level of distributions, the Board decided in February 2021 to pay the withdrawn dividend which related to 2019 profits and also not to recommend a final dividend for 2020. The Board will continue to consider any future dividends to the Company's shareholder in a prudent manner, ensuring they are properly planned in line with business growth and potential bad debt experience.

Interests of the Company's employees

The Board receives an update on human resource matters at each of its meetings. Early on in the pandemic, the decision was taken to prioritise job retention and not to furlough any staff, whilst awarding no bonuses for 2020, in order to protect the business. There were regular communications during the year including two Employee Surveys undertaken in order to support staff, reassure them over job security and to seek their views on the eventual return to office working. Each survey showed high engagement and positive responses, reflecting the efforts made to reassure employees by communicating the decisions made to look after them during the period of remote working. In the first survey in April, 94% of staff responded with 90% satisfied. 89% of employees agreed that they had been provided with the necessary IT support to work remotely, within a reasonable timeframe. From the comments received, there was a strong sense that communication had been clear, regular and consistent and had a strong focus on employee wellbeing. There were similarly good responses to the second survey in September which included questions on interest in remote working in future with 92% of employees proud to work for the Group, up from 83% in 2019.

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 20, 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.

Company's business relationships with suppliers, customers and others

The Directors attach great importance to good relations with customers and business partners. In particular, our clients are integral to our business and forging and maintaining client relationships are core to Arbuthnot Latham's business and crucial for client retention. Regular contact was maintained with clients during the year providing support where possible, mainly by telephone following the closure of offices and some via Microsoft Teams. In the summer months, our bankers were able to meet some clients in their gardens. It was decided that the Bank should apply for approval into the Government Loan Schemes (BBLs and CBILs), administered by the British Business Bank, as this was important in being able to meet client expectations.

As their needs and expectations change, clients now demand access to their bank and relationship managers through a variety of channels and expect efficient and streamlined processes supported by state of the art technology. Hence the decision in 2019 to invest in the adoption of modern and integrated CRM technology with the potential to improve significantly front-office operations and help support existing and new clients better. This project was delivered during 2020 with all the training material both created and consumed remotely.

In July the Board approved a new relationship with a clearing bank as part of the move to an Extended Hours Service which was launched in December whereby customers are now able to send and receive faster payments 24 hours a day, seven days a week, with the Banking Support team on hand for longer, to assist with online banking-related queries.

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 each 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 including regular fortnightly calls by the Finance Director and Chief Risk Officer with the PRA Supervisory team throughout the pandemic. The Board received and considered feedback, following the PRA's Periodic Summary Meeting, reviewing the risk profile of the Bank, and agreed to address the composition of the Risk Committee by appointing an additional non-executive director, Angela Knight, to it.

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

As a financial services company our impact on the environment is limited. Nevertheless, there is growing consensus that an orderly transition to a low-carbon economy will bring structural adjustments to the global economy which will have financial implications, bringing both risks and opportunities. Accordingly, in September, the Board considered a report on the Strategic Review of Climate Change Opportunities Report, following consideration by the Executive Directors of the Group's strategic response to climate change as part of the annual strategy and budget process.

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 and Values on page 1 of ABG's Annual report manifests itself at Board level and in the external view of the Group as a whole. The critical importance of the Company's continuing good reputation is considered at each Board meeting. In February 2020 the Board approved the Group's cultural values, encapsulating these Principles in five Group values, themselves embedded into day-to-day activities. These values are integrity, respect, empowerment, energy and drive, and collaboration.

Strategic Report – Financial Review

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

The Group provides a range of financial services to clients and customers in its chosen markets of Banking, Wealth Management, Asset Finance, Asset Based Lending and Specialist Lending. 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	2020 £000	2019 £000
Net interest income	60,668	60,398
Net fee and commission income	14,442	13,828
Operating income	75,110	74,226
Other income	1,518	5,019
Operating expenses	(75,000)	(72,767)
Impairment losses - loans and advances to customers	(2,849)	(867)
Profit before tax	(1,221)	5,611
Income tax expense	979	(238)
Profit for the year	(242)	5,373

Underlying profit reconciliation	2020 £000	2019 £000
Profit before tax	(1,221)	5,611
Exceptional reduction in BoE Base Rate	10,335	-
Parent recharge surplus	9,537	5,325
Suspension of discretionary bonus payments	(4,498)	-
Loss of STB dividend	168	-
Cost of establishing AL new ventures	1,012	1,208
Loss of rental income during refurbishment work	1,494	629
Costs relating to acquisition of Asset Alliance	991	-
Underlying profit	**17,818**	**12,773**

The Group has reported a loss before tax of £1.2m (2019: profit of £5.6m). The underlying profit before tax was £17.8m (2019: profit of £12.8m).

The results for the year were overshadowed by the impact of COVID-19, which negatively impacted the Group in four ways. Firstly, the Bank of England Base Rate reduction from 0.75% to historical lows of 0.1% cost the Group an estimated £10.3m. The majority of loans to customers repriced to lower rates reducing interest income by £6.7m. At the same time the Group continued its cautious approach to liquidity, maintaining low loan to deposit ratios and keeping high levels of cash reserves at the Bank of England. At the start of the pandemic, the Group made the conscious decision to further increase liquidity while economic uncertainty remains. Surplus liquidity resources above the minimum Regulatory requirement increased from £300m at the end of March to in excess of £600m at the end of December, which in turn exacerbated the impact of the reduction in the Bank of England Base Rate. The reduced income on excess liquidity resources made up the remaining £3.6m of lost revenue.

Secondly, in response to the emergence of the pandemic, in the second quarter the Bank significantly reduced its credit appetite due to uncertainty in the global economy. As a result, the loan book remained flat from 2019 at £1.6bn.

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Thirdly, credit provisions required under IFRS 9 increased by £2m from the prior year. £1.1m of the charge was recorded in Renaissance Asset Finance, mainly as a result of its exposure to the London taxi market, as the sector experienced significant slow-down due to the pandemic. Due to wider economic uncertainty caused by the COVID-19 outbreak, the probability weighting and the future economic scenarios modelled in the IFRS 9 expected credit loss assessment were revised. This resulted in an average net decline in property prices of 5.5% compared to 1.8% in 2019, increasing provisions by £0.3m.

Following the PRA's statement in 2020, Secure Trust Bank did not pay a dividend in 2020, reducing income on our financial investment by £0.2m compared to 2019.

The Group has prudently implemented cost control measures to offset the lost revenue caused by the pandemic, which included the cancellation of discretionary staff bonuses for 2020. However, no staff have been placed on furlough or been made redundant in 2020.

Other than the impacts from COVID-19 on the Group listed above, there were also one-off items included that need further explanation to understand the movement in the underlying results.

Further investment into ASFL lowered the reported profits by £1.0m (2019: £1.2m). The pandemic also significantly reduced credit appetite in this business unit and as a result lending volumes were subdued and customer balances reduced by £1.4m from 2019. In the fourth quarter credit appetite returned with strong levels of new business enquiries received, which converted into pipeline business expected to draw in early 2021.

In 2020 the Group started a significant refurbishment programme on one of its properties carried as inventory, King Street, which is expected to complete in the middle of 2021. This resulted in reduced rental income of £1.5m compared to the prior year.

Strong levels of capital and liquidity allowed the Group to take advantage of the opportunity to acquire Asset Alliance Group Holdings Limited, which will complete on 31 March 2021. This business is expected to significantly contribute to Group profitability. The current year results include £1m of costs relating to the acquisition.

Finally, the prior year underlying profit reconciliation includes £1.5m relating to the adjustment of the RAF management earn out liability.

Total operating income earned by the Group remained flat at £75.1m. The average net margin on lending was 4.1%, down from the 4.5% recorded in 2019. This was as a result of reduced yields on lending linked to the BoE base rate, partly offset by the cost of deposits falling from 0.66% to 0.54%. Fees and commissions increased by £0.6m to £14.4m, due to growth in ACABL. During the course of the year AUM increased £40m to £1.15bn (2019: £1.11bn).

The Group's operating expenses increased by £2.2m or 3.1% from 2019. This is largely as a result of the full year impact from 2019 employee hires and 2020 employee hires, together with the acquisition costs of £1m associated with Asset Alliance Group Holdings Limited.

Balance Sheet Strength

Summarised Balance Sheet	2020 £000	2019 £000
Assets		
Loans and advances to customers	1,599,349	1,610,553
Liquid assets	1,091,743	815,112
Other assets	163,946	158,490
Total assets	**2,855,038**	**2,584,155**
Liabilities		
Customer deposits	2,391,861	2,112,197
Other liabilities	280,533	287,918
Total liabilities	2,672,394	2,400,115
Equity	182,644	184,040
Total equity and liabilities	**2,855,038**	**2,584,155**

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Total assets increased to £2.9bn (2019: £2.6bn), which was mainly as a result of the growth of customer deposits with the resultant excess funds placed on deposit at the Bank of England. 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 (2019: £6.8m). Also included in other assets are £88m of properties classified as inventory (2019: £75.2m). These properties are being refurbished with a view to sell. Other assets and other liabilities also include £17.7m (2019: £19.4m) and £18.3m (2019: £19.8m) respectively relating to right-of-use assets and lease liabilities. This is as the result of the implementation of IFRS 16 (leases) in 2019.

Segmental Analysis
The Group is organised into seven operating segments as disclosed below:

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

During the year the Group changed the way it manages and reports the Banking business, combining the Private Banking and Commercial Banking into a single Banking segment. This is the level at which management decisions are made and how the Group will manage the overall business going forward with the anticipated growth in subsidiary businesses. The comparative numbers for the Banking division have therefore been restated to include Private and Commercial Banking.

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	2020 £000	2019 £000
Net interest income	42,039	45,258
Net fee and commission income	11,369	11,801
Operating income	53,408	57,059
Operating expenses	(49,507)	(46,685)
Impairment losses - loans and advances to customers	(1,576)	(165)
Profit before tax	**2,325**	**10,209**
Loans and advances to customers	**1,133,799**	**1,106,887**
Customer deposits	**2,159,160**	**1,863,232**

Banking reported a profit before tax of £2.3m (2019: £10.2m). This is a decrease of £7.9m or 77%. This decrease is largely due to lower interest income earned on lending balances and excess customer deposits placed at the Bank of England, due to the reduction in the Bank of England Base Rate.

AUM remained flat at £1.1bn and as a result fee and commission income remained fairly flat year on year at £11.4m (2019: £11.8m).

Strategic Report – Financial Review

An increase in indirect costs of £5.9m was partially offset by a decrease in direct costs as a result of the suspension of bonus payments of £2.4m. Indirect costs from support departments increased due to the full year impact of 2019 and 2020 staff hires and the costs associated with various IT projects. The average customer yield was 4.1% (2019: 4.5%).

The customer loan balances increased by £27m to £1,134m and customer deposits also increased to £2,159m (2019: £1,863m). The average loan to value was 53.4% (2019: 54%).

The Dubai office is scheduled to close at the end of May following a strategic review. The business introduced a high number of new client relationships to the Bank, but it was decided that the high cost base could be applied more effectively in other areas of the Group to contribute towards the future growth plans.

RAF

Summarised Income Statement	2020 £000	2019 £000
Net interest income	6,021	5,873
Net fee and commission income	130	207
Operating income	6,151	6,080
Other income	73	64
Operating expenses	(2,975)	(3,577)
Impairment losses - loans and advances to customers	(1,154)	(708)
Profit before tax	2,095	1,859
Loans and advances to customers	91,926	102,888

Renaissance Asset Finance recorded a profit before tax of £2.1m (2019: £1.9m), which is an increase of 13% from the previous year and includes a number of early redemption fees as loans were settled early as borrowers took switched to the government lending schemes to lower their cost of funding.

Net interest income increased by £0.1m. Operating costs decreased by £0.6m. Impairments increased from £0.7m to £1.2m due to increased IFRS 9 provisions, mainly as a result of the exposure to the London taxi market. Due to the pandemic loan balances under forbearance measures peaked at 71% during the year and closed at 17% at year-end.

The customer loan balances decreased by 11% to close the year at £91.9m (2019: £102.9m) and the average yield for 2020 was 8.9%, compared to 9.1% for 2019. The reduction in customer loan balances was the combined result of lower demand from the SME sector together with revised credit appetite as a result of the pandemic. Reduced competition from other asset finance providers, the return of business activity in affected sectors as well as new business activity from business sectors experiencing growth for example food distribution, internet delivery, the essential services and IT sectors, are all expected to stabilise and contribute to future growth of the loan book.

Asset Based Lending

Summarised Income Statement	2020 £000	2019 £000
Net interest income	2,692	1,342
Net fee and commission income	2,443	1,380
Operating income	5,135	2,722
Operating expenses	(3,130)	(2,708)
Impairment losses - loans and advances to customers	-	10
Profit before tax	**2,005**	**24**
Loans and advances to customers	**87,331**	**75,871**

Strategic Report – Financial Review

ACABL recorded a £2m profit before tax (2019: £24k) and also during the year achieved positive cumulative reserves.

Customer loan balances increased to £87.3m (2019: £75.9m) at the end of the year, with issued facilities increasing to £243.8m from £130.1m in 2019.

Arbuthnot Specialist Finance

Summarised Income Statement	2020 £000	2019 £000
Net interest income	536	71
Net fee and commission income	3	-
Operating income	539	71
Operating expenses	(1,547)	(1,275)
Impairment losses - loans and advances to customers	(4)	(4)
Loss before tax	**(1,012)**	**(1,208)**
Loans and advances to customers	**5,964**	**7,352**

ASFL recorded a loss before tax of £1.0m (2019: loss of £1.2m), as the Group continues to fund the start-up costs for this business.

Customer loan balances closed the year at £6.0m (2019: £7.4m). Higher interest income from the full year impact of 2019 drawn balances, was partly offset by increased costs. Reduced credit appetite due to the pandemic resulted in lower than expected customer balances, but revised appetite in Q4 has led to increased business enquiries, which are expected to draw down in early 2021.

Strategic Report – Financial Review

Mortgage Portfolios

Summarised Income Statement	2020 £000	2019 £000
Net interest income	5,951	4,113
Operating income	5,951	4,113
Operating expenses	(1,624)	(807)
Impairment losses - loans and advances to customers	(115)	-
Profit before tax	**4,212**	**3,306**
Loans and advances to customers	**268,827**	**306,044**

Mortgage Portfolios

The Mortgage Portfolios reported a profit of £4.2m (2019: £3.3m). This is an increase on the prior year of 27%, mainly as a result of the full year impact of the Santiago mortgage portfolio acquired in August 2019. The Santiago mortgage portfolio performed as expected generating a gross yield of 3.5% (2019: 3.8%). Customers taking advantage of payment holidays as a result of COVID-19 peaked at 27% in the year and closed the year at 1.7%.

On 26 February 2021 the Group agreed terms to sell the Tay mortgage portfolio to a subsidiary of OneSavings Bank. The portfolio was reaching the point of becoming subscale in terms of servicing and the yield had declined. The sale generated a net gain of £2.2m, although future revenues will be forgone.

Other Divisions

Summarised Income Statement	2020 £000	2019 £000
Net interest income	3,389	3,738
Net fee and commission income	537	443
Operating income	3,926	4,181
Other income	1,445	4,955
Operating expenses	(6,680)	(7,170)
Profit before tax	(1,309)	1,966
Loans and advances to customers	11,501	11,511
Treasury Assets	981,491	768,868
Investment Property	6,550	6,763
Other Assets	67,203	63,219
Total Assets	1,066,745	850,361
Customer deposits	232,701	248,965
Term Funding Scheme	225,000	225,000
Other liabilities	770	1,528
Total Liabilities	458,471	475,493

The Group costs increased to £9.4m (2019: £9.1m). The full year impact of the subordinated loan issued in 2019, increased costs by £0.8m.

No dividends were received from STB during the year due to the ongoing pandemic, which reduced other income by £0.2m.

The increased costs and loss of other income was partially offset by the suspension of bonuses, which reduced operating expenses by £1.5m.

Strategic Report – Financial Review

Capital ratios	2020 £000	2019 £000
Common Equity Tier 1 Capital	184,316	185,147
Deductions	(18,830)	(25,279)
Common Equity Tier 1 capital after deductions	165,486	159,868
Tier 2 capital	24,308	24,239
Own Funds	189,794	184,107
Common Equity Tier 1 capital ratio (Common Equity Tier 1 capital/Total Risk Exposure)	**14.3%**	**13.1%**
Total Capital Ratio (Own Funds/Total Risk Exposure)	**16.4%**	**15.1%**

Liquidity
The Group's prudent approach to liquidity management continued with client loans at 61.0% (2019: 68.9%) of the Group's funding base which consists of client deposits and Bank of England Term Funding Scheme ("TFS") borrowings. The Group's TFS drawings were £225m at the year end (2019: £225m). The TFS funding has a duration of four years, and is supported by property backed loan collateral and debt securities. Access to the TFS closed in early 2018.

The LCR decreased to 234% as the year end (2019: 269%) against a regulatory requirement of 100%.

Strategic Report – Financial Review

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 its 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 risks that may arise from the macroeconomic and competitive environment.

Coronavirus
The COVID-19 pandemic has had, and continues to have, a material impact on all businesses around the world and the markets in which they operate. There are a number of factors associated with the pandemic and its impact on global economics that could have a material adverse effect on (among other things) the profitability, capital and liquidity of financial institutions.

To ensure an appropriate response to the pandemic, management scrutinised key risks emerging from the crisis and their impact on the Group's risk profile. The Board's discussions focused on operational resilience, liquidity and funding considerations, customer vulnerability, and the impact of material increases in forbearance requests on the Group's credit portfolios and on its operational capacity.

The pandemic has caused disruption to the Group's clients, suppliers and employees globally. The markets in which the Group operates have implemented severe restrictions on the movement of their respective populations, with a resultant significant impact on economic activity. These restrictions are being determined by the governments of individual jurisdictions (including through the implementation of emergency powers) and impacts (including the timing of implementation and any subsequent lifting of restrictions) may vary from jurisdiction to jurisdiction.

Schemes have been initiated by the Bank of England, national governments and regulators to provide financial support to parts of the economy most impacted by the COVID-19 pandemic. These schemes have been designed and implemented at pace, which has allowed the Group to continue meeting clients' requirements with employees monitoring operational issues which may arise in their implementation.

Furthermore, the Group relies on models to support a broad range of business and risk management activities, including informing business decisions and strategies, measuring and limiting risk, valuing exposures (including the calculation of impairment), conducting stress testing and assessing capital adequacy. Management regularly meet to discuss the impact of COVID-19 and review data to mitigate any potential negative effects.

The details of how these schemes will impact the Group's clients in the long term remains uncertain at this stage. However, certain actions (such as the introduction of payment holidays for certain lending products or the cancellation or waiver of fees associated with certain products) may impact the effective interest rate earned on certain of the Group's portfolios and fee income being earned on certain products.

The significant business risks that may arise from the economic shock in addition to the reduction in interest rates as detailed in the Strategic Report are:

a) Increased credit risk as borrowers are unable to continue to meet their interest obligations as they fall due. It is also currently unclear precisely how the withdrawal of the Government's announced package of measures will affect this clear risk.

b) The uncertainty in the economy could result in a significant fall in the collateral values of our security held against the loans. At the beginning of the pandemic the Royal Institute of Charter Surveyors ("RICS") issued a statement suggesting that any valuations they may produce in the current environment would be subject to a warning that the values vary significantly. However, property prices have held up and transaction volumes and other relevant evidence is starting to return to levels adequate to base valuation opinions on. Also, the average loan to value of our property backed lending book is 53.4%, so to have a material impact, this fall in collateral values would have to be severe and prolonged.

c) A prolonged reduction in business activity will affect our ability to generate new business opportunities, in which case repayments in our current lending portfolios will be greater than new originations, which will lead to an overall fall in the Group's customer lending balances and the associated revenue that this generates. At the start of the pandemic the Group significantly reduced its credit appetite due to uncertainty in the global economy, which resulted in the loan book remaining flat from the prior year. However, since re-instating credit appetite to pre-pandemic levels in the third quarter, the Group has generated a significant pipeline of business.

d) The economic shock could also lead to a fall in valuations in the Groups investment properties and those properties held in inventory. As mentioned under point (b) above, transaction volumes are starting to return and property prices have held up since the start of the pandemic more than a year ago.

e) As the revenues earned by the Group's Investment Management business are directly linked to the balances managed on behalf of our clients, any reduction in these values due to market movements will have a corresponding impact on these revenues. AUM initially reduced to close the first half 3% down from what was reported at 31 December 2019, however, despite market volatility, the Wealth Management team continued to attract criteria clients and AUMs closed the year 4% ahead of the prior year.

Brexit

The Brexit transition period came to an end on 31 December 2020 and the EU and UK agreed the Trade and Cooperation Agreement on 24 December 2020, which is provisionally applicable from 1 January 2021. There is still some uncertainty around the long term consequences of Brexit. The Group's only overseas operation in Dubai is in the process of being closed, so the vast majority of the Group's income and expenditure is based in the UK. The Group will continue to monitor the implications of Brexit on the wider economy as the future relationship with the EU develops.

Climate change

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

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

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

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

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

Strategic risk

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

Credit risk

Credit risk is the risk that a counterparty (borrower) will be unable to pay amounts in full when due. This risk exists in Arbuthnot Latham, which currently has a loan book of £1,599m (2019: £1,611m). The majority of Arbuthnot Latham's lending portfolio is secured against cash, property or other high quality assets. Credit risk is managed through the Credit Committee.

Market risk

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

The Group is exposed to changes in the market value of its properties. The current carrying value of Investment Property is £6.6m and properties classified as inventory are carried at £88m. 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.

The Group has a 1.1% interest in Secure Trust Bank. This is currently recorded in the Group's balance sheet as a Financial Investment. The carrying value is adjusted to market value at each balance sheet date, according to the share price of Secure Trust Bank. Any gains or losses that arise are recorded in Other Comprehensive Income.

Liquidity risk

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

Operational risk

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

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

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

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.

Strategic Report – Financial Review

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

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

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

Regulatory change also exists as a risk to the Group's business. Notwithstanding the assessments carried out by the Group to manage the 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.

James Cobb
James Cobb (Mar 24, 2021 21:48 GMT)

JR Cobb
Finance Director
24 March 2021

Directors' Report

The Directors present their report for the year ended 31 December 2020.

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 18.

Results and Dividends
The results for the year are shown on page 37. The loss after tax for the year of £0.2m (2019: £5.4m (profit) is included in reserves.

The Directors do not propose the payment of a dividend for the year and none was paid in the year (2019: 16.0402848p). The final dividend recommended by the Directors in last year's Annual Report was withdrawn, prior to the AGM, following the publication by the PRA of a statement on deposit takers' approach to dividends. This dividend of 21p per share, based on the profits reported in 2019, was paid on 18 March 2021, following the PRA statement in December 2020, advising that it is for bank boards to determine the appropriate level of distributions and removing its request not to make shareholder distributions.

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

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

Articles of Association
The Company adopted new articles of association by special resolution of the shareholders in September 2018.

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

Sir Henry Angest	Chairman
AA Salmon	Chief Executive
JR Cobb	Finance Director
DP Dagg	
SJ Fletcher	
SP Kelly	Chief Risk Officer
RK Gabbertas	
AA Knight	
P Marrow	
Sir Michael Peat	

Mr. R.K. Gabbertas was appointed to the Board on 17 November 2020. All the other Directors were directors of the Company throughout the year. Sir Michael Peat will be standing down as a Director at the forthcoming Annual General Meeting in May 2021 after six years' service.

Under the Company's Articles of Association, adopted in September 2018, a new director may be appointed by ordinary resolution of shareholders or by board resolution pursuant to article 17 of the Model Articles for private companies limited by shares, contained in Schedule 2 of the Companies (Model Articles) Regulations 2008 (SI 2008/3229). There is no longer a requirement for Directors to be subject to retirement by rotation.

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

Directors' Report

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 2020, one Director had a loan from Arbuthnot Latham & Co., Limited amounting to £0.5m, on normal commercial terms as disclosed in note 39 to the financial statements. At 31 December 2020, seven Directors had deposits with Arbuthnot Latham & Co., Limited amounting to £4.3m, all on normal commercial terms as disclosed in note 39 to the financial statements.

Sir Henry Angest, Andrew Salmon and James Cobb are directors of the parent company, Arbuthnot Banking Group PLC, and information on their shareholdings and 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 22 to 27.

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

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

Engagement with Suppliers, Customers and Others
Information on engagement with suppliers, customers and other stakeholders is given in the Strategic Report on page 7.

Political Donations
No political donations were made by the Company during the year (2019: £nil).

Branches outside of the UK
During the year, the Group operated a branch in Dubai which is regulated by the Dubai Financial Services Authority. This branch will be closed at the end of May 2021.

Events after the balance sheet date
In addition to the dividend payment set out above, details of other material post balance sheet events are given in Note 43.

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

Statement of Disclosure of Information to the Auditor
The Director's confirm that:

• so far as each director is aware, there is no relevant audit information of which the Group's auditor is unaware; and
• the Directors have taken all the steps they ought to have taken as directors to make themselves aware of any relevant audit information and to establish that the Group's auditor is aware of that information.

This confirmation is given and shall be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

Directors' Report

Statement of Directors' Responsibilities in Respect of the Strategic Report and the Directors' Report and the Financial Statements

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

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

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and parent Company and of their profit or loss for that period. In preparing each of the Group and parent Company financial statements, the directors are required to:

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

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

By order of the Board

N. Jenn

Nick Jennings (Mar 24, 2021 21:31 GMT)

N D Jennings
Secretary
24 March 2021

Corporate Governance

Introduction and Overview
Arbuthnot Latham & Co., Limited is a bank authorised by the PRA and regulated by the FCA and the PRA. Its subsidiary, Renaissance Asset Finance Limited, is regulated by the FCA and the Company's Dubai Branch is regulated by the Dubai Financial Services Authority. As such, the Group operates to the high standards of corporate accountability and regulatory compliance appropriate for such a business.

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

This section of the Report and Accounts summarises key elements of the governance arrangements applicable to the Group. The Company is led by an effective Board, which since November 2020 has comprised ten members: the non-executive Chairman, five executive directors and four independent non-executive directors. The Board sets the long-term focus and customer-oriented culture of the Group. The responsibilities of Sir Henry Angest as Chairman include leading the Board, ensuring its effectiveness in all aspects of its role, setting its agenda and ensuring that all Directors are encouraged to participate fully in the activities and decision-making process of the Board. As a wholly-owned subsidiary, the Board has determined that there is no need for a Senior Independent Director.

Since 2016, when an independent Board Effectiveness Review was carried out by an external consultant, an annual review has been conducted internally. The 2020 evaluation took the form of a confidential questionnaire which assessed the performance of the Board and its Committees. The questions were set to explore the themes developed over recent years, including Board effectiveness, Board composition, Board dynamics, alignment of the Board and the executive team, induction, performance and training, Board Committees and the Secretariat. The feedback was collated by the Company Secretary and discussed by the Board in November 2020 and proposed actions arising were considered in February 2021. 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.

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

In February 2020 the Board approved the Group's cultural values through reference to a brand values document linking the Arbuthnot Principles to its culture as a way of communicating culture across the business. This followed a formal rebranding process whereby these cultural Principles are now 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 meets regularly throughout the year, including since May 2020 via video conference. It held six scheduled meetings during the year, together with two ad-hoc meetings held to approve the purchase of a property and the acquisition of Asset Alliance Group Holdings Limited. Separate sessions were also held with each of the independent non-executive directors to discuss the ICAAP. Substantive agenda items have briefing papers, which are circulated in a timely manner before each formal meeting. The Board ensures that it is supplied with all the information that it requires and requests, in a form and of a quality to fulfil its duties.

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 regulatory and compliance training provided by the Head of Compliance and/or an external firm of lawyers. Risk management training (including in relation to the ILAAP and ICAAP) is provided by the Chief Risk Officer with an overview of credit and its associated risks and mitigation by the Chief Credit Officer. Mr. Gabbertas also received a briefing from the Co-Chief Investment Officer and listed company training by ABG's AIM Nominated Adviser and AQSE Corporate Adviser.

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.

Significant risks identified in connection with the development of new activities are subject to consideration by the Board. 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 regular reports on any risk matters that need to be brought to its attention, enabling it to assess the Group's emerging and principal risks.

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

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

Audit Committee

Membership and meetings
The Audit Committee comprises four independent non-executive directors: Richard Gabbertas (since 17 November 2020 including as Chairman), Sir Michael Peat (Chairman until 17 November 2020), Angela Knight and Paul Marrow. Baroness Finn was also an external independent member throughout the year, prior to standing down on 31 December 2020. Mr. Gabbertas and Sir Michael have 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 Committee met five times during the year including one meeting solely for the purpose of reviewing the independent audit of Client Assets sourcebook compliance.

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. 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.

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 2020

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 2020 and it is satisfied with Internal Audit arrangements during 2020.

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;
- Monitored arrangements put in place to ensure all the necessary work on the Financial Statements could be undertaken remotely in light of the Government guidance to work from home, where possible;
- In addition, the Committee reviewed closely the detailed work carried out by management in respect of Going Concern in light of the impact on the business of the continued pandemic.

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

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

Significant areas of judgement and estimation
The Audit Committee considered the following significant issues and accounting judgements and estimates in relation to the Financial Statements:

Impairment of loans and advances to customers
The Committee reviewed presentations from management detailing the provisioning methodology across the Group as part of the full year results process. The Committee considered and challenged the provisioning methodology applied by management, including timing of cash flows, valuation and recoverability of supporting collateral on impaired assets. For those loans in default, where collateral valuations provide the greatest sensitivity it was assured that, where reliance is placed on the collateral, all assumptions are supported by recent professional valuations. It focused particular attention on RAF's exposure to the London Purpose Built Taxi sector where many clients had obtained payment holidays. It also discussed the different economic scenarios under which expected credit losses had been estimated, including the assumptions of falls in property values which compared with an overall market that had grown. The Committee concluded that the impairment provisions, including management's judgements and estimates, were appropriate.

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

As at 31 December 2020, Arbuthnot Latham's property investment totalled £6.5m. 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, 22 and 28 to the financial statements.

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

The Committee considered and challenged the EIR methodology applied by management and specifically in relation to acquired loan portfolios. The Committee considered management assumptions, including expected future customer behaviours, and concluded that the EIR methodology was appropriate as at 31 December 2020.

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

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

Other Audit Committee activities
In November 2020, Committee members contributed to the review of the Committee's effectiveness as part of its evaluation by the Board by completion of a questionnaire. The outcome of the review was positive and did not highlight any concerns. This reflected well on the chairmanship of Sir Michael Peat up to 17 November 2020 when he was succeeded by Richard Gabbertas.

In March 2020 the Committee determined that there was no need for a separate meeting with the Head of Internal Audit and the Senior Statutory Auditor without executive management present, given that the internal or external auditors confirmed they had no issues or concerns to raise privately.

Nomination Committee
Membership and meetings
The Nomination Committee is chaired by Sir Henry Angest and its other members are Angela Knight, Paul Marrow and Sir Michael Peat. The General Counsel acts as its Secretary. The Committee meets at least once a year and otherwise as required. The Committee assists the Board in discharging its responsibilities relating to the composition of the Board. The Nomination Committee is responsible for and evaluates on a regular basis, the balance of skills, experience, independence and knowledge of the Board, along with its size, structure and composition, retirements and appointments of additional and replacement directors and will make appropriate recommendations to the Board on such matters. The Committee also considers succession planning, taking into account the skills and expertise that will be needed and is beneficial to the Board and to key members of the leadership team in the future.

Activity in 2020
The Committee met three times during the year. In March it considered interim support and succession arrangements relating to directors and designated holders of PRA/FCA approved Senior Management Functions during the Covid-19 outbreak, in anticipation of the likelihood that travel would be restricted and that the bank would need to be managed and run remotely for an unspecified period of time. It determined to continue with the overall succession plan and it discussed the intention for the Executive Directors to hold a daily call so that all would be fully apprised of the matters under consideration by the others within the Executive Team. This was to ensure that had there been individual illness all relevant work could continue, calling on the services of other key staff within the business.

Corporate Governance

The Committee identified Richard Gabbertas as a new independent non-executive director. It also recommended the appointment of Angela Knight to serve on the Risk Committee as a second non-executive director with a view to ensuring that Committee has at all times adequate independent non-executive presence in order to meet regulatory expectations. Mr. Gabbertas was identified as a former partner of KPMG with a client base consisting of a number of financial services and banking firms who, prior to his retirement in 2018, was overall lead audit partner for the Arbuthnot group. The Committee concluded that he would be a strong addition to the Board, adding not only to its collective knowledge and experience, but also offering greater resilience from the perspective of Audit Committee succession planning, having recent and relevant financial experience as required by the FRC Code and, given his in-depth knowledge of audit rules and of the Group, he would be well placed to assume the Chairmanship of the Audit Committee in succession to Sir Michael Peat, who had completed three years in the position.

The Committee assessed and confirmed the collective and individual suitability of Board members. In terms of individual performance, the Committee agreed that each Director was performing well. Collectively, it was agreed that the Board had operated effectively with a wide range of experience and knowledge. The Executive had performed notably well in the context of COVID-19 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 2020 and noted that, notwithstanding COVID-19, Directors had been able to carry out sufficient training.

In November 2020, the Committee confirmed that the Board's composition, as augmented by Mr. Dagg in 2019 and then by Mr. Gabbertas provides the Company with a balanced, knowledgeable, diverse and informed group of directors, bringing strategic acumen, foresight and challenge to the executive, commensurate with the business. The Committee also agreed that it continued to operate effectively and, as such, no changes to its membership, composition or activities were proposed to the Board.

Remuneration Committee

Membership and meetings

The Remuneration Committee is chaired by Sir Henry Angest and its other members are Angela Knight, Paul Marrow and Sir Michael Peat. The General Counsel acts as its Secretary. The Committee meets at least once per year and otherwise as required.

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

The Committee also deals with remuneration-related issues under the PRA's Remuneration Code applicable to the Group.

Activity in 2020

The Committee met three times during the year. It undertook its regular activities including reviewing the operation of the Remuneration Policy, having regard to the performance of the Company during the year. The Committee also discussed the information deriving from the Gender Pay Gap review, prior to approval of the statement. From the comments about the 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, Stephen Fletcher and Andrew Salmon and since 25 March 2020 Angela Knight, who was appointed as a second non-executive director to ensure that a quorum would not comprise only executive directors. The Company Secretary acts as its Secretary. The Committee 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:

- consider the Group's risk appetite relevant to current and future strategy including acquisitions;
- provide advice to the Board on risk appetite, tolerance and strategy;
- safeguard and promote the three lines of defence organisational model;

- safeguard the independence of the CRO and the Risk Oversight Function, made up of the Compliance, Credit and Operational Risk teams;
- oversee and challenge the day-to-day risk management and oversight arrangements of the business.
- oversee the development, implementation and maintenance of the Group's overall risk management framework, risk appetite, strategy, principles and policies; and to
- oversee the Group's risk exposures and propose improvements to the Group's risk management framework.

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

Activity in 2020

The Risk Committee held six regular meetings during the year including one meeting jointly with the Asset and Liabilities Committee to review the ICAAP. It also held an ad-hoc meeting to approve the submission of an annual regulatory report. The Risk Committee (itself or via its sub-committees) reviewed and monitored, where appropriate for recommendation to the Board: capital and liquidity limits, including the relevant detail for inclusion in the ILAAP and the ICAAP including an ICAAP Covid addendum; the Recovery Plan; and the Risk and Control Self-Assessments and the overall control environment. At the start of remote working in March 2020, the focus was on reputation and cyber risks. The Committee noted the risk overview documents produced for the Management and Crisis Committee set up at the outset of the first lockdown which met weekly for its first few months of operation.

During the year various enhancements were made to the Company's risk management, overseen by the Committee. The Committee approved the Risk Management Policy and discussed principal risks, risk appetite, policies, three lines of defence, systems, processes, procedures and controls, together with a new risk board dashboard, produced as an overview for the benefit of the non-executive directors. It approved the Compliance Monitoring Plan and the Operational Risk Monitoring Plan. It also considered a document setting out a Strategic Review of Climate Change Opportunities.

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

Asset and Liabilities Committee

Membership and meetings

The Asset and Liabilities Committee is chaired by Stephen Kelly, the CRO, and its other members are the other executive directors, Messrs Cobb, Dagg, Fletcher and Salmon, together with Ashley King, the Treasurer. The Company Secretary acts as its Secretary. It 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 stress testing for the ICAAP and the ILAAP.

Policy Committee

Membership and meetings

The Policy Committee is chaired by Andrew Salmon and its other members are Messrs Cobb, Fletcher, Kelly and Marrow and Nicole Smith, General Counsel, who also acts as its Secretary. It 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. Jenn

Nick Jennings (Mar 24, 2021 21:31 GMT)

N D Jennings
Secretary
24 March 2021

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 31st December 2020 which comprise: Consolidated Statement of Comprehensive Income; Consolidated Statement of Financial Position; Company Statement of Financial Position; Consolidated Statement of Changes in Equity; Company Statement in Changes in Equity; Consolidated Statement of Cash Flows; 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 international accounting standards in conformity with the requirements of the Companies Act 2006 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 have been prepared in accordance with the requirements of the Companies Act 2006 and:

- give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2020 and of the Group's loss for the year then ended; and
- have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and, as regards the Parent Company financial statements, as applied in accordance with the provisions 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 Parent Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, 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 Annual Accounts, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the Annual Accounts is appropriate. Our audit procedures to evaluate the directors' assessment of the Group'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 future financial performance;
- Evaluating management's Going Concern assessment of the Group, and Parent Company;
- Evaluating stress tests applied to the Group's liquidity and regulatory capital;
- Evaluating the Group's Recovery and Resolution Plan which includes possible cost saving measures that could be taken in the event circumstances prevent forecast results from being achieved;
- Assessing and challenging key assumptions and mitigating actions put in place in response to COVID-19;
- Considering the consistency of the directors' 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.

Independent Auditor's Report to the members of Arbuthnot Latham Co., Limited

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 Parent Company and Group's ability to continue as a going concern for a period of at least twelve months from when the Annual Accounts 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 audit opinion above, together with an overview of the principal audit procedures performed to address each matter and, where relevant, key observations arising from those procedures.

Loan Loss Provisions

Group - £4.6m; 2019: £4.8m (note 20)
Parent Company- £3.6m; 2019: £4.2m (note 20)

Risk

The determination of expected credit loss ('ECL') under IFRS 9 is an inherently judgmental area due to the use of subjective assumptions and a high degree of estimation. ECL relating to the Group's loan portfolio requires the Directors to make judgements over the ability of the Groups' customers to make future loan repayments.

The most significant risk relates to loans and advances to customers where the bank 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 signification deterioration in credit risk since origination (stage 1), ECL is determined through the use of a model.

The model used by the Group to determine expected losses requires judgement to the input parameters and assumptions. In particular, the ongoing economic impact of COVID-19 has increased uncertainty around macro-economic assumptions.

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').

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 including assessment of the impact of COVID driven actions such as payment holidays;
- key assumptions in the model including PD and LGD including the present value of future cash flows from collateral;
- use of macro-economic variables reflecting a range of future scenarios.

Our response

Planning

We have performed a risk assessment over the Group and Parent Company's loan portfolio to identify areas of heightened risk, with consideration for the impact of COVID-19.

We have assessed the methodology of identifying significant increase in credit risk.

Independent Auditor's Report to the members of Arbuthnot Latham Co., Limited

Controls testing
We have tested the design and 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 a non-performing loan committee meeting, missed payments monitoring, credit reviews at origination and annual review, watch list movements through the year, and revaluation controls.

Test of detail
We have reviewed credit files in order to verify data used in the determination of PD and LGD assumptions. This was performed for all loans in Stage 2 and Stage 3 and for a sample of loans in stage 1 with characteristics of increased credit risk (e.g. high Loan-to-Value secured exposures and unsecured exposures).

Expected credit loss models

We have assessed the models used by management to determine expected loss 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);
- Reviewed the key assumptions applied to determine probability of default and loss given default;
- We have included in-house credit risk specialists and economists in the assessment of model approach and assumptions.

Conclusion
We found the approach taken in respect of loan loss provisions to be consistent with the requirements of IFRS 9 and judgements made were reasonable.

Revenue recognition - effective interest rate

Group - £76.4m; 2019: £76.9m (note 8)

Risk
The financial reporting fraud risk over revenue recognition specifically relates to income recognised on an effect interest method (EIR) on Loans and Advances to Customers including originated and acquired loan portfolios.
The EIR takes into account cash flows that are an integral part of the instrument's yield including: premiums, discounts and acquisition costs which are spread over the expected life of the loan.
Models used to calculate EIR are prepared manually and therefore have an increased risk of error or fraud.
Judgement is required to determine whether fees are recognised as EIR or recognised when a service has been performed.
The most significant areas where we identified greater levels of management estimation are:

- unwinding of the discount on acquired portfolios where estimations are made with respect to future cash flows;
- assumptions over the timing of cash flows used in revenue recognition of originated exposures.

Our response
Acquired portfolios

We have assessed the basis for recognising revenue of acquired portfolios against the requirements of IFRS 9. This included assessing the allocation and unwind of the discount

We have assessed key judgements over expected future cash flows including estimated economic life.

We have performed tests of detail relating to loan information and security valuations on a sample of exposures in the acquired portfolios.

We have assessed the data inputs into models relating to acquired portfolios.

Originated portfolios
We have assessed the design of controls in place over models used within the EIR calculation.

We have re-performed model data inputs to identify instances of error. Over a sample of loans we have verified details to underlying agreements.

We have assessed the EIR model calculation for compliance with IFRS 9. Where approximations have been adopted in the EIR model we have assessed the impact.

Conclusion
We found the approach taken in respect of EIR to be consistent with the requirements of IFRS 9 and judgements made were reasonable.

Property valuations and classification

Group:
Inventory: £84.7m (2019: £75.2m) (note 22)
Investment properties: £6.6m (2019: £6.8m) (note 28)
Assets held for sale: £3.3m (2019: £7.6m) (note 18)

Parent Company:
Inventory: £79.6m (2019: £71.0m) (note 22)
Investment properties: £Nil (2019: £Nil) (note 28)
Assets held for sale: £3.3m (2019: £7.6m) (note 18)

Risk
The Group recognises commercial property as either investment property under IAS 40 or, where commercial property is being developed for future sale, as inventory under IAS 2.

The Parent Company may come into ownership of property originally designated as security by borrowers under lending arrangements. These are recognised by the Parent Company as either inventory under IAS 2, where the property is being developed for future sale, or under IFRS 5 when held for sale criteria is met.

The Group has an accounting policy to hold investment properties at fair value and other property held as inventory or for sale at cost and net realisable value.

Management engage third party experts to provide observations and market data e.g. property rental yields. This data is included in models built in-house to determine fair value or recoverable amount.

The outcome of the model is highly sensitive to assumptions made.

Our response

Planning
We have assessed the accounting classification of all commercial property, held as either investment property or within inventory of all property security repossessed by the Parent Company during workout of defaulted loans, held either within inventory or as held for sale.

We have held meetings property developers and legal representatives engaged by the Parent Company in relation to repossessed property security.

Controls testing
We have tested the design of controls around valuation models prepared by management.

Valuation models
We have engaged with external property valuation specialists as audit experts to assist us in our review of the valuation approach and assumptions. We have compared property valuations determined by management against our own independent valuation ranges.

We have tested data inputs and the sources of management assumptions within the valuation models, including but not limited to:

- contractual rental income and incentives;
- yield rates;
- forecast maintenance and development costs;
- fees and contingencies.

Conclusion
We found the approach taken in respect property valuations to be consistent with the requirements of the relevant accounting standards and judgements made were reasonable.

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:

Overall materiality	Group: £547,000 (2019: £547,000) Parent Company: £470,000 (2019: £470,000)
How we determined it	Based on 0.5% of net assets but capped at materiality levels applied in the prior year to recognise the operational and financial risk caused by the COVID-19 pandemic.

Independent Auditor's Report to the members of Arbuthnot Latham Co., Limited

Rationale for benchmark applied	In the prior year, materiality was based on a benchmark of profit before tax as the Group and Parent Company are profit orientated. As a result of the impact of COVID-19, both the Group and Parent Company have made a loss before tax for the year. As this does not reflect that the operations and balance sheet size of both the Group and Parent Company have increased in the year, an alternative benchmark was used. Consideration was given to a normalised or adjusted profit benchmark, however, due to the imprecise impact COVID-19 had on results in the year and potentially the future, an appropriate adjustment could not be determined. In line with other banks where profit-based benchmarks cannot be used, a benchmark of net assets is considered most appropriate as this is a key focus of regulators as well as investors who, in the current economic environment, may be more focused on balance sheet strength. Furthermore, net assets for both the Group and Parent Company are also expected to remain stable and provide a reliable benchmark until the impact of COVID-19 is no longer significant.
Performance materiality	Group: £328,000 Parent Company: £282,000
Reporting threshold	We agreed with the Directors that we would report to them misstatements identified during our audit above £16,000 (Group) and £14,000 (Parent Company) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

As part of designing our audit, we assessed the risk of material misstatement in the financial statements, whether due to fraud or error, and then designed and performed audit procedures responsive to those risks. In particular, we looked at where the Directors made subjective judgements such as making 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 a risk assessment, our understanding of the Group and the Parent Company, its environment, controls and critical business processes, to consider qualitative factors in order to ensure that we obtained sufficient coverage across all financial statement line items.

We performed a full scope audit on all entities within the Group which is consistent with the prior year. All audits were performed directly by the Group audit team and executed at levels of materiality applicable to each individual entity which were lower than Group materiality and ranged from £0.04million to £0.5million (2019: £0.1million to £1.4million). These account for 100% (2019: 100%) of the Group's net interest income, 100% (2019: 100%) of the Group's profit before tax, 100% (2019: 100%) of the Group's net assets, and 100% (2019: 100%) of the Group's total assets. At the Parent Company entity level we have also performed testing over the consolidation process of Group entities.

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.

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

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006
In our opinion, based on the work undertaken during the audit:

- The information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- The Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In light of the knowledge and understanding of the Group and the Parent Company and its environment obtained during 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 Directors' Responsibilities statement set out on page 21, 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.

Independent Auditor's Report to the members of Arbuthnot Latham Co., Limited

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. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.
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 the Financial Conduct Authority (FCA) 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.

In identifying and assessing risks of material misstatement in respect to irregularities including non-compliance with laws and regulations, our procedures included but were not limited to:

- At the planning stage of our audit, gaining an understanding of the legal and regulatory framework applicable to the Group and the Parent Company, the structure of the Group, the industry in which they operate and considered the risk of acts by the Group and the Parent Company which were contrary to the applicable laws and regulations;
- Discussing with the Directors and management the policies and procedures in place regarding compliance with laws and regulations;
- Inclusion of audit specialists and experts in the risk assessment of complex audit areas such as complex financial models and the IT infrastructure;
- Discussing amongst the engagement team, who have extensive experience of working with banks, the risks of fraud such as opportunities for fraudulent manipulation of financial statements, and determined that the principal risks were related to posting manual journal entries to manipulate financial performance, management bias through judgements and assumptions in significant accounting estimates, in particular in relation to Expected Credit Loss models and provisioning for defaulted loans (see 'Loan Loss Provisions' Key Audit Matter above) and Effective Interest Rate recognition (see 'Revenue Recognition' Key Audit Matter above), and remaining alert to any indications of non-compliance; and
- Assessing the design of controls to consider: the ethical cultural framework set by senior management, status of control functions, lines of reporting control deficiencies and suspicions of misdoings, segregation of duties, and IT controls to prevent fraudulent access and manipulation of data.

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, including independent inspection of complaints logs;
- Inspection of the Parent Company's and Group's regulatory and legal correspondence and review of minutes of Directors' meetings in the year;
- Testing effectiveness of controls designed to prevent or detect fraudulent activity;
- Comparing certain balances to external sources;
- Being sceptical to the potential of management bias in key judgements and assumptions;
- Introducing elements of unpredictability in audit testing; and
- Addressing the risks of fraud through management override of controls by performing journal entry testing.

The primary responsibility for the prevention and detection of irregularities including fraud rests with both the Directors 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, including fraud, are discussed under "key audit matters" within this report.

A further description of our responsibilities is available on the Financial Reporting Council's website at www.frc.org.uk/auditorsresponsibilities

Independent Auditor's Report to the members of Arbuthnot Latham Co., Limited

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 ending 31 December 2019 and subsequent financial periods. The period of total uninterrupted engagement is 2 years, covering the years ending 31 December 2019 to 31 December 2020.

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 the additional report to the audit committee.

Use of the audit report

This report is made solely to the Parent 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 Parent 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 Parent Company and the Parent Company's members as a body for our audit work, for this report, or for the opinions we have formed.

GR Simpson

Greg Simpson (Senior Statutory Auditor)

for and on behalf of Mazars LLP

Chartered Accountants and Statutory Auditor

Tower Bridge House, St Katharine's Way

London, E1W 1DD

24 March 2021

Consolidated Statement of Comprehensive Income

	Note	Year ended 31 December 2020 £000	Year ended 31 December 2019 £000
Interest income	8	75,082	76,867
Interest expense	8	(14,414)	(16,472)
Net interest income	8	**60,668**	**60,395**
Fee and commission income	9	14,735	13,935
Fee and commission expense		(293)	(104)
Net fee and commission income		**14,442**	**13,831**
Operating income		**75,110**	**74,226**
Impairment loss	10	(2,849)	(867)
Other income	11	1,518	5,019
Operating expenses	12	(75,000)	(72,767)
(Loss) / profit before tax		**(1,221)**	**5,611**
Income tax credit / (expense)	13	979	(238)
(Loss) / profit for the year		**(242)**	**5,373**
Other comprehensive income			
Items that may not be reclassified to profit or loss			
Movement in fair value reserve		(1,224)	4,126
Tax on other comprehensive income		70	(95)
Other comprehensive income for the period, net of tax		**(1,154)**	**4,031**
Total comprehensive income for the period		**(1,396)**	**9,404**

All amounts relate to continuing operations.

The notes on pages 44 to 133 are an integral part of these consolidated financial statements

Consolidated Statement of Financial Position

	Note	At 31 December 2020 £000	At 31 December 2019 £000
ASSETS			
Cash and balances at central banks	15	636,799	325,908
Loans and advances to banks	16	110,252	46,244
Debt securities at amortised cost	17	344,692	442,960
Assets classified as held for sale	18	3,285	7,617
Derivative financial instruments	19	1,843	1,804
Loans and advances to customers	20	1,599,349	1,610,553
Current tax asset		-	169
Other assets	22	97,507	86,322
Financial investments	23	4,324	5,007
Deferred tax asset	24	614	1,425
Intangible assets	25	27,376	23,810
Property, plant and equipment	26	4,744	5,629
Right-of-use assets	27	17,703	19,944
Investment property	28	6,550	6,763
Total assets		**2,855,038**	**2,584,155**
EQUITY AND LIABILITIES			
Equity attributable to owners of the parent			
Share capital	35	15,000	15,000
Retained earnings	36	46,835	47,077
Other reserves	36	120,809	121,963
Total equity		**182,644**	**184,040**
LIABILITIES			
Deposits from banks	29	230,090	230,421
Derivative financial instruments	19	649	319
Deposits from customers	30	2,391,861	2,112,197
Current tax liability		234	627
Other liabilities	31	6,946	11,881
Lease liabilities	32	18,306	20,431
Debt securities in issue	33	24,308	24,239
Total liabilities		**2,672,394**	**2,400,115**
Total equity and liabilities		**2,855,038**	**2,584,155**

The financial statements on pages 37 to 133 were approved and authorised for issue by the Board of directors on 24 March 2021 and were signed on their behalf by:

Andrew Salmon
Andrew Salmon (Mar 24, 2021 21:55 GMT)

AA Salmon, Director

James Cobb
James Cobb (Mar 24, 2021 21:48 GMT)

JR Cobb, Director

Registered Number: 00819519

The notes on pages 44 to 133 are an integral part of these consolidated financial statements

Company Statement of Financial Position

	Note	At 31 December 2020 £000	At 31 December 2019 £000
ASSETS			
Cash and balances at central banks	15	636,799	325,908
Loans and advances to banks	16	108,879	44,938
Debt securities at amortised cost	17	344,692	442,960
Assets classified as held for sale	18	3,285	7,617
Derivative financial instruments	19	1,843	1,804
Loans and advances to customers	20	1,584,099	1,599,229
Current tax asset		242	169
Other assets	22	100,245	87,365
Financial investments	23	4,324	5,007
Deferred tax asset	24	484	1,065
Interests in subsidiaries	40	24,770	19,602
Intangible assets	25	21,712	18,291
Property, plant and equipment	26	4,720	5,595
Right-of-use assets	27	17,177	19,365
Total assets		**2,853,271**	**2,578,915**
EQUITY AND LIABILITIES			
Equity attributable to owners of the parent			
Share capital	35	15,000	15,000
Retained earnings	36	42,020	44,574
Other reserves	36	120,809	121,963
Total equity		**177,829**	**181,537**
LIABILITIES			
Deposits from banks	29	230,090	230,421
Derivative financial instruments	19	649	319
Deposits from customers	30	2,396,863	2,111,963
Other liabilities	31	5,768	10,610
Lease liabilities	32	17,764	19,826
Debt securities in issue	33	24,308	24,239
Total liabilities		**2,675,442**	**2,397,378**
Total equity and liabilities		**2,853,271**	**2,578,915**

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

The financial statements on pages 37 to 133 were approved and authorised for issue by the Board of directors on 24 March 2021 and were signed on their behalf by:

Andrew Salmon
Andrew Salmon (Mar 24, 2021 21:55 GMT)
AA Salmon, Director

James Cobb
James Cobb (Mar 24, 2021 21:48 GMT)
JR Cobb, Director

Registered Number: 00819519

The notes on pages 44 to 133 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 2019	**15,000**	**44,163**	**121,012**	**(3,133)**	**177,042**
Total comprehensive income for the period					
Profit for 2019	-	5,373	-	-	5,373
Other comprehensive income, net of tax					
Fair value reserve - net change in fair value	-	-	-	4,126	4,126
Tax on other comprehensive income	-	-	-	(95)	(95)
Total other comprehensive income	**-**	**-**	**-**	**4,031**	**4,031**
Total comprehensive income for the period	**-**	**5,373**	**-**	**4,031**	**9,404**
Transactions with owners, recorded directly in equity					
Contributions by and distributions to owners					
Loss on disposal of assets held at FVOCI	-	(53)	-	53	-
Interim dividend relating to 2019	-	(2,406)	-	-	(2,406)
Total contributions by and distributions to owners	**-**	**(2,459)**	**-**	**53**	**(2,406)**
Balance at 31 December 2019	**15,000**	**47,077**	**121,012**	**951**	**184,040**
Total comprehensive income for the period					
Loss for 2020	-	(242)	-	-	(242)
Other comprehensive income, net of tax					
Fair value reserve - net change in fair value	-	-	-	(1,224)	(1,224)
Tax on other comprehensive income	-	-	-	70	70
Total other comprehensive income	**-**	**-**	**-**	**(1,154)**	**(1,154)**
Total comprehensive income for the period	**-**	**(242)**	**-**	**(1,154)**	**(1,396)**
Transactions with owners, recorded directly in equity					
Contributions by and distributions to owners					
Balance at 31 December 2020	**15,000**	**46,835**	**121,012**	**(203)**	**182,644**

The notes on pages 44 to 133 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 2019	**15,000**	**42,419**	**121,012**	**(3,133)**	**175,298**
Total comprehensive income for the period					
Profit for 2019	-	4,614	-	-	4,614
Other comprehensive income, net of tax					
Fair value reserve - net change in fair value	-	-	-	4,126	4,126
Tax on other comprehensive income	-	-	-	(95)	(95)
Total other comprehensive income	**-**	**-**	**-**	**4,031**	**4,031**
Total comprehensive income for the period	**-**	**4,614**	**-**	**4,031**	**8,645**
Transactions with owners, recorded directly in equity					
Contributions by and distributions to owners					
Loss on disposal of assets held at FVOCI	-	(53)	-	53	-
Interim dividend relating to 2019	-	(2,406)	-	-	(2,406)
Total contributions by and distributions to owners	**-**	**(2,459)**	**-**	**53**	**(2,406)**
Balance at 31 December 2019	**15,000**	**44,574**	**121,012**	**951**	**181,537**
Total comprehensive income for the period					
Loss for 2020	-	(2,554)	-	-	(2,554)
Other comprehensive income, net of tax					
Fair value reserve - net change in fair value	-	-	-	(1,224)	(1,224)
Tax on other comprehensive income	-	-	-	70	70
Total other comprehensive income	**-**	**-**	**-**	**(1,154)**	**(1,154)**
Total comprehensive income for the period	**-**	**(2,554)**	**-**	**(1,154)**	**(3,708)**
Balance at 31 December 2020	**15,000**	**42,020**	**121,012**	**(203)**	**177,829**

The notes on pages 44 to 133 are an integral part of these consolidated financial statements

Consolidated Statement of Cash Flows

	Note	Year ended 31 December 2020 £000	Year ended 31 December 2019 £000
Cash flows from operating activities			
Interest received		87,876	72,999
Interest paid		(16,629)	(13,343)
Fees and commissions received		13,922	13,595
Other income		1,518	5,019
Cash payments to employees and suppliers		(80,510)	(67,331)
Taxation paid		755	(68)
Cash flows from operating profit before changes in operating assets and liabilities		6,932	10,871
Changes in operating assets and liabilities:			
- net decrease in derivative financial instruments		291	173
- net decrease/(increase) in loans and advances to customers		11,366	(372,611)
- net increase in other assets		(10,972)	(10,435)
- net increase in amounts due to customers		279,664	368,149
- net decrease in other liabilities		(4,935)	(4,583)
Net cash inflow/(outflow) from operating activities		**282,346**	**(8,436)**
Cash flows from investing activities			
Disposal of financial investments		-	15,330
Purchase of computer software	25	(6,393)	(5,553)
Purchase of property, plant and equipment	26	(683)	(1,950)
Investment property additions	28	-	(2,901)
Disposal of assets held for sale		4,332	-
Purchase of debt securities		(695,614)	(823,139)
Proceeds from redemption of debt securities		791,242	719,737
Net cash inflow/(outflow) from investing activities		**92,884**	**(98,476)**
Cash flows from financing activities			
Receipt from debt securities in issue		-	24,239
Decrease in borrowings		(331)	(2,254)
Dividends paid		-	(2,406)
Net cash (outflow)/inflow from financing activities		**(331)**	**19,579**
Net increase/(decrease) in cash and cash equivalents		374,899	(87,333)
Cash and cash equivalents at 1 January		372,152	459,485
Cash and cash equivalents at 31 December	38	**747,051**	**372,152**

The notes on pages 44 to 133 are an integral part of these consolidated financial statements

Company Statement of Cash Flows

	Note	Year ended 31 December 2020 £000	Year ended 31 December 2019 £000
Cash flows from operating activities			
Interest received		65,178	67,612
Interest paid		(16,573)	(13,321)
Fees and commissions received		12,574	12,774
Other income		1,084	4,488
Cash payments to employees and suppliers		(60,044)	(73,914)
Taxation received/(paid)		1,582	(148)
Cash flows from operating profit/(loss) before changes in operating assets and liabilities		3,801	(2,509)
Changes in operating assets and liabilities:			
- net decrease in derivative financial instruments		291	173
- net decrease/(increase) in loans and advances to customers		15,709	(367,290)
- net increase in other assets		(18,048)	(1,500)
- net increase in amounts due to customers		284,900	367,915
- net decrease in other liabilities		(4,842)	(6,013)
Net cash inflow/(outflow) from operating activities		**281,811**	**(9,224)**
Cash flows from investing activities			
Disposal of financial investments		-	15,330
Purchase of computer software	25	(5,947)	(5,270)
Purchase of property, plant and equipment	26	(661)	(1,944)
Investment property additions	28	-	(2,901)
Disposal of asset held for sale		4,332	-
Purchase of debt securities		(695,614)	(823,139)
Proceeds from redemption of debt securities		791,242	719,737
Net cash inflow/(outflow) from investing activities		**93,352**	**(98,187)**
Cash flows from financing activities			
Receipt of debt securities in issue		-	24,239
Decrease in borrowings		(331)	(2,254)
Dividends paid		-	(2,406)
Net cash (outflow)/inflow from financing activities		**(331)**	**19,579**
Net increase/(decrease) in cash and cash equivalents		374,832	(87,832)
Cash and cash equivalents at 1 January		370,846	458,678
Cash and cash equivalents at 31 December	38	**745,678**	**370,846**

The notes on pages 44 to 133 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 2020 comprise Arbuthnot Latham & Co., Ltd and its subsidiaries (together referred to as the "Group" and individually as "subsidiaries"). The Bank is primarily involved in banking and financial services.

2. Basis of preparation
(a) Statement of compliance
The Group's consolidated financial statements and the Company's financial statements have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006.

(b) Basis of measurement
The consolidated and company financial statements have been prepared under the historical cost convention, as modified by investment property, derivatives and financial assets and financial liabilities measured at fair value through profit or loss or other comprehensive income.

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

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

(e) Going concern
After making appropriate enquiries which assessed strategy, profitability, funding, risk management (see Note 6) and capital resources (see Note 7), the directors are satisfied that the Company and the Group have adequate resources to continue in operation for the foreseeable future. The Group reported a loss before tax of £1.2m in 2020, however, this result included a number of short-term items as highlighted in the Strategic Report. The Directors expect that the Group will return to profitability in 2021, with strong pipeline business as a result of re-instating credit appetite and the acquisition of the Asset Alliance Group contributing towards future earnings. 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 in the light of the economic impact of the pandemic. 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 27.

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

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

A debt instrument is measured at fair value through other comprehensive income if it meets both of the following conditions:
• the asset is held within a business model whose objective is achieved by collecting contractual cash flows and selling financial assets; and
• the contractual terms of the financial asset meet the SPPI criterion.

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

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

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

(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.

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3.4 Impairment for financial assets and liabilities

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.

Measurement of ECL

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

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

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

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

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

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

A borrower will move back into stage 1 conditional upon both a period of good account conduct and the improvement of the Client's situation to the extent that the credit risk 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 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.

Covid-19 has already had a significant impact on the forward-looking economic information used by the IFRS 9 models in calculating ECL. While the central scenario used previously implied the most significant macroeconomic factor related to property prices, the central scenarios assumed now forecast deterioration in conditions on a magnitude typically observed for severe stresses but with the deterioration and subsequent recovery compressed into a much shorter time frame than typical economic cycles.

To account for these limitations caused by the uncertainty of the pandemic, a number of refinements and changes have been applied to the respective model components to ensure that the ECL outcome is reasonable and with regard to the timing in which deteriorating economics translate into default and loss outcomes.

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 factor relates to property prices. The Group currently consider five probability weighted scenarios for property prices no change; severe decline; moderate decline; decline and growth. The Group has derived an approach for factoring probability weighted macroeconomic forecasts into ECL calculations, adjusting PD and LGD estimates.

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

Government guarantees
During March and April 2020, the UK government launched a series of temporary schemes designed to support businesses deal with the impact of Covid-19. The BBLS, CBILS and CLBILS lending products are 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 and CLBILS and 100% for BBLS. Arbuthnot Latham recognises lower LGDs for these lending products as a result, with 0% applied to the government guaranteed part of the exposure.

3.5. 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 25.

3.6. 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.

3.7. New standards and interpretations not yet adopted
There are no standards, interpretations or amendments to existing standards that have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2021 or later periods, that will have any material impact on the Group's financial statements.

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 10. The measurement of ECL required by the implementation of IFRS 9, from 1 January 2018, necessitates a number of significant judgements. Specifically, judgements and estimation uncertainties relate to assessment of whether credit risk on the financial asset has increased significantly since initial recognition, incorporation of forward-looking information ("FLI") in the measurement of ECLs and key assumptions used in estimating recoverable cash flows. These estimates are driven by a number of factors that are subject to change which may result in different levels of ECL allowances.

The Group incorporates FLI into the assessment of whether there has been a significant increase in credit risk. Forecasts for key macroeconomic variables that most closely correlate with the Bank's portfolio are used to produce five economic scenarios, comprising of a no change, upside case, downside case, moderate decline and severe decline, and the impacts of these scenarios are then probability weighted. The estimation and application of this FLI will require significant judgement supported by the use of external information.

12-month ECLs on loans and advances (loans within Stage 1) are calculated using a statistical model on a collective basis, grouped together by product and geographical location. The key assumptions are the probability of default, the economic scenarios and loss given default having consideration to collateral. Lifetime ECLs on loans and advances (loans within Stage 2 and 3) are calculated based on an individual valuation of the underlying asset and other expected cash flows.

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

Management considered a range of variables in determining the level of future ECL. The two of the key judgements were in relation to "time to collect" and "collateral valuations". Sensitivity analysis was carried out based on what was considered reasonably possible in the current market conditions.

If time to collect increased by six months across all client exposures, this would lead to a negative £0.7m impact through the Profit or Loss. A six month reduction in time to collect would lead to a £0.3m favourable impact on Profit or Loss.

If the collateral valuations increased by 10% across client exposures, this would lead to a positive £1.0m impact through Profit or Loss. If the collateral valuations decreased by 10% across all client exposures, this would lead to a £1.8m adverse impact on Profit or Loss.

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 only collateral values/property prices have a material impact on ECL.

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

- Severe decline
- Moderate decline
- Decline
- No change
- Growth

Other than collateral/property prices for the Company and collateral/asset values for its subsidiary Renaissance Asset Finance, no other assumptions were assessed to have a material impact on ECL. The tables below therefore reflects the expected changes in collateral/property prices and collateral/asset values in each of the macroeconomic scenarios and the probability weighting applied for each scenario.

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

	Company			
	Probability weighting		Change in property price	
	2020	2019	2020	2019
Economic Scenarios				
Severe Decline	2.0%	1.0%	-40.0%	-40.0%
Moderate Decline	15.0%	3.0%	-20.0%	-20.0%
Decline	70.0%	50.0%	-2.5%	-1.5%
No Change	9.0%	26.0%	0.0%	0.0%
Growth	4.0%	20.0%	0.5%	0.5%
Weighted average change in property price			-5.5%	-1.8%

	Renaissance Asset Finance			
	Probability weighting		Change in asset values	
	2020	2019	2020	2019
Economic Scenarios				
Severe Decline	6.0%	2.0%	-15% to -60%	-10% to -40%
Moderate Decline	20.0%	8.0%	-7.5% to -30%	-5% to -20%
Decline	40.0%	30.0%	-2.5% to -15%	-2.0%
No Change	31.0%	30.0%	0.0%	0.0%
Growth	3.0%	30.0%	2.0%	2.0%
Weighted average change in asset values			-9.6%	-1.9%

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

The economic scenarios were updated as a result of the impact of COVID-19 on the economy, at 31 December 2020 the weighted average change in property price is a 5.5% decline compared to a 1.8% decline for the Company and weighted average change in asset values is a 9.6% decline compared to a 1.9% decline for Renaissance Asset Finance at 31 December 2019. The table below compares the 31 December 2020 ECL provision using the 31 December 2020 economic scenarios and the 31 December 2020 ECL provision using the 31 December 2019 economic scenarios.

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	Company		Renaissance Asset Finance	
	Economic Scenarios as at			
	2020	2019	2020	2019
	£,000	£,000	£,000	£,000
ECL Provision				
Stage 1	427	259	249	136
Stage 2	180	40	353	123
Stage 3	3,025	2,943	345	335
At 31 December 2020	3,632	3,242	948	594

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:

	Company		Renaissance Asset Finance	
	2020	2019	2020	2019
	£,000	£,000	£,000	£,000
Severe Decline	(£46.4m)	(£23.9m)	(£4.6m)	(£2.1m)
Moderate Decline	(£5.1m)	(£5.9m)	(£0.9m)	(£0.3m)
Decline	£0.3m	(-)	£0.1m	(£0.1m)
No Change	£0.4m	£0.3m	£0.4m	(£0.1m)
Growth	£0.5m	£0.5m	£0.4m	£0.1m

(b) Effective Interest Rate

Acquired loan books 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, or in the case of the acquired books the credit-adjusted 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 2020 the Group recognised £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 £0.5m (2019: £0.4m), due to acceleration of fee income.

In 2020 the Group recognised £0.1m reversal of interest income to reflect actual cash flows received on the acquired mortgage books being less than forecast cash flows. In 2019 the Group recognised £0.4m of additional interest income to reflect actual cash flows received on the acquired mortgage books being in excess of 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 2020 by £0.2.m (2019: £0.3m) while a 10% increase in principal repayments will increase interest income in 2020 by £0.5m (2019: £0.8m) 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.

Following the uncertainty due to Brexit which had the effect of reducing the activity in the property market in 2019, the impact of COVID-19 combined with the ongoing complexities of Brexit had the impact of further significantly reducing the activity in the property market, particularly during the first half of 2020. There were signs of the level of activity increasing in the second half of 2020, though well below the overall levels of 2019. This has in turn resulted in less market evidence being available for Management in making its judgement on the key assumptions of property yield and market rent. The Group currently owns one (2019: one) investment property, as outlined in note 28.

During 2019, two properties were reclassified to inventory due to being under development with the intention to sell.

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 2020: £6.6m; (2019: £6.8m))
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 2020 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, a fair value loss of £0.2m was recognised during the year.

The valuation of the property has the following key considerations:

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

		Revised fair value gain / (loss)	
		£'m	%
Model Yield	**6.50%**		
- Yield 0.25% lower	6.25%	0.3	5.3%
- Yield 0.25% higher	6.75%	(0.3)	-3.9%
Model Future Rent Increases (Every 5 Years)	**4.00%**		
- Positive +25%	5.00%	0.2	3.7%
- Negative -25%	3.00%	(0.2)	-2.4%

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

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

Notes to the Consolidated Financial Statements

Following, the uncertainty due to Brexit which had the effect of reducing activity in the property market in 2019, the impact of COVID-19 combined with the ongoing complexities of Brexit has resulted in further reductions in activity within the property market, particularly during the first half of 2020. There have been signs of the level of activity increasing in the second half of 2020, though well below the overall level of 2019. This has in turn resulted in less market evidence being available for Management in making its judgement on the key assumptions of property yield and market rent.

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

The Group also makes use of external valuations on its properties that 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 £1.75m (or 2.1% of cost) and a reduction of 10% would impact profit or loss by £6.1m (or 7.2% of cost).

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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 2020:

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

Notes to the Consolidated Financial Statements

The table below shows the maturity analysis of assets and liabilities of the Group as at 31 December 2019:

At 31 December 2019	Due within one year £000	Due after more than one year £000	Total £000
ASSETS			
Cash and balances at central banks	325,908	-	325,908
Loans and advances to banks	46,244	-	46,244
Debt securities at amortised cost	337,807	105,153	442.960
Assets classified as held for sale	7,617	-	7.617
Derivative financial instruments	105	1,699	1.804
Current tax asset	169	-	169
Loans and advances to customers	670,676	939,877	1,610.553
Other assets	86,141	181	86,322
Financial investments	3,204	1,803	5,007
Deferred tax asset	-	1,425	1,425
Intangible assets	7,037	16,773	23.810
Property, plant and equipment	1.433	4,196	5,629
Right of use assets	2,757	17,187	19,944
Investment property	-	6,763	6.763
	1,489,098	**1,095,057**	**2,584,155**
LIABILITIES			
Deposits from banks	5,421	225,000	230,421
Derivative financial instruments	101	218	319
Deposits from customers	1,900.620	211,577	2,112,197
Current tax liability	627	-	627
Other liabilities	11,881	-	11.881
Lease liabilities	63	20.368	20.431
Debt securities in issue	-	24,239	24,239
	1,918,713	**481,402**	**2,400,115**

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

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

The table below shows the maturity analysis of assets and liabilities of the Company as at 31 December 2019:

At 31 December 2019	Due within one year £000	Due after more than one year £000	Total £000
ASSETS			
Cash and balances at central banks	325,908	-	325,908
Loans and advances to banks	44,938	-	44,938
Debt securities at amortised cost	337,807	105,153	442.960
Assets classified as held for sale	7,617	-	7,617
Derivative financial instruments	105	1,699	1,804
Current tax asset	169	-	169
Loans and advances to customers	658,070	941,159	1,599,229
Other assets	87,184	181	87,365
Financial investments	3,204	1,803	5,007
Deferred tax asset	-	1,065	1,065
Investment in subsidiary	-	19.602	19.602
Intangible assets	7,037	11,254	18,291
Property, plant and equipment	1,433	4,162	5,595
Right of use assets	2,686	16,679	19,365
	1,476,158	**1,102,757**	**2,578,915**
LIABILITIES			
Deposits from banks	5,421	225,000	230,421
Derivative financial instruments	101	218	319
Deposits from customers	1,972,291	139,672	2,111,963
Other liabilities	10,610	-	10,610
Lease liabilities	-	19,826	19,826
Debt securities in issue	-	24,239	24,239
	1,988,423	**408,955**	**2,397,378**

Notes to the Consolidated Financial Statements

6. Financial risk management

Strategy

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

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

(a) Credit risk

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

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

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

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

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

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

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

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

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

- Charges over other chattels; and
- Personal guarantees.

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

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

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

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

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

The below tables represent the maximum credit risk exposure (net of impairment) to the Group and Company at 31 December 2020 and 2019 without taking account of any collateral held or other credit enhancements attached. For on-balance-sheet assets, the exposures are based on the net carrying amounts as reported in the Statement of Financial Position.

			2020				
Group	I Banking	Mortgage Portfolios	RAF	ABL	ASFL	All Other Divisions	Total
Credit risk exposures (all stage 1, unless otherwise stated)	£000	£000	£000	£000	£000	£000	£000
On-balance sheet:							
Cash and balances at central banks	-	-	-	-	-	636,631	636,631
Loans and advances to banks	-	-	-	-	-	110,252	110,252
Debt securities at amortised cost	-	-	-	-	-	344,692	344,692
Derivative financial instruments	-	-	-	-	-	1,843	1,843
Loans and advances to customers (net of ECL)	1,133,799	268,827	91,927	87,331	5,964	11,501	1,599,349
Stage 1	1,030,970	223,800	74,542	87,331	5,964	11,501	1,434,108
Stage 2	72,626	36,794	16,394	-	-	-	125,814
Stage 3	30,203	8,233	991	-	-	-	39,427
Other assets	-	-	-	-	-	6,779	6,779
Financial investments	-	-	-	-	-	4,324	4,324
Off-balance sheet:							
Guarantees	6,248	-	-	-	-	-	6,248
Loan commitments and other credit related liabilities	152,972	-	-	155,300	155	-	308,427
At 31 December	1,293,019	268,827	91,927	242,631	6,119	1,116,022	3,018,545

Notes to the Consolidated Financial Statements

Group				2019			
	Banking	Mortgage Portfolios	RAF	ABL	ASFL	All Other Divisions	Total
Credit risk exposures (all stage 1, unless otherwise stated)	£000	£000	£000	£000	£000	£000	£000
On-balance sheet:							
Cash and balances at central banks	-	-	-	-	-	325,800	325,800
Loans and advances to banks	-	-	-	-	-	46,244	46,244
Debt securities at amortised cost	-	-	-	-	-	442,960	442,960
Derivative financial instruments	-	-	-	-	-	1,804	1,804
Loans and advances to customers (net of ECL)	1,106,887	306,044	102,888	75,871	7,352	11,511	1,610,553
Stage 1	1,015,238	306,044	100,981	75,871	7,352	11,511	1,516,997
Stage 2	65,570	-	755	-	-	-	66,325
Stage 3	26,079	-	1,152	-	-	-	27,231
Other assets	-	-	-	-	-	4,617	4,617
Financial investments	-	-	-	-	-	5,007	5,007
Off-balance sheet:							
Guarantees	6,401	-	-	-	-	-	6,401
Loan commitments and other credit related liabilities	135,598	-	-	53,494	972	-	190,064
At 31 December	1,248,886	306,044	102,888	129,365	8,324	837,943	2,633,450

Notes to the Consolidated Financial Statements

Company Credit risk exposures (all stage 1, unless otherwise stated)	Banking £000	Mortgage Portfolios £000	RAF £000	ABL £000	ASFL £000	All Other Divisions £000	Total £000
				2020			
On-balance sheet:							
Cash and balances at central banks	-	-	-	-	-	636,631	636,631
Loans and advances to banks	-	-	-	-	-	108,879	108,879
Debt securities at amortised cost	-	-	-	-	-	344,692	344,692
Derivative financial instruments	-	-	-	-	-	1,843	1,843
Loans and advances to customers (net of ECL)	1,133,799	268,827	-	-	-	181,473	1,584,099
Stage 1	1,030,970	223,800	-	-	-	181,473	1,436,243
Stage 2	72,626	36,794	-	-	-	-	109,420
Stage 3	30,203	8,233	-	-	-	-	38,436
Other assets	-	-	-	-	-	15,002	15,002
Financial investments	-	-	-	-	-	4,324	4,324
Off-balance sheet:							
Guarantees	6,248	-	-	-	-	-	6,248
Loan commitments and other credit related liabilities	152,972	-	-	-	-	-	152,972
At 31 December	1,293,019	268,827	-	-	-	1,292,844	2,854,690

Company Credit risk exposures (all stage 1, unless otherwise stated)	Banking £000	Mortgage Portfolios £000	RAF £000	ABL £000	ASFL £000	All Other Divisions £000	Total £000
				2019			
On-balance sheet:							
Cash and balances at central banks	-	-	-	-	-	325,800	325,800
Loans and advances to banks	-	-	-	-	-	44,938	44,938
Debt securities at amortised cost	-	-	-	-	-	442,960	442,960
Derivative financial instruments	-	-	-	-	-	1,804	1,804
Loans and advances to customers (net of ECL)	1,106,887	306,044	-	-	-	186,298	1,599,229
Stage 1	1,015,238	306,044	-	-	-	186,298	1,507,580
Stage 2	65,570	-	-	-	-	-	65,570
Stage 3	26,079	-	-	-	-	-	26,079
Other assets	-	-	-	-	-	10,227	10,227
Financial investments	-	-	-	-	-	5,007	5,007
Guarantees	6,401	-	-	-	-	-	6,401
Loan commitments and other credit related liabilities	135,598	-	-	-	-	-	135,598
At 31 December	1,248,886	306,044	-	-	-	1,017,034	2,571,964

The above tables represent the maximum credit risk exposure of financial assets to the Group and Company at 31 December 2020 which an ECL allowance is recognised, without taking account of any collateral held or other credit enhancements attached. For financial assets, the balances are based on gross carrying amounts as reported in the Statement of Financial Position. For guarantees and loan commitments, the amounts in the table represent the amounts for which the group is contractually committed.

Notes to the Consolidated Financial Statements

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

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

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

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

Notes to the Consolidated Financial Statements

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

	2019					
	Banking		Mortgage Portfolios		Total	
	Loan Balance	Collateral	Loan Balance	Collateral	Loan Balance	Collateral
Group & Company	£000	£000	£000	£000	£000	£000
Less than 60%	594,528	1,312,963	93,454	318,010	687,982	1,630,973
Stage 1	566,348	1,252,288	93,454	318,010	659,802	1,570,298
Stage 2	18,653	38,270	-	-	18,653	38,270
Stage 3	9,527	22,405	-	-	9,527	22,405
60%-80%	402,705	622,889	46,333	67,372	449,038	690,261
Stage 1	372,559	577,165	46,333	67,372	418,892	644,537
Stage 2	28,488	43,125	-	-	28,488	43,125
Stage 3	1,658	2,599	-	-	1,658	2,599
80%-100%	38,508	43,105	56,967	66,421	95,475	109,526
Stage 1	25,541	28,260	56,967	66,421	82,508	94,681
Stage 2	9,862	11,550	-	-	9,862	11,550
Stage 3	3,105	3,295	-	-	3,105	3,295
Greater than 100%*	26,400	13,252	108,276	69,235	134,676	82,487
Stage 1	6,383	3,150	108,276	69,235	114,659	72,385
Stage 2	4,775	2,000	-	-	4,775	2,000
Stage 3	15,242	8,102	-	-	15,242	8,102
Total	**1,062,141**	**1,992,209**	**305,030**	**521,038**	**1,367,171**	**2,513,247**

**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.*

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

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

	2019	
	Total	
	Loan Balance	Collateral
Group	£000	£000
Less than 60%	83,517	379,255
60%-80%	11,629	17,953
80%-100%	1,587	1,623
Greater than 100%	958	827
Total	**97,691**	**399,658**

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

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

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

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

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

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

Notes to the Consolidated Financial Statements

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

As at 31 December 2020, loans for which forbearance measures were in place totalled 4.97% (2019: 3.04%) of total value of loans to customers for the Group.

These are set out in the following tables:

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

Group	2019 Stage 1 Number	2019 Stage 1 Loan Balance £000	2019 Stage 2 Number	2019 Stage 2 Loan Balance £000	2019 Stage 3 Number	2019 Stage 3 Loan Balance £000
Assistance with property sale	-	-	4	231	-	-
Move historic arrears to capital	-	-	1	1,719	-	-
Covenant waived	-	-	6	7,473	-	-
Term extension	-	-	18	32,780	-	-
Payment holiday	-	-	32	6,795	-	-
Total forbearance	-	-	**61**	**48,998**	-	-

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

Company	2019 Stage 1 Number	2019 Stage 1 Loan Balance £000	2019 Stage 2 Number	2019 Stage 2 Loan Balance £000	2019 Stage 3 Number	2019 Stage 3 Loan Balance £000
Assistance with property sale	-	-	4	231	-	-
Move historic arrears to capital	-	-	1	1,719	-	-
Covenant waived	-	-	6	7,473	-	-
Term extension	-	-	18	32,780	-	-
Payment holiday	-	-	5	4,833	-	-
Total forbearance	-	-	34	47,036	-	-

Notes to the Consolidated Financial Statements

Concentration risk

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

Group	Loans and advances to customers 2020 £000	Loans and advances to customers 2019 £000	Loan Commitments 2020 £000	Loan Commitments 2019 £000
Concentration by collateral type				
Asset Based Lending	87,331	75,871	155,300	53,494
Asset finance	87,529	103,193	155	972
Cash collateralised	25,405	23,026	5,952	1,781
Commercial lending	255,891	269,590	17,484	3,941
Investment portfolio secured	29,051	40,127	781	2,984
Residential mortgages	1,056,022	1,035,395	110,938	93,749
Mixed collateral*	30,442	45,432	4,705	17,282
Unsecured**	27,678	17,919	13,112	15,861
At 31 December	**1,599,349**	**1,610,553**	**308,427**	**190,064**

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

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

Group	Loans and advances to customers 2020 £000	Loans and advances to customers 2019 £000	Loan Commitments 2020 £000	Loan Commitments 2019 £000
Concentration by location				
East Anglia	44,304	39,997	2,925	10
London	584,688	565,683	89,796	77,960
Midlands	102,504	108,635	8,117	4,392
North East	37,499	53,294	1,170	641
North West	111,793	111,500	4,017	1,826
Northern Ireland	9,222	9,061	-	-
Scotland	25,611	28,197	50	1,064
South East	232,311	224,915	7,370	7,188
South West	171,581	169,343	14,130	4,513
Wales	17,403	18,493	848	98
Overseas	1,000	11,150	-	-
Non-property collateral	261,433	270,285	180,004	92,372
At 31 December	**1,599,349**	**1,610,553**	**308,427**	**190,064**

Company	Loans and advances to customers 2020 £000	Loans and advances to customers 2019 £000	Loan Commitments 2020 £000	Loan Commitments 2019 £000
Concentration by collateral type				
Asset Based lending	76,796	71,905	-	-
Asset Finance	82,814	95,835	-	-
Cash collateralised	25,405	23,026	5,952	1,781
Commercial Lending	255,891	269,590	17,484	3,941
Investment portfolio secured	29,051	40,127	781	2,984
Mixed Collateral*	30,442	45,432	4,705	17,282
Residential mortgages	1,056,022	1,035,395	110,938	93,749
Unsecured**	27,678	17,919	13,112	15,861
At 31 December	**1,584,099**	**1,599,229**	**152,972**	**135,598**

* Mixed collateral is where there is no single, overall, majority collateral type.
** Included within unsecured are £8.4m of loans which are backed by government guarantee under the BBLS scheme.

Concentration by location				
East Anglia	44,304	39,997	2,925	10
London	584,688	565,683	89,796	77,960
Midlands	102,504	108,635	8,117	4,392
North East	37,499	53,294	1,170	641
North West	111,793	111,500	4,017	1,826
Northern Ireland	9,222	9,061	-	-
Scotland	25,611	28,197	50	1,064
South East	232,311	224,915	7,370	7,188
South West	171,581	169,343	14,130	4,513
Wales	17,403	18,493	848	98
Overseas	1,000	11,150	-	-
Non-property collateral	246,183	258,961	24,549	37,906
At 31 December	**1,584,099**	**1,599,229**	**152,972**	**135,598**

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

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

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

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

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

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

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

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

(c) Macroeconomic and competitive environment

Covid-19
The COVID-19 pandemic has had, and continues to have, a material impact on all businesses around the world and the markets in which they operate. There are a number of factors associated with the pandemic and its impact on global economies that could have a material adverse effect on (among other things) the profitability, capital and liquidity of financial institutions such as Arbuthnot Latham.

To ensure an appropriate response to the pandemic, management scrutinised key risks emerging from the crisis and their impact on the Group's risk profile. The Board's discussions focused on operational resilience, liquidity and funding considerations, customer vulnerability, and the impact of material increases in forbearance requests on the Group's credit portfolios and on its operational capacity.

The pandemic has caused disruption to the Group's customers, suppliers and staff globally. The markets in which the Group operates have implemented severe restrictions on the movement of their respective populations, with a resultant significant impact on economic activity. These restrictions are being determined by the governments of individual jurisdictions (including through the implementation of emergency powers) and impacts (including the timing of implementation and any subsequent lifting of restrictions) may vary from jurisdiction to jurisdiction.

Schemes have been initiated by the Bank of England, national governments and regulators to provide financial support to parts of the economy most impacted by the COVID-19 pandemic. These schemes have been designed and implemented at pace, which has allowed the Group to continue meeting clients' requirements with staff monitoring operational issues which may arise in their implementation.

Furthermore, the Group relies on models to support a broad range of business and risk management activities, including informing business decisions and strategies, measuring and limiting risk, valuing exposures (including the calculation of impairment), conducting stress testing and assessing capital adequacy. Management regularly meet to discuss the impact of COVID-19 and review data to mitigate any potential negative effects.

The details of how these schemes will impact the Group's clients in the long term remains uncertain at this stage. However, certain actions (such as the introduction of payment holidays for certain consumer lending products or the cancellation or waiver of fees associated with certain products) may impact the effective interest rate earned on certain of the Group's portfolios and fee income being earned on certain products.

The significant business risks that may arise from the economic shock in addition to the reduction in interest rates as detailed in the Strategic Report are:

a) Increased credit risk as borrowers are unable to continue to meet their interest obligations as they fall due. It is also currently unclear precisely how Government intervention will interact with this clear risk. Mortgage payment holidays should mitigate this risk to an extent in addition to the introduction of CBILs and BBLs which provide support to customers.
b) The uncertainty in the economy could result in a significant fall in the collateral values of our security held against the loans. Valuations are likely to vary significantly due to the inherent uncertainty. However the average loan to value of the property backed lending book is 53.9%, so to have any material impact; this fall in collateral would have to be severe and prolonged.
c) A prolonged reduction in business activity will affect the Bank's ability to generate new business opportunities and it is likely that repayments in the lending portfolio will be greater than new originations, which could lead to an overall fall in the Group's lending balances and an associated fall in revenue.
d) The economic shock could lead to a fall in valuations in the Group's investment properties and the properties held in inventory.
e) As the revenues earned by the Group's Investment Management business are directly linked to the balances managed on behalf of our customers, any reduction in these values due to market movements will have a corresponding impact on these revenues.

Brexit
There still remains uncertainty over the transitional arrangements and negotiation of the final trade deal relating to Brexit, with the UK formally exiting from the EU rules on 31 December 2020. The Group has tried to anticipate the risks that it may face if an economic shock arises as a result. It has also examined how business activities may be affected if free provision of services cross borders is prohibited. The Group's only overseas operation is in Dubai therefore the vast majority of the Group's income and expenditure is based in the UK.

Climate change

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

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

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

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

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

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 23, a severe decline of 10% (2019: 10%) in market prices, would result in a £14k (2019: £16k) decrease in the Company and Group's income and a decrease of £432k (2019: £500k) 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 2020. Included in the table below are the Group's assets and liabilities at carrying amounts, categorised by currency.

At 31 December 2020	GBP (£) £000	USD ($) £000	Euro (€) £000	Other £000	Total £000
ASSETS					
Cash and balances at central banks	636,688	41	64	6	636,799
Loans and advances to banks	46,137	26,005	25,415	12,695	110,252
Debt securities at amortised cost	234,112	110,580	-	-	344,692
Derivative financial instruments	1,768	6	-	69	1,843
Loans and advances to customers	1,589,245	1,611	8,595	(102)	1,599,349
Other assets	7,812	-	-	(1,033)	6,779
Financial investments	1,750	2,436	138	-	4,324
	2,517,512	**140,679**	**34,212**	**11,635**	**2,704,038**
LIABILITIES					
Deposits from banks	230,090	-	-	-	230,090
Derivative financial instruments	581	-	-	68	649
Deposits from customers	2,190,138	140,786	50,438	10,499	2,391,861
Other liabilities	2,225	-	(495)	-	1,730
Debt securities in issue	24,308	-	-	-	24,308
	2,447,342	**140,786**	**49,943**	**10,567**	**2,648,638**
Net on-balance sheet position	**70,169**	**(107)**	**(15,731)**	**1,068**	**55,400**
Credit commitments	308,427	-	-	-	308,427

The table below summarises the Group's exposure to foreign currency exchange risk at 31 December 2019:

At 31 December 2019	GBP (£) £000	USD ($) £000	Euro (€) £000	Other £000	Total £000
ASSETS					
Cash and balances at central banks	325,844	20	41	3	325,908
Loans and advances to banks	5,350	10,028	18,892	11,974	46,244
Debt securities held-to-maturity	336,079	106,881	-	-	442,960
Derivative financial instruments	1,713	1	3	87	1,804
Loans and advances to customers	1,587,938	7,957	14,672	(14)	1,610,553
Other assets	4,618	-	-	-	4,618
Financial investments	3,201	1,637	169	-	5,007
	2,264,743	**126,524**	**33,777**	**12,050**	**2,437,094**
LIABILITIES					
Deposits from banks	230,421	-	-	-	230,421
Derivative financial instruments	233	-	2	84	319
Deposits from customers	1,925,151	126,220	49,049	11,777	2,112,197
Other liabilities	2,504	-	-	-	2,504
Debt securities in issue	24,239	-	-	-	24,239
	2,182,548	**126,220**	**49,051**	**11,861**	**2,369,680**
Net on-balance sheet position	**82,195**	**304**	**(15,274)**	**189**	**67,414**
Credit commitments	190,064	-	-	-	190,064

Derivative financial instruments (see note 19) 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 £11k increase (2019: a £30k decrease) in the Group's profits, while a 10% weakening of the pound against the US dollar would lead to the same decrease in the Bank's profits. Additionally the Group holds £3.3m of properties as assets held for sale (2019: £7.6m) and £12.3 has been classified as inventory (2019: £7.6m). 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 £100k (2019: £127k) for the Group.

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

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

At 31 December 2020	GBP (£) £000	USD ($) £000	Euro (€) £000	Other £000	Total £000
ASSETS					
Cash and balances at central banks	636,688	41	64	6	636,799
Loans and advances to banks	44,764	26,005	25,415	12,695	108,879
Debt securities at amortised cost	234,112	110,580	-	-	344,692
Derivative financial instruments	1,768	6	-	69	1,843
Loans and advances to customers	1,572,088	3,358	8,704	(51)	1,584,099
Other assets	16,035	-	-	(1,033)	15,002
Financial investments	1,750	2,436	138	-	4,324
	2,507,205	**142,426**	**34,321**	**11,686**	**2,695,638**
LIABILITIES					
Deposits from banks	230,090	-	-	-	230,090
Derivative financial instruments	581	-	-	68	649
Deposits from customers	2,193,201	142,541	50,571	10,550	2,396,863
Other liabilities	1,695	-	(495)	-	1,200
Debt securities in issue	24,308	-	-	-	24,308
	2,449,875	**142,541**	**50,076**	**10,618**	**2,653,110**
Net on-balance sheet position	**57,330**	**(115)**	**(15,755)**	**1,068**	**42,528**
Credit commitments	152,972	-	-	-	152,972

Notes to the Consolidated Financial Statements

The table below summarises the Company's exposure to foreign currency exchange risk at 31 December 2019:

At 31 December 2019	GBP (£) £000	USD ($) £000	Euro (€) £000	Other £000	Total £000
ASSETS					
Cash and balances at central banks	325,844	20	41	3	325,908
Loans and advances to banks	4,044	10,028	18,892	11,974	44,938
Debt securities held-to-maturity	336,079	106,881	-	-	442,960
Derivative financial instruments	1,713	1	3	87	1,804
Loans and advances to customers	1,577,196	7,813	14,220	-	1,599,229
Other assets	10,227	-	-	-	10,227
Financial investments	3,201	1,637	169	-	5,007
	2,258,304	**126,380**	**33,325**	**12,064**	**2,430,073**
LIABILITIES					
Deposits from banks	230,421	-	-	-	230,421
Derivative financial instruments	233	-	2	84	319
Deposits from customers	1,925,381	126,145	48,646	11,791	2,111,963
Other liabilities	1,977	-	-	-	1,977
Debt securities in issue	24,239	-	-	-	24,239
	2,182,251	**126,145**	**48,648**	**11,875**	**2,368,919**
Net on-balance sheet position	**76,053**	**235**	**(15,323)**	**189**	**61,154**
Credit commitments	135,598	-	-	-	135,598

Notes to the Consolidated Financial Statements

Interest rate risk

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

Interest rate risk is measured throughout the maturity bandings of the book on a parallel shift scenario for a 200 basis points movement. Interest rate risk is managed to limit value at risk to be less than £0.5m .The current position of the balance sheet is such that it results in a favourable impact on the economic value of equity of £2.4m (2019: £3.1m) for a positive 200bps shift and an adverse impact of £0.1m (2019: £1.2m) for a negative 200bps movement capped at negative 0.1%.

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

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

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

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

Group As at 31 December 2019	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	325,908	-	-	-	-	-	325,908
Loans and advances to banks	45,822	188	234	-	-	-	46,244
Debt securities held-to-maturity	287,608	151,555	3,797	-	-	-	442,960
Derivative financial instruments	105	-	-	1,699	-	-	1,804
Loans and advances to customers	1,363,049	11,101	25,963	209,811	629	-	1,610,553
Other assets*	-	-	-	-	-	158,046	158,046
Financial investments	-	-	-	-	-	5,007	5,007
	2,022,492	**162,844**	**29,994**	**211,510**	**629**	**163,053**	**2,590,522**
LIABILITIES							
Deposits from banks	230,421	-	-	-	-	-	230,421
Derivative financial instruments	319	-	-	-	-	-	319
Deposits from customers	1,431,022	233,716	211,956	235,503	-	-	2,112,197
Other liabilities**	-	-	-	-	-	19,478	19,478
Debt securities in issue	-	-	-	-	24,239	-	24,239
Equity	-	-	-	-	-	203,868	203,868
	1,661,762	**233,716**	**211,956**	**235,503**	**24,239**	**223,346**	**2,590,522**
Impact of derivative instruments	25,530	-	-	(25,530)	-	-	
Interest rate sensitivity gap	**386,260**	**(70,872)**	**(181,962)**	**(49,523)**	**(23,610)**	**(60,293)**	
Cumulative gap	**386,260**	**315,388**	**133,426**	**83,903**	**60,293**	**-**	

**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.*

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

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

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

Company **As at 31 December 2019**	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	325,908	-	-	-	-	-	325,908
Loans and advances to banks	44,516	188	234	-	-	-	44,938
Debt securities held-to-maturity	287,608	151,555	3,797	-	-	-	442,960
Derivative financial instruments	105	-	-	1,699	-	-	1,804
Loans and advances to customers	1,453,305	1,676	5,640	138,608	-	-	1,599,229
Other assets	-	-	-	-	-	159,069	159,069
Financial investments	-	-	-	-	-	5,007	5,007
	2,111,442	**153,419**	**9,671**	**140,307**	**-**	**164,076**	**2,578,915**
LIABILITIES							
Deposits from banks	230,421	-	-	-	-	-	230,421
Derivative financial instruments	319	-	-	-	-	-	319
Deposits from customers	1,526,619	233,716	211,956	139,672	-	-	2,111,963
Other liabilities**	-	-	-	-	-	10,610	10,610
Debt securities in issue	-	-	-	-	24,239	-	24,239
Equity	-	-	-	-	-	201,363	201,363
	1,757,359	**233,716**	**211,956**	**139,672**	**24,239**	**211,973**	**2,578,915**
Impact of derivative instruments	25,530	-	-	(25,530)	-	-	
Interest rate sensitivity gap	**379,613**	**(80,297)**	**(202,285)**	**(24,895)**	**(24,239)**	**(47,897)**	
Cumulative gap	**379,613**	**299,316**	**97,031**	**72,136**	**47,897**	**-**	

**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 arising from the COVID-19 pandemic, there has been an increase in deposits of 13% 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 2020:

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

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

Notes to the Consolidated Financial Statements

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

At 31 December 2019	Carrying amount £000	Gross nominal inflow/ (outflow) £000	Not more than 3 months £000	More than 3 months but less than 1 year £000	More than 1 year but less than 5 years £000	More than 5 years £000
Financial liability by type						
Non-derivative liabilities						
Deposits from banks	230,421	(230,421)	(230,421)	-	-	-
Deposits from customers	2,112,197	(2,132,970)	(1,270,626)	(550,128)	(312,216)	-
Other liabilities	2,504	(2,504)	(2,504)	-	-	-
Debt securities in issue	24,239	(25,375)	-	-	-	(25,375)
Issued financial guarantee contracts	-	(6,401)	(6,401)	-	-	-
Unrecognised loan commitments	-	(190,064)	(190,064)	-	-	-
	2,369,361	**(2,587,735)**	**(1,700,016)**	**(550,128)**	**(312,216)**	**(25,375)**
Derivative liabilities						
Risk management:	319					
- Outflows		(319)	(319)	-	-	-
	319	**(319)**	**(319)**	**-**	**-**	**-**

At 31 December 2019	Carrying amount £000	Gross nominal inflow/ (outflow) £000	Not more than 3 months £000	More than 3 months but less than 1 year £000	More than 1 year but less than 5 years £000	More than 5 years £000
Financial asset by type						
Non-derivative assets						
Cash and balances at central banks	325,908	325,908	325,908	-	-	-
Loans and advances to banks	46,244	46,256	45,830	426	-	-
Debt securities held-to-maturity	442,960	447,424	141,897	197,811	107,716	-
Loans and advances to customers	1,610,553	1,775,991	348,715	168,224	1,117,246	141,807
Other assets	4,617	4,617	4,617	-	-	-
Financial investments	5,007	5,007	5,007	-	-	-
	2,435,289	**2,605,203**	**871,974**	**366,461**	**1,224,962**	**141,807**
Derivative assets						
Risk management:	1,804					
- Inflows		1,804	-	-	-	1,804
	1,804	**1,804**	**-**	**-**	**-**	**1,804**

The tables below show the undiscounted contractual cash flows of the Company's financial liabilities and assets as at 31 December 2020:

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

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

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 2019:

At 31 December 2019	Carrying amount £000	Gross nominal inflow/ (outflow) £000	Not more than 3 months £000	More than 3 months but less than 1 year £000	More than 1 year but less than 5 years £000	More than 5 years £000
Financial liability by type						
Non-derivative liabilities						
Deposits from banks	230,421	(230,421)	(230,421)	-	-	-
Deposits from customers	2,111,963	(2,132,736)	(1,438,128)	(550,128)	(144,480)	-
Other liabilities	1,977	(1,977)	(1,977)	-	-	-
Debt securities in issue	24,239	(25,375)	-	-	-	(25,375)
Issued financial guarantee contracts	-	(6,401)	(6,401)	-	-	-
Unrecognised loan commitments	-	(135,598)	(135,598)	-	-	-
	2,368,600	**(2,532,508)**	**(1,812,525)**	**(550,128)**	**(144,480)**	**(25,375)**
Derivative liabilities						
Risk management:	319					
- Outflows		(319)	(319)	-	-	-
	319	**(319)**	**(319)**	**-**	**-**	**-**

At 31 December 2019	Carrying amount £000	Gross nominal inflow/ (outflow) £000	Not more than 3 months £000	More than 3 months but less than 1 year £000	More than 1 year but less than 5 years £000	More than 5 years £000
Financial asset by type						
Non-derivative assets						
Cash and balances at central banks	325,908	325,908	325,908	-	-	-
Loans and advances to banks	44,938	44,950	44,524	426	-	-
Debt securities held-to-maturity	442,960	447,424	141,897	197,811	107,716	-
Loans and advances to customers	1,599,229	1,746,441	456,028	128,087	1,023,188	139,138
Other assets	10,227	10,227	10,227	-	-	-
Financial investments	5,007	5,007	5,007	-	-	-
	2,428,269	**2,579,957**	**983,591**	**326,324**	**1,130,904**	**139,138**
Derivative assets						
Risk management:	1,804					
- Inflows		1,804	-	-	-	1,804
	1,804	**1,804**	**-**	**-**	**-**	**1,804**

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 2020 were £288m (2019: £259m). Assets are encumbered due to the Term Funding Scheme (note 29).

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 £1.15bn (2019: £1.1bn). Additionally, the Group provides investment advisory services.

(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 2020	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	-	-	636,799	636,799	636,799
Loans and advances to banks	-	-	110,252	110,252	110,252
Debt securities at amortised cost	-	-	344,692	344,692	346,660
Derivative financial instruments	1,843	-	-	1,843	1,843
Loans and advances to customers	-	-	1,599,349	1,599,349	1,564,122
Other assets	-	-	6,779	6,779	6,779
Financial investments	165	4,159	-	4,324	4,324
	2,008	**4,159**	**2,697,871**	**2,704,038**	**2,670,779**
LIABILITIES					
Deposits from banks	-	-	230,090	230,090	230,090
Derivative financial instruments	649	-	-	649	649
Deposits from customers	-	-	2,391,861	2,391,861	2,391,861
Other liabilities	-	1,730	-	1,730	1,730
Debt securities in issue	-	-	24,308	24,308	24,308
	649	**1,730**	**2,646,259**	**2,648,638**	**2,648,638**

At 31 December 2019	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	-	-	325,908	325,908	325,908
Loans and advances to banks	-	-	46,244	46,244	46,244
Debt securities held-to-maturity	-	-	442,960	442,960	442,926
Derivative financial instruments	1,804	-	-	1,804	1,804
Loans and advances to customers	-	-	1,610,553	1,610,553	1,578,215
Other assets	-	-	4,618	4,618	4,618
Financial investments	165	4,842	-	5,007	5,007
	1,969	**4,842**	**2,430,283**	**2,437,094**	**2,404,722**
LIABILITIES					
Deposits from banks	-	-	230,421	230,421	230,421
Derivative financial instruments	319	-	-	319	319
Deposits from customers	-	-	2,112,197	2,112,197	2,112,197
Other liabilities	-	2,504	-	2,504	2,504
Debt securities in issue	-	-	24,239	24,239	24,239
	319	**2,504**	**2,366,857**	**2,369,680**	**2,369,680**

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 2020	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	-	-	636,799	636,799	636,799
Loans and advances to banks	-	-	108,879	108,879	108,879
Debt securities at amortised cost	-		344,692	344,692	346,660
Derivative financial instruments	1,843	-	-	1,843	1,843
Loans and advances to customers	-	-	1,584,099	1,584,099	1,548,872
Other assets	-	-	15,002	15,002	15,002
Financial investments	165	4,159	-	4,324	4,324
	2,008	**4,159**	**2,689,471**	**2,695,638**	**2,662,379**
LIABILITIES					
Deposits from banks	-	-	230,090	230,090	230,090
Derivative financial instruments	649	-	-	649	649
Deposits from customers	-	-	2,396,863	2,396,863	2,396,863
Other liabilities	-	-	1,200	1,200	1,200
Debt securities in issue	-	-	24,308	24,308	24,308
	649	**-**	**2,652,461**	**2,653,110**	**2,653,110**

At 31 December 2019	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	-	-	325,908	325,908	325,908
Loans and advances to banks	-	-	44,938	44,938	44,938
Debt securities held-to-maturity	-	-	442,960	442,960	442,926
Derivative financial instruments	1,804	-	-	1,804	1,804
Loans and advances to customers	-	-	1,599,229	1,599,229	1,566,891
Other assets	-	-	10,227	10,227	10,227
Financial investments	165	4,842	-	5,007	5,007
	1,969	**4,842**	**2,423,262**	**2,430,073**	**2,397,701**
LIABILITIES					
Deposits from banks	-	-	230,421	230,421	230,421
Derivative financial instruments	319	-	-	319	319
Deposits from customers	-	-	2,111,963	2,111,963	2,111,963
Other liabilities	-	-	1,977	1,977	1,977
Debt securities in issue	-	-	24,239	24,239	24,239
	319	**-**	**2,368,600**	**2,368,919**	**2,368,919**

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. In the event that fair values of assets and liabilities cannot be reliably measured, they are carried at cost.

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 2020**	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
ASSETS				
Derivative financial instruments	-	1,843	-	1,843
Financial investments	1,754	-	2,570	4,324
Investment property	-	-	6,550	6,550
	1,754	**1,843**	**9,120**	**12,717**
LIABILITIES				
Derivative financial instruments	-	649	-	649
	-	**649**	**-**	**649**

Notes to the Consolidated Financial Statements

Company **At 31 December 2020**	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
ASSETS				
Derivative financial instruments	-	1,843	-	1,843
Financial investments	1,754	-	2,570	4,324
	1,754	**1,843**	**2,570**	**6,167**
LIABILITIES				
Derivative financial instruments	-	649	-	649
	-	**649**	**-**	**649**

Group **At 31 December 2019**	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
ASSETS				
Derivative financial instruments	-	1,804	-	1,804
Financial investments	3,204	-	1,803	5,007
Investment property	-	-	6,763	6,763
	3,204	**1,804**	**8,566**	**13,574**
LIABILITIES				
Derivative financial instruments	-	319	-	319
	-	**319**	**-**	**319**

Company **At 31 December 2019**	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
ASSETS				
Derivative financial instruments	-	1,804	-	1,804
Financial investments	3,204	-	1,803	5,007
	3,204	**1,804**	**1,803**	**6,811**
LIABILITIES				
Derivative financial instruments	-	319	-	319
	-	**319**	**-**	**319**

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.

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	2020 £000	2019 £000
At 1 January	8,566	68,209
Purchases	419	3,083
Transfer to inventory	-	(63,219)
Movements recognised in other comprehensive income	366	502
Movements recognised in the profit and loss	(18)	(9)
At 31 December	**9,333**	**8,566**

Company Movement in level 3	2020 £000	2019 £000
At 1 January	1,803	61,446
Purchases	419	3,083
Transfer to inventory	-	(63,219)
Movements recognised in other comprehensive income	366	502
Movements recognised in the profit and loss	(18)	(9)
At 31 December	**2,570**	**1,803**

Secure Trust bank investment
Arbuthnot Latham currently holds equity shares in Secure Trust Bank plc, valued at £1.75m (2019: £3.2m). In 2018, the parent company of Arbuthnot Latham transferred 1.25m shares of their investment in Secure Trust Bank to the Company, by way of a capital contribution. The shares were recognised at fair value using quoted prices on the London Stock Exchange. This is classified as a level one investment. In 2019 the Group disposed of 1.05m shares in Secure Trust Bank at market value.

Visa Inc. investment
Arbuthnot Latham currently holds preference shares in Visa Inc., valued at £1.6m (2019: £1.2m) as at 31 December 2020. These shares have been valued at their future conversion value into Visa Inc. common stock.

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

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

Investment in overseas property company
Arbuthnot Latham currently holds a debt and equity investment classified as FVTPL in a property company which owns an office building through its 100% owned subsidiary. During 2018 the subsidiary company was sold. Under the terms of the sale agreement the buyer agreed to purchase 100% of the share capital and reimburse all outstanding loans. The proceeds of the sale have been distributed to the investors, except for the amount withheld for the general and specific warranties (which will be released in three instalments at 18 month intervals) included as a condition of the sale agreement. A loss of £14k (2019: 8k loss) has been recognised in profit or loss during the year. The investment has been valued at £138k as at 31 December 2020 (2019: £156k). The investment has been valued as the discounted consideration outstanding less 11% haircut for the warranties.

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 $1.0m of the total closing fund capital of USD$55.0m. At 31 December 2020 the company had made capital contributions into the Fund of $933k (2019: $394k).

The investment is classified as FVOCI and is valued at fair value by Hetz Ventures, L.P. at £0.8m as at 31 December 2020 (2019: £0.5m). 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.

During the year, a second fund was opened, Hetz II, which the Group remains subscribed to.

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

Group At 31 December 2020	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
ASSETS				
Cash and balances at central banks	-	636,799	-	636,799
Loans and advances to banks	-	110,252	-	110,252
Debt securities at amortised cost	-	344,692	-	344,692
Loans and advances to customers	-	1,300,824	298,525	1,599,349
Other assets	-	-	6,779	6,779
	-	**2,392,567**	**305,304**	**2,697,871**
LIABILITIES				
Deposits from banks	-	230,090	-	230,090
Deposits from customers	-	2,391,861	-	2,391,861
Other liabilities	-	-	1,730	1,730
Debt securities in issue	-	-	24,308	24,308
	-	**2,621,951**	**26,038**	**2,647,989**

Group At 31 December 2019	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
ASSETS				
Cash and balances at central banks	-	325,908	-	325,908
Loans and advances to banks	-	46,244	-	46,244
Debt securities held-to-maturity	-	442,960	-	442,960
Loans and advances to customers	-	1,296,427	314,126	1,610,553
Other assets	-	-	4,618	4,618
	-	**2,111,539**	**318,744**	**2,430,283**
LIABILITIES				
Deposits from banks	-	230,421	-	230,421
Deposits from customers	-	2,112,197	-	2,112,197
Other liabilities	-	-	2,504	2,504
Debt securities in issue	-	-	24,239	24,239
	-	**2,342,618**	**26,743**	**2,369,361**

Notes to the Consolidated Financial Statements

Company **At 31 December 2020**	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
ASSETS				
Cash and balances at central banks	-	636,799	-	636,799
Loans and advances to banks	-	108,879	-	108,879
Debt securities at amortised cost	-	344,692	-	344,692
Loans and advances to customers	-	1,300,824	283,275	1,584,099
Other assets	-	-	15,002	15,002
	-	**2,391,194**	**298,277**	**2,689,471**
LIABILITIES				
Deposits from banks	-	230,090	-	230,090
Deposits from customers	-	2,396,863	-	2,396,863
Other liabilities	-	-	1,200	1,200
Debt securities in issue	-	-	24,308	24,308
	-	**2,626,953**	**25,508**	**2,652,461**

Company **At 31 December 2019**	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
ASSETS				
Cash and balances at central banks	-	325,908	-	325,908
Loans and advances to banks	-	44,938	-	44,938
Debt securities held-to-maturity	-	442,960	-	442,960
Loans and advances to customers	-	1,296,427	302,802	1,599,229
Other assets	-	-	10,227	10,227
	-	**2,110,233**	**313,029**	**2,423,262**
LIABILITIES				
Deposits from banks	-	230,421	-	230,421
Deposits from customers	-	2,111,963	-	2,111,963
Other liabilities	-	-	1,977	1,977
Debt securities in issue	-	-	24,239	24,239
	-	**2,342,384**	**26,216**	**2,368,600**

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.

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

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

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

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

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

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

	2020 £000	2019 £000
Common Equity Tier 1 Capital		
Share capital	15,000	15,000
Retained earnings*	46,551	47,077
Fair value reserve	(203)	950
Capital contribution reserve	121,012	121,012
IFRS 9 transitional arrangement	1,956	1,108
Deduction for goodwill	(8,935)	(8,935)
Deduction for other intangibles	(8,741)	(14,875)
Deduction for deferred tax assets that do not arise from temporary differences	(1,147)	(1,462)
Deduction for prudent valuation	(7)	(7)
Common Equity Tier 1 capital resources	**165,486**	**159,868**
Subordinated debt	24,308	24,239
Total Tier 2 capital	**24,308**	**24,239**
Own Funds (sum of Tier 1 and Tier 2)	**189,794**	**184,107**
Common Equity Tier 1 capital ratio (Common Equity Tier 1 capital/Total Risk Exposure)*	**14.3%**	**13.1%**
Total Capital Ratio (Own Funds/Total Risk Exposure)*	**16.4%**	**15.1%**

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

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

Notes to the Consolidated Financial Statements

8. Net interest income

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

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:
• the gross carrying amount of the financial asset; or
• the amortised cost of the financial liability.

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

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

The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts. The carrying amount of the financial asset or financial liability is adjusted if the Group revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest income or expense.

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

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

	2020 £000	2019 £000
Cash and balances at central banks	807	3,112
Loans and advances to banks*	(143)	418
Debt securities at amortised cost	2,942	5,265
Loans and advances to customers	71,476	68,075
Total interest income	**75,082**	**76,870**
Deposits from banks	(824)	(2,121)
Deposits from customers	(13,590)	(14,351)
Total interest expense	**(14,414)**	**(16,472)**
Net interest income	**60,668**	**60,398**

*Decrease is due to the fluctuation of interest rates which has led to an increased cost on the variable leg of the interest rate swap which is reported in interest income.

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 At 31 December 2020	Banking £000	RAF £000	ABL £001	ASFL £000	Other £001	Total £000
Banking commissions	1,600	131	2,443	4	5	4,183
Foreign exchange fees	803	-	-	-	526	1,329
Investment management fees	8.862	-	-	-	-	8.862
Wealth planning Fees	355	-	-	-	6	361
Total fee and commission income	**11,620**	**131**	**2,443**	**4**	**537**	**14,735**

Group At 31 December 2019	Banking £000	RAF £000	ABL £001	ASFL £000	Other £001	Total £000
Banking and services fees	1,536	219	1,380	1	-	3,136
Foreign exchange fees	836	-	-	-	444	1,280
Investment management Fees	8,474	-	-	-	-	8.474
Wealth planning Fees	1,043	-	-	-	2	1,045
Total fee and commission income	**11,889**	**219**	**1,380**	**1**	**446**	**13,935**

10. 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 15), loans and advance to banks (note 16) and debt securities at amortised cost (note 17). These assets are all considered investment grade.
• Financial assets which have not experienced a significant increase in credit risk since their initial recognition.

Impairment model

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

• Stage 1: 12-month ECL applies to all financial assets that have not experienced a significant increase in credit risk ("SICR") since origination and are not credit impaired. The ECL will be computed based on the probability of default events occurring over the next 12 months. Stage 1 includes the current performing loans (up to date and in arrears of less than 10 days) and those within Heightened Business Monitoring ("HBM"). Accounts requiring HBM are classified as a short-term deterioration in financial circumstances and are tightly monitored with additional proactive client engagement, but not deemed SICR.

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

Evidence that a financial asset has experienced a SICR includes the following considerations:
- A loan is in arrears between 31 and 90 days;
- Forbearance action has been undertaken;

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

Evidence that a financial asset is within Stage 3 includes the following data:
- A loan is in arrears in excess of 90 days;
- Breach of terms of forbearance;
- Recovery action is in hand; or
- Bankruptcy proceedings or similar insolvency process of a client, or director of a company.

A borrower will move back into Stage 1 conditional upon both a period of 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.

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
Loans that are not individually significant, and whose terms have been renegotiated, are no longer considered to be past due and are treated as new loans.

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

(d) Assets classified as financial investments
Equity instruments at fair value through other comprehensive income
Equity investments are not subject to impairment charges recognised in the income statement. Any fair value gains and losses are recognised in OCI which are not subject to reclassification to the income statement on derecognition.

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

	2020 £000	2019 £000
Net impairment losses on loans and advances to customers	2,849	867
Of which:		
Stage 1	525	(1,099)
Stage 2	134	37
Stage 3	2,190	1,929
	2,849	**867**

During the year, the Bank recovered £7k (2019: £103k) of loans which had previously been written-off.

11. Other income

Other income includes an adjustment of £0.1m (2019: £1.5m), to the contingent consideration for the acquisition of Renaissance Asset Finance Ltd. The fair value adjustment is based on management's assessment of the underlying performance of the business and reflects a reduction in the estimated future liability payable under the sale and purchase agreement.

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

Rental income from the investment property (see note 28) of £0.5m (2019: £2.1m), re-charges to the Arbuthnot Banking Group for the shared use of premises and information technology infrastructure of £0.8m (2019: £1.0m).

The Group holds a number of properties on which it receives rental income in its capacity as a lessor. £1.5m of the reduction in rental income from the prior year is due to the King Street property being vacant while extensive refurbishment works are carried out. Rental income has decreased in the year due to Covid-19 as payment holidays have been awarded to specific tenants with revenue derecognised when appropriate.

Notes to the Consolidated Financial Statements

12. Operating expenses

Operating expenses comprise:	2020 £000	2019 £000
Staff costs, including Directors:		
Wages, salaries and bonuses	32,318	33,588
Social security costs	3,427	3,542
Pension costs	2,107	1,841
Amortisation of intangibles (note 25)	2,827	2,007
Depreciation (note 26)	1,545	1,417
Expenses relating to short-term leases	413	368
Parent company management charge	9,537	10,545
Other administrative expenses	22,826	19,459
Total operating expenses from continuing operations	**75,000**	**72,767**

Remuneration of the auditor and its associates, excluding VAT, was as follows:	2020 £000	2019 £000
Fees payable to the Group's auditor for the audit of the Group's annual accounts	279	200
Fees payable to the Group's auditor and its associates for other services:		
Audit of the accounts of subsidiaries	117	85
Audit related assurance services	103	100
Total fees payable	**499**	**385**

*Other assurance services include regulatory assessments.

13. 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% (2019: 19%)	2020 £000	2019 £000
Current taxation		
Corporation tax charge - current year	(1,041)	258
Corporation tax charge - adjustments in respect of prior years	(4)	15
	(1,045)	**273**
Deferred taxation		
Origination and reversal of temporary differences	92	(103)
Adjustments in respect of prior years	(26)	68
	66	**(35)**
Income tax (credit)/expense	**(979)**	**238**
Tax reconciliation		
(Loss)/profit before tax	(1,223)	5,611
Tax at 19% (2019: 19%)	(232)	1,066
Tax transfer pricing	(1,028)	(729)
Permanent differences	311	(182)
Adjustments in respect of prior years	(30)	83
Corporation tax (credit)/charge for the year	**(979)**	**238**

The UK corporation tax rate for 2020 was enacted on 17 March 2020, remaining at 19%, rather than reducing to the previously enacted 17%. In the Budget speech on 3 March 2021, the Chancellor of the Exchequer, announced the increase of corporation tax from 19% to 25% from 1 April 2023. It is expected that the change in corporation tax will be enacted early in 2021. This will increase the deferred tax asset and reduce the tax charge in 2021 accordingly.

14. Average number of employees

	2020	2019
Banking	202	191
Operations	74	64
RAF	31	31
Arbuthnot Asset Based Lending	18	14
Arbuthnot Specialist Finance Lending	11	8
Central Support services	158	144
	494	**451**

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

Accounting for employee benefits

(a) Post-retirement obligations

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

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

There are no post-retirement benefits other than pensions.

(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.

15. Cash and balances at central banks

	Group & Company	
	2020	2019
	£000	£000
Cash and balances at central banks	**636,799**	**325,908**

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.

16. Loans and advances to banks

	Group		Company	
	2020	2019	2020	2019
	£000	£000	£000	£000
Placements with banks included in cash and cash equivalents (note 38)	**110,252**	**46,244**	**108,879**	**44,938**

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	
	2020	2019	2020	2019
	£000	£000	£000	£000
Aa3	341	30,834	341	30,834
A1	100,741	300	99,368	300
A2	10	13,961	10	12,655
A3	3,956	20	3,956	20
Baa1	5,204	393	5,204	393
Baa2	-	736	-	736
	110,252	**46,244**	**108,879**	**44,938**

None of the loans and advances to banks are past due (2019: £nil).

ECL has been assessed to be insignificant.

17. Debt securities at amortised cost/held to maturity

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

	Group & Company	
	2020	2019
	£000	£000
At 1 January	442,960	342,691
Exchange difference	(2,640)	(3,133)
Additions	695,614	823,139
Redemptions	(791,242)	(719,737)
At 31 December	**344,692**	**442,960**

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	
	2020	2019
	£000	£000
Aaa	61,715	163,788
Aa1	29,315	11,390
Aa2	14,657	205,812
Aa3	41,986	50,238
A1	197,019	11,732
	344,692	**442,960**

ECL has been assessed to be insignificant.

None of the debt securities at amortised cost are past due. (2019. £nil)

18. 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	
	2020	2019
	£000	£000
Repossessed property held for sale	3,285	7,617
	3,285	**7,617**

Repossessed property held for sale
In 2017, a property in Spain held as collateral on a loan was repossessed. At the time of repossession, it was expected that the property would be sold in 12 months and so it was recognised as held for sale. A sale was not possible within the year due to factors outside of the Group's control; however the Group is still pursuing a sale and therefore the property remains held for sale.

In 2018, a further property in Spain held as collateral on a loan was repossessed. The Group's policy was to pursue timely realisation of the collateral in an orderly manner. The property is recognised as an asset held for sale. The property was sold in 2020 at market value to a third party,

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

Notes to the Consolidated Financial Statements

19. 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.

	2020			2019		
	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	17,338	202	188	8,671	105	101
Interest rate swaps	25,292	-	461	25,530	-	218
Structured notes	1,644	1,641	-	1,644	1,699	-
	44,274	**1,843**	**649**	**35,845**	**1,804**	**319**

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

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

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

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

The table below presents an analysis of derivative financial instruments contract/notional amounts by rating agency designation of counterparty bank at 31 December, based on Moody's long-term ratings:

	Group		Company	
	2020	2019	2020	2019
	£000	£000	£000	£000
Aa1	12,126	-	12,126	-
A1	32,148	35,837	32,148	35,837
A2	-	8	-	8
	44,274	**35,845**	**44,274**	**35,845**

Notes to the Consolidated Financial Statements

20. Loans and advances to customers

		2020			
		Stage 1	Stage 2	Stage 3	Total
Group loans and advances to customers		£000	£000	£000	£000
At 1 January 2020		1,517,524	66,372	31,447	1,615,343
Originations and (repayments)		4,941	(4,045)	(8,982)	(8,086)
Write-offs		-	-	(3,280)	(3,280)
Transfer to Stage 1		20,951	(20,951)	-	-
Transfer to Stage 2		(99,683)	99,683	-	-
Transfer to Stage 3		(8,901)	(14,712)	23,613	-
At 31 December 2020	-	**1,434,833**	**126,347**	**42,797**	**1,603,977**
Less allowances for ECLs (see note 21)	-	**(725)**	**(533)**	**(3,369)**	**(4,627)**
Net loans and advances at 31 December 2020	-	**1,434,108**	**125,814**	**39,428**	**1,599,349**

		2019			
		Stage 1	Stage 2	Stage 3	Total
Group loans and advances to customers		£000	£000	£000	£000
At 1 January 2019		1,172,625	32,700	37,407	1,242,732
Originations and (repayments)		147,410	(12,845)	(11,134)	123,431
Write-offs		(49)	-	(2,927)	(2,976)
Acquired portfolio		252,156	-	-	252,156
Transfer to Stage 1		3,659	(3,659)	-	-
Transfer to Stage 2		(50,489)	50,489	-	-
Transfer to Stage 3		(7,788)	(313)	8,101	-
At 31 December 2019		**1,517,524**	**66,372**	**31,447**	**1,615,343**
Less allowances for ECLs (see note 21)	-	**(526)**	**(47)**	**(4,217)**	**(4,790)**
Net loans and advances at 31 December 2019	-	**1,516,998**	**66,325**	**27,230**	**1,610,553**

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

Notes to the Consolidated Financial Statements

		2020			
		Stage 1	Stage 2	Stage 3	Total
Company loans and advances to customers		£000	£000	£000	£000
At 1 January 2020		1,507,900	65,616	29,924	1,603,440
Originations and (repayments)		(747)	(3,732)	(8,691)	(13,170)
Write-offs		-	-	(2,539)	(2,539)
Transfer to Stage 1		20,923	(20,923)	-	-
Transfer to Stage 2		(83,153)	83,153	-	-
Transfer to Stage 3		(8,253)	(14,514)	22,767	-
At 31 December 2020	-	**1,436,671**	**109,600**	**41,460**	**1,587,731**
Less allowances for ECLs (see note 21)	-	**(428)**	**(180)**	**(3,024)**	**(3,632)**
Net loans and advances at 31 December 2020	-	**1,436,243**	**109,420**	**38,436**	**1,584,099**

		2019			
		Stage 1	Stage 2	Stage 3	Total
Company loans and advances to customers		£000	£000	£000	£000
At 1 January 2019		1,168,116	31,520	36,514	1,236,150
Originations and (repayments)		139,992	(12,384)	(10,155)	117,453
Write-offs		-	-	(2,319)	(2,319)
Acquired portfolio		252,156	-	-	252,156
Transfer to Stage 1		2,810	(2,810)	-	-
Transfer to Stage 2		(49,579)	49,579	-	-
Transfer to Stage 3		(5,595)	(289)	5,884	-
At 31 December 2019		**1,507,900**	**65,616**	**29,924**	**1,603,440**
Less allowances for ECLs (see note 21)	-	**(319)**	**(46)**	**(3,846)**	**(4,211)**
Net loans and advances at 31 December 2019	-	**1,507,581**	**65,570**	**26,078**	**1,599,229**

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

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

Group Loans and advances to customers by division (net of ECL)	Banking	Mortgage Portfolio	RAF	ABL	ASFL	Other	Total
			2019				
	£000	£000	£000	£000	£000	£000	£000
Stage 1	1,015,238	306,044	100,981	75,871	7,352	11,511	1,516,997
Stage 2	65,570	-	755	-	-	-	66,325
Stage 3	26,079	-	1,152	-	-	-	27,231
At 31 December -	**1,106,887**	**306,044**	**102,888**	**75,871**	**7,352**	**11,511**	**1,610,553**

Company

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

Company

		2019		
	Banking	Mortgage portfolios	Other	Total
Loans and advances to customers split by division (net of ECL)	£000	£000	£000	£000
Stage 1	1,015,238	306,044	186,298	1,507,580
Stage 2	65,570	-	-	65,570
Stage 3	26,079	-	-	26,079
At 31 December	**1,106,887**	**306,044**	**186,298**	**1,599,229**

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:

2020

Group loans and advances in arrears	Banking £000	Mortgage portfolios £000	RAF £000	ABL £000	ASFL £000	All Other Divisions £000	Total £000
Up to 30 days	10,554	6,355	1,928	-	-	-	18,836
Stage 1	9,902	5,948	1,468	-	-	-	17,318
Stage 2	652	406	346	-	-	-	1,405
Stage 3	-	-	114	-	-	-	114
30 - 60 days	9	4,187	275	-	-	-	4,471
Stage 1	9	-	-	-	-	-	9
Stage 2	-	4,187	209	-	-	-	4,396
Stage 3	-	-	65	-	-	-	65
60 - 90 days	9,467	1,788	475	-	-	-	11,730
Stage 1	-	-	58	-	-	-	58
Stage 2	9,467	1,788	104	-	-	-	11,359
Stage 3	-	-	313	-	-	-	313
Over 90 days	65,227	7,125	1,096	-	-	-	73,448
Stage 2	29,871	-	276	-	-	-	30,147
Stage 3	35,356	7,125	820	-	-	-	43,301
At 31 December	**85,257**	**19,455**	**3,773**	-	-	-	**108,485**

2019

Group loans and advances in arrears	Banking £000	Mortgage portfolios £000	RAF £000	ABL £000	ASFL £000	All Other Divisions £000	Total £000
Up to 30 days	32,783	5,196	1,938	-	-	-	39,917
Stage 1	29,389	5,196	1,725	-	-	-	36,310
Stage 2	3,394	-	1	-	-	-	3,395
Stage 3	-	-	212	-	-	-	212
30 - 60 days	1,934	2,404	375	-	-	-	4,713
Stage 1	35	2,404	-	-	-	-	2,439
Stage 2	1,899	-	203	-	-	-	2,102
Stage 3	-	-	172	-	-	-	172
60 - 90 days	70	1,688	232	-	-	-	1,990
Stage 1	-	1,688	-	-	-	-	1,688
Stage 2	70	-	128	-	-	-	198
Stage 3	-	-	104	-	-	-	104
Over 90 days	61,873	21,516	1,264	-	-	-	84,653
Stage 1	-	21,516	-	-	-	-	21,516
Stage 2	28,664	-	258	-	-	-	28,922
Stage 3	33,209	-	1,006	-	-	-	34,215
At 31 December	**96,660**	**30,804**	**3,809**	-	-	-	**131,273**

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

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

Company loans and advances in arrears	Banking £000	2019 Mortgage portfolios £000	Other £000	Total £000
Up to 30 days	32,783	5,196	-	37,979
Stage 1	29,389	5,196	-	34,585
Stage 2	3,394	-	-	3,394
30 - 60 days	1,934	2,404	-	4,338
Stage 1	35	2,404	-	2,439
Stage 2	1,899	-	-	1,899
60 - 90 days	70	1,688	-	1,758
Stage 1	-	1,688	-	1,688
Stage 2	70	-	-	70
Over 90 days	61,873	21,516	-	83,389
Stage 1	-	21,516	-	21,516
Stage 2	28,664	-	-	28,664
Stage 3	33,209	-	-	33,209
At 31 December	**96,660**	**30,804**	-	**127,464**

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

	Group		Company	
	2020	2019	2020	2019
	£000	£000	£000	£000
Gross investment in finance lease receivables:				
- No later than 1 year	12,894	40,696	-	-
- Later than 1 year and no later than 5 years	97,062	78,013	-	-
- Later than 5 years	1,679	676	-	-
	111,635	119,385	-	-
Unearned future finance income on finance leases	(19,708)	(16,497)	-	-
Net investment in finance leases	**91,927**	**102,888**	-	-
The net investment in finance leases may be analysed as follows:				
- No later than 1 year	30,770	32,818	-	-
- Later than 1 year and no later than 5 years	60,824	69,441	-	-
- Later than 5 years	333	629	-	-
	91,927	**102,888**	-	-

(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 (2019: £nil).

The Bank has continued to support clients that have suffered financial difficulty as a result of the pandemic. The use of COVID-19 relief mechanisms will not automatically merit identification of SICR and trigger a Stage 2 classification in isolation. Where, an individual borrower received COVID-19 relief, which were primarily in the form of payment holidays.

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

(c) Collateral held

Collateral is measured at fair value less costs to sell.

Most of the loans are secured by property. The fair value of collateral held against loans and advances in Stage 3 is £60.6m (2019: £38.6m), against loans of £41.5m (2019: £29.9m). The weighted average loan-to-value of loans and advances in Stage 3 is 73.4% (2019: 75%).

Notes to the Consolidated Financial Statements

21. Allowances for impairment of loans and advances

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

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

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

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

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

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

The ECL requirement increased significantly, primarily in Stage 1 and Stage 2 exposures, in anticipation of credit deterioration, reflecting the severity of the economic impact arising from Covid-19. The impact of the COVID-19 scenarios and weighting adjustments has resulted in a £769k increase in ECL from the pre COVID-19 scenarios due to revised economic scenarios in the credit impairment model. The increase is primarily driven by higher probability weights applied to a decrease in GDP forecasts and unemployment.

Estimated effects from the significant support measures provided by the Group, central banks and governments across the Group's key markets as a result of the COVID-19 pandemic have been factored into the calculation of the Group's loan impairment charge.

Notes to the Consolidated Financial Statements

22. Other assets

	Group		Company	
	2020	2019	2020	2019
	£000	£000	£000	£000
Trade receivables	5,459	4,618	5,294	3,861
Inventory	84,722	75,221	79,554	71,003
Prepayments and accrued income	6,005	6,483	5,689	6,135
Amount due from group companies	1,321	-	9,708	6,366
	97,507	**86,322**	**100,245**	**87,365**

Accounting for inventory

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

Pinnacle Universal is a special purpose vehicle, 100% owned by the Bank, which owns land that is currently in the process of being redeveloped with a view to selling off as individual residential plots. The proceeds from the sale of these plots will be used to repay the outstanding loans.

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

In 2019 a property in Spain and in 2020 a property in France, held as collateral on a loan was repossessed. The Group's intention is to develop and sell the properties have therefore been recognised as inventory. The value of inventory for repossessed collateral at 31 December is £17.5m (2019: £12.0m).

In 2019 two properties were reclassified from investment property to inventory due to being under development with a view to sale, at 31 December 2020 they were valued at cost of £67.2m (2019: £63.2m).

Notes to the Consolidated Financial Statements

23. Financial investments

	Group & Company	
	2020	2019
	£000	£000
Designated at fair value through profit or loss		
- Debt securities	138	156
Designated at fair value through other comprehensive income		
- Listed securities	1,754	3,204
- Unlisted securities	2,432	1,647
Total financial investments	**4,324**	**5,007**

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

In 2018, AL received shares in a listed investment of Secure Trust Bank plc, which were transferred by the parent company, Arbuthnot Banking Group. They were designated as FVOCI for strategic purposes. The carrying value at year end is £1.75m (2019: £3.2m). In 2019 1.0m shares were disposed of at market value through a placing. A dividend of £-nil (2019: £168k) was received in the year.

Debt securities
The Group has made an investment in an unlisted special purpose vehicle, set up to acquire and enhance the value of a commercial property through its 100% owned subsidiary. During 2018 the subsidiary company was sold and under the terms of the sale agreement, the buyer agreed to purchase 100% of the share capital and reimburse all outstanding loans. The proceeds of the sale have been distributed to the investors, except for the amount withheld for the general and specific warranties (which will be released in three instalments at 18-month intervals included as a condition of the sale agreement.) A distribution of £8k (2019: £nil) has been received and a loss of £14k (2019: £9k loss) has been recognised in profit or loss during the year. The investment has been valued at £138k (2019: £156k) as at 31 December 2020 (see note 6. (f)).

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

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

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

Management have assessed the sum of the fair value of the Group's investment as £1.6m (2019: £1.2m). 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 £17k (2019: £7k).

A further investment in an unlisted venture capital investment vehicle was made in 2020. The carrying value at year end is £828k (2019: £457k) and no dividends were received in the year. The increase in value is due to additional contributions to the fund and the successful performance of the underlying investments.

24. 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	
	2020	2019	2020	2019
	£000	£000	£000	£000
Accelerated capital allowances and other short-term timing differences	(577)	(270)	(707)	(385)
Movement in fair value of Financial investments at fair value through other comprehensive income	(229)	(160)	(229)	(160)
Unutilised tax losses	1,147	1,462	1,147	1,224
IFRS 9 adjustment	273	393	273	386
Deferred tax asset	614	1,425	484	1,065
At 1 January	1,425	1,377	1,065	1,139
Other comprehensive income	(69)	(94)	(69)	(94)
Profit and loss account - accelerated capital allowances and other short-term timing differences	(314)	(201)	(322)	(208)
Profit and loss account - tax losses	(315)	562	(77)	324
IFRS 9 adjustment *	(113)	(219)	(113)	(96)
Deferred tax asset at 31 December	614	1,425	484	1,065

*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.

25. 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 or associate at the date of acquisition. Goodwill on acquisitions of subsidiaries or associates 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.

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 2019	8,935	13,393	2,561	24,889
Additions	-	5,553	-	5,553
At 31 December 2019	**8,935**	**18,946**	**2,561**	**30,442**
Additions	-	6,393	-	6,393
At 31 December 2020	**8,935**	**25,339**	**2,561**	**36,835**
Accumulated amortisation				
At 1 January 2019	-	(4,002)	(623)	(4,625)
Amortisation charge	-	(1,761)	(246)	(2,007)
At 31 December 2019	**-**	**(5,763)**	**(869)**	**(6,632)**
Amortisation charge	-	(2,581)	(246)	(2,827)
At 31 December 2020	**-**	**(8,344)**	**(1,115)**	**(9,459)**
Net book amount				
At 31 December 2019	8,935	13,183	1,692	23,810
At 31 December 2020	8,935	16,995	1,446	27,376

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 (2019: 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 (2019: 3 years with a terminal value). The 3 year discounted cash flows with a terminal value are considered to be appropriate as the goodwill relates to an ongoing, well established, business and not underlying assets with finite lives. The terminal value is calculated by applying a discounted perpetual growth model to the profit expected in 2023 as per the approved 3 year plan. A growth rate of 6.2% (2019: 8.1%) was used for income and 7.1% (2019: 10.8%) for expenditure from 2021 to 2023 (these rates were the best estimate of future forecasted performance), while a 3% (2019: 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 2023 as per the approved budget. A growth rate of 3% (2019: 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 5%. The uncertainty of the COVID-19 pandemic has significantly reduced economic growth in 2020. However, the country's general return to economic stability should ensure that the Bank's current growth strategy supported by capital available at parent level will allow the Group to achieve reasonable economic growth.

Cash flows were discounted at a pre-tax rate of 12% (2019: 12%) to their net present value. The discount rate of 12% is considered to be appropriate after evaluating current market assessments of the time value of money and the risks specific to the assets or CGUs.

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

Company	Goodwill £000	Computer software £000	Other intangibles £000	Total £000
Cost				
At 1 January 2019	5,415	13,325	213	18,953
Additions	-	5,270	-	5,270
At 31 December 2019	**5,415**	**18,595**	**213**	**24,223**
Additions	-	5,947	-	5,947
At 31 December 2020	**5,415**	**24,542**	**213**	**30,170**
Accumulated amortisation				
At 1 January 2019	-	(3,986)	(213)	(4,199)
Amortisation charge	-	(1,733)	-	(1,733)
At 31 December 2019	**-**	**(5,719)**	**(213)**	**(5,932)**
Amortisation charge	-	(2,526)	-	(2,526)
At 31 December 2020	**-**	**(8,245)**	**(213)**	**(8,458)**
Net book amount				
At 31 December 2019	5,415	12,876	-	18,291
At 31 December 2020	5,415	16,297	-	21,712

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

26. 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
Office equipment	3 to 10 years
Computer equipment	3 to 5 years

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

Group	Leasehold improvements £000	Computer and other equipment £000	Total £000
Cost or valuation			
At 1 January 2019	6,779	3,452	10,231
Additions	609	1,341	1,950
At 31 December 2019	**7,388**	**4,793**	**12,181**
Additions	65	618	683
Disposals	(20)	(77)	(97)
At 31 December 2020	**7,433**	**5,334**	**12,767**
At 1 January 2019	(3,000)	(2,135)	(5,135)
Depreciation charge	(778)	(639)	(1,417)
At 31 December 2019	**(3,778)**	**(2,774)**	**(6,552)**
Depreciation charge	(704)	(841)	(1,545)
Disposals	20	54	74
At 31 December 2020	**(4,462)**	**(3,561)**	**(8,023)**
Net book amount			
At 31 December 2019	**3,610**	**2,019**	**5,629**
At 31 December 2020	**2,971**	**1,773**	**4,744**

Company	Leasehold improvements £000	Computer and other equipment £000	Total £000
Cost or valuation			
At 1 January 2019	6,742	3,374	10,116
Additions	603	1,341	1,944
At 31 December 2019	**7,345**	**4,715**	**12,060**
Additions	65	596	661
At 31 December 2020	**7,410**	**5,311**	**12,721**
At 1 January 2019	(2,979)	(2,080)	(5,059)
Depreciation charge	(776)	(630)	(1,406)
At 31 December 2019	**(3,755)**	**(2,710)**	**(6,465)**
Depreciation charge	(701)	(835)	(1,536)
At 31 December 2020	**(4,456)**	**(3,545)**	**(8,001)**
Net book amount			
At 31 December 2019	**3,590**	**2,005**	**5,595**
At 31 December 2020	**2,954**	**1,766**	**4,720**

27. 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.

Group	Investment property £000	Properties £000	Equipment £000	Total £000
At 1 January 2019	8,108	14,036	-	22,144
Additions	-	-	543	543
Amortisation	-	(2,654)	(89)	(2,743)
Transfers*	(8,108)	8,108	-	-
At 31 December 2019	-	**19,490**	**454**	**19,944**
Additions	-	346	-	346
Amortisation	-	(2,406)	(181)	(2,587)
At 31 December 2020	-	**17,430**	**273**	**17,703**

Company	Investment property £000	Properties £000	Equipment £000	Total £000
At 1 January 2019	8,108	13,386	-	21,494
Additions	-	-	543	543
Amortisation	-	(2,583)	(89)	(2,672)
Transfers*	(8,108)	8,108	-	-
At 31 December 2019	-	**18,911**	**454**	**19,365**
Additions	-	323	-	323
Amortisation	-	(2,330)	(181)	(2,511)
At 31 December 2020	-	**16,904**	**273**	**17,177**

*The leasehold investment properties were transferred to inventory during 2019 and as a result have been reclassified to properties within the table above.

In the year, the Group received £1.3m (2019: £3m) of rental income from subleasing right of use assets through an operating lease.

The Group recognised £851k (2019: £976k) of interest expense related to lease liabilities. The Group also recognised £413k (2019: £439k) of expense in relation to leases with a duration of less than 12 months.

28. 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	2020 £000	2019 £000
Opening balance	6,763	67,081
Additions	-	2,901
Transfer	-	(63,219)
Fair value adjustment	(213)	-
At 31 December	6,550	6,763

Company	2020 £000	2019 £000
Opening balance	-	60,318
Additions	-	2,901
Transfer	-	(63,219)
At 31 December	-	-

Crescent Office Park, Bath
In November 2017, a Property Fund, based in Jersey and owned by the Group, acquired a freehold office building in Bath. The property comprises 25,528 square ft. over ground and two upper floors with parking spaces. The property was acquired for £6.35m. On the date of acquisition, the property was being multi-let to tenants and was at full capacity.

In 2017, the Fund was recognised as an asset held for sale under IFRS 5 and therefore not consolidated in the financial statements. At 31 December 2018 it was consolidated into the Group as it no longer met the IFRS 5 criteria and is recognised as an investment property. The Group has elected to apply the fair value model (see note 4.1(c))

The Group recognised £0.4m (2019: £0.5m) rental income during the year and incurred £0.03m (2019: £0.02m) of direct operating expenses.

The property remained tenanted during 2020.

29. Deposits from banks

Group & Company	2020 £000	2019 £000
Deposits from other banks	230,090	230,421

Deposits from banks include £225m (2019: £225m) obtained through the Bank of England Term Funding Scheme ("TFS"). For a maturity profile of deposits from banks, refer to Note 5.

30. Deposits from customers

Group	2020 £000	2019 £000
Current/demand accounts	1,523,137	1,161,315
Notice accounts	157,934	102,567
Term deposits	710,790	848,315
	2,391,861	**2,112,197**

Company	2020 £000	2019 £000
Current/demand accounts	1,528,139	1,161,081
Notice accounts	157,934	102,567
Term deposits	710,790	848,315
	2,396,863	**2,111,963**

Included in customer accounts are deposits of £16.4m (2019: £33.2m) 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.

31. Other liabilities

	Group		Company	
	2020 £000	2019 £000	2020 £000	2019 £000
Trade payables	1,730	1,738	1,200	1,212
Amount due to Group companies	-	766	-	765
Accruals and deferred income	5,216	9,377	4,568	8,633
	6,946	**11,881**	**5,768**	**10,610**

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32. 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.

Group	Investment property £000	Properties £000	Equipment £000	Total £000
At 1 January 2019	-	22,732	-	22,732
Additions	-	-	539	539
Interest expense	-	965	11	976
Lease payments	-	(3,677)	(139)	(3,816)
At 31 December 2019	-	**20,020**	**411**	**20,431**
Additions	-	508	-	508
Interest expense	-	864	17	881
Lease payments	-	(3,321)	(193)	(3,514)
At 31 December 2020	-	**18,071**	**235**	**18,306**

Company	Investment property £000	Properties £000	Equipment £000	Total £000
At 1 January 2019	-	22,067	-	22,067
Additions	-	-	539	539
Interest expense	-	932	11	943
Lease payments	-	(3,584)	(139)	(3,723)
At 31 December 2019	-	**19,415**	**411**	**19,826**
Additions	-	508	-	508
Interest expense	-	834	17	851
Lease payments	-	(3,228)	(193)	(3,421)
At 31 December 2020	-	**17,529**	**235**	**17,764**

Maturity analysis

	2020 £000	2019 £001
Less than one year	3,551	3,664
One to five years	8,830	12,383
More than five years	58,318	59,084
Total undiscounted lease liabilities at 31 December	**70,699**	**75,131**
Lease liabilities included in the statement of financial position at 31 December	**18,306**	**20,431**
Current	2,766	2,673
Non-current	15,540	17,758

33. 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	2020 £000	2019 £000
Subordinated loan notes	**24,308**	**24,239**

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.

34. 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 2020, the Group had capital commitments of £50k (2019: £460k) 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	
	2020	2019	2020	2019
	£000	£000	£000	£000
Guarantees and other contingent liabilities	6,248	6,401	6,248	6,401
Commitments to extend credit:				
- Original term to maturity of one year or less	308,427	190,064	152,972	135,598
	314,675	**196,465**	**159,220**	**141,999**

All assets have been assessed at Stage 1. ECL has been assessed to be insignificant.

35. Share capital

	Number of shares	Ordinary share capital
Group and Company		£000
At 1 January 2019	15,000,000	15,000
At 31 December 2019 & December 2020	**15,000,000**	**15,000**

The Ordinary share capital is fully authorised and comprises £15m (2019: £15m) ordinary shares with a nominal value of £1 per share.

36. Reserves and retained earnings

	Group		Company	
	2020	2019	2020	2019
	£000	£000	£000	£000
Retained earnings	46,835	47,077	42,020	44,574
Capital contribution reserve	121,012	121,012	121,012	121,012
Fair value reserve/Available-for-sale reserve	(203)	951	(203)	951
Total reserves at 31 December	**167,644**	**169,040**	**162,829**	**166,537**

37. Share-based payment options

Company - cash settled
Grants were made to Messrs Salmon and Cobb on 14 June 2016 under Phantom Option Scheme introduced on that date, to acquire ordinary 1p shares in the Company at 1591p exercisable in respect of 50% on or after 15 June 2019 and in respect of the remaining 50% on or after 15 June 2021 when a cash payment would be made equal to any increase in market value.

Under this Scheme, Mr. Salmon and Mr. Cobb were granted a phantom option to acquire 200,000 and 100,000 ordinary 1p shares respectively in the Company. The fair value of these options at the grant date was £1m. The second tranche of the share options will remain unvested 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 2020. The fair value of the options as at 31 December 2020 was £0.1m (2019: £0.3m).

The performance conditions of the Scheme are that for the duration of the vesting period, the dividends paid by ABG must have increased in percentage terms when compared to an assumed dividend of 29p per share in respect of the financial year ending 31 December 2016, by a minimum of the increase in the Retail Prices Index during that period.

Also from the grant date to the date the Option is exercised, there must be no public criticism by any regulatory authority on the operation of ABG or any of its subsidiaries which has a material impact on the business of ABG.

Options are forfeited if they remain unexercised after a period of more than 7 years from the date of grant. If the participant ceases to be employed by the Group by reason of injury, disability, ill-health or redundancy; or because his employing company ceases to be a shareholder of the Group; or because his employing business is being transferred out of the Group, his option may be exercised within 6 months after such cessation. In the event of the death of a participant, the personal representatives of a participant may exercise an option, to the extent exercisable at the date of death, within 6 months after the death of the participant.

On cessation of employment for any other reason (or when a participant serves, or has been served with, notice of termination of such employment), the option will lapse although the Remuneration Committee has discretion to allow the exercise of the option for a period not exceeding 6 months from the date of such cessation.

In such circumstances, the performance conditions may be modified or waived as the Remuneration Committee, acting fairly and reasonably and taking due consideration of the circumstances, thinks fit. The number of Ordinary Shares which can be acquired on exercise will be pro-rated on a time elapsed basis, unless the Remuneration Committee, acting fairly and reasonably and taking due consideration of the circumstances, decides otherwise. In determining whether to exercise its discretion in these respects, the Remuneration Committee must satisfy itself that the early exercise of an option does not constitute a reward for failure.

The probability of pay-out 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. The attrition rate will increase by 3% per year until the vesting date.

The award is made by the ultimate Parent Company and recharged to the Group.

38. 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	
	2020	2019	2020	2019
	£000	£000	£000	£000
Cash and balances at central banks (Note 15)	636,799	325,908	636,799	325,908
Loans and advances to banks (Note 16)	110,252	46,244	108,879	44,938
	747,051	**372,152**	**745,678**	**370,846**

39. Related party transactions

Related parties of the Group include Arbuthnot Banking Group PLC and its Directors, subsidiaries, key management personnel, close family members of key management personnel and entities which are controlled, jointly controlled or significantly influenced, or for which significant voting power is held, by key management personnel or their close family members. Key management personnel are defined as Directors and Non-executive Directors of the Board.

A number of banking transactions are entered into with related parties in the normal course of business on normal commercial terms. These include loans and deposits. The volumes of related party transactions, outstanding balances at year end, and related expense and income for the year are as follows:

	Company	
	2020	2019
	£000	£000
Loans with parent company		
Loans outstanding at 1 January	11,499	11,499
Loans outstanding at 31 December	**11,499**	**11,499**
Interest income earned	**96**	**208**

	Company	
	2020	2019
	£000	£000
Loans with subsidiaries		
Loans outstanding at 1 January	174,769	105,043
Loans advanced during the year to the subsidiaries	1,519,918	1,214,594
Loan repayments during the year from the subsidiaries	(1,524,715)	(1,144,868)
Loans outstanding at 31 December	**169,972**	**174,769**
Interest income earned	**4,627**	**4,144**

	Company	
	2020	2019
	£000	£000
Deposits on behalf of parent company		
Deposits at 1 January	26,810	28,508
Deposits placed during the year from the parent company	23,185	26,613
Deposits repaid during the year by the parent company	(23,339)	(28,311)
Deposits at 31 December	**26,656**	**26,810**
Interest expense on deposits	**50**	**65**

	Company	
	2020	2019
	£000	£000
Deposits on behalf of subsidiaries		
Deposits at 1 January	7,518	6,305
Deposits placed during the year from the subsidiaries	673	8,767
Deposits repaid during the year by the subsidiaries	(3,115)	(7,554)
Deposits at 31 December	**5,076**	**7,518**
Interest expense on deposits	**247**	**34**

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Amounts recharged	Group 2020 £000	Group 2019 £000	Company 2020 £000	Company 2019 £000
Amounts recharged to the parent company	840	1,005	840	1,005
Amounts recharged to fellow subsidiaries and associates	-	-	681	-
Amounts recharged from the parent company	9,537	10,545	9,537	10,545

Intergroup balances	Group 2020 £000	Group 2019 £000	Company 2020 £000	Company 2019 £000
Balances due from fellow subsidiaries and associates	-	-	8,387	6,366

Intergroup balances	Group & Company 2020 £000	Group & Company 2019 £000
Balances due from/(to) the parent company	1,321	(765)

The Bank paid dividends of £nil per share (2019: 16.04p per share) during the year to Arbuthnot Banking Group PLC.

The board of directors proposed dividends on ordinary shares in 2020. The dividends were due to be approved at the AGM on 19 May 2020. However, due to the COVID-19 coronavirus pandemic and a request by the Bank of England the board of directors decided to cancel these dividends and to suspend discretionary dividend payments during 2020. A dividend of 21p per share, based on the profits reported in 2019, was paid on 18 March, 2021, following the PRA statement in December 2020, advising that it is for bank boards to determine the appropriate level of distributions and removing its request not to make shareholder distributions.

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

Directors and Key Management	Group 2020 £000	Group 2019 £000	Company 2020 £000	Company 2019 £000
Loans				
Loans outstanding at 1 January	503	517	503	517
Loans advanced during the year	-	141	-	141
Loan repayments during the year	(1)	(155)	(1)	(155)
Loans outstanding at 31 December	**502**	**503**	**502**	**503**
Interest income earned	**15**	**16**	**15**	**16**

Directors and Key Management	Group 2020 £000	Group 2019 £000	Company 2020 £000	Company 2019 £000
Deposits				
Deposits at 1 January	3,594	8,030	3,594	8,030
Deposits placed during the year	3,645	6,410	3,645	6,410
Deposits repaid during the year	(2,783)	(10,846)	(2,783)	(10,846)
Deposits at 31 December	**4,456**	**3,594**	**4,456**	**3,594**
Interest expense on deposits	**12**	**7**	**12**	**7**

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 (2019: £nil).

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

	Group & Company	
	2020	2019
	£000	£000
Salary payments	3,316	4,351
Pension contributions	131	111
	3,447	**4,462**

Pension contributions are being accrued under money purchase schemes for 3 directors (2019. 3 directors) in respect of qualifying service. The emoluments of Sir Henry Angest, JR Cobb, and AA Salmon were paid by the Parent Company. Their total emoluments are disclosed in the financial statements of the Parent Company. An allocation of these costs are included in this disclosure to reflect the efforts incurred by these individuals in exercising their roles as executive directors of Arbuthnot Latham & Co., Limited.

Share based payments to Directors are disclosed in Note 37.

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

	Group & Company	
	2020	2019
	£000	£000
Salary payments	517	817
Pension contributions	35	35
	552	**852**

Other related party transactions
Sir Michael CG Peat is an independent non-executive board member of Deloitte LLP. During 2020 the Bank was invoiced £-nil (2019: £123k) by Deloitte LLP in relation to professional fees. As at 31 December 2020, there were no payments outstanding.

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40. Interests in subsidiaries

Company	Investment at cost £000	Impairment provisions £000	Net £000
At 1 January 2019	7,945	-	7,945
Capital contribution to Arbuthnot Real Estate Fund	6,657	-	6,657
Incorporation of Arbuthnot Commercial Asset Based Lending	3,500	-	3,500
Capital contribution to Arbuthnot Specialist Finance Limited	1,500		1,500
At 31 December 2019	**19,602**	-	**19,602**
Capital contribution to Pinnacle Universal Limited	5,168		5,168
At 31 December 2020	**24,770**	-	**24,770**

(a) List of subsidiaries
The table below provides details of the subsidiaries of Arbuthnot Latham & Co., Ltd at 31 December:

	% shareholding	Country of incorporation	Principal activity
Direct shareholding			
Arbuthnot Latham (Nominees) Limited	100.0%	UK	Dormant
Arbuthnot Securities Limited	100.0%	UK	Dormant
John K Gilliat & Co., Limited	100.0%	UK	Dormant
Arbuthnot Specialist Finance Limited	100.0%	UK	Specialist finance
Pinnacle Universal Limited	100.0%	UK	Property development
Pinnacle Universal	100.0%	BVI	Property development
Renaissance Asset Finance Limited	100.0%	UK	Asset finance
Arbuthnot Commercial Asset Based Lending Ltd	100.0%	UK	Asset based lending
Arbuthnot Latham Real Estate Holdings Ltd	100.0%	UK	Property investment
Arbuthnot Latham Real Estate Investors Ltd (Jersey)	100.0%	Jersey	Property investment
Arbuthnot Latham Real Estate Capital GPI Ltd (Jersey)	100.0%	Jersey	Property investment
Arbuthnot Latham Real Estate Capital Fund I LP (Jersey)	100.0%	Jersey	Property investment
Arbuthnot Latham Real Estate Holdco Ltd (Jersey)	100.0%	Jersey	Property investment
Arbuthnot Latham Real Estate PropCo I Ltd (Jersey)	100.0%	Jersey	Property investment

All the subsidiary and related undertakings above are unlisted and none are banking institutions. All entities are included in the consolidated financial statements and have an accounting reference date of 31 December. All the above interests relate wholly to ordinary shares. No investments in subsidiary undertakings are impaired.

All Jersey entities have their registered office as 26 New Street, St Helier, Jersey, JE2 3RA. Pinnacle Universal's registered office is 9 Columbus Centre, Pelican Drive, Road Town, Tortola, BVI. All other entities listed above have their registered office as 7 Wilson Street, London, EC2M 2SN.

(b) Non-controlling interests in subsidiaries
There are no subsidiaries with non-controlling interests.

Notes to the Consolidated Financial Statements

41. 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 2020 Location	Turnover (£m)	Number FTE employees	Profit/(loss) before tax (£m)	Tax paid (£m)
Arbuthnot Latham Banking	75.1	480	(0.6)	1.5
Dubai - Branch	-	14	(0.6)	-

31 December 2019 Location	Turnover (£m)	Number FTE employees	Profit/(loss) before tax (£m)	Tax paid (£m)
Arbuthnot Latham Banking	74.2	467	8.4	0.1
Dubai - Branch	-	13	(2.8)	-

The Dubai branch income is booked through the UK; hence the turnover is nil in the above analysis. Offsetting this income against Dubai branch costs would result in a £1.7m profit (2019: £1.6m). No public subsidies were received during 2020 or 2019.

Following a strategic review of the company's operations, the Dubai branch will be closed in 2021.

42. Ultimate controlling party

The Directors regard the immediate parent company, Arbuthnot Banking Group PLC, a company registered in England and Wales, as the ultimate parent company. Sir Henry Angest, the Group Chairman and CEO has a beneficial interest in 56.1% of the issued 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.

Notes to the Consolidated Financial Statements

43. Non-adjusting events after the balance sheet date

Asset Alliance Group Holding Limited
On 10 December 2020 the Bank announced it had agreed to purchase the entire share capital of Asset Alliance Group Holdings Limited.

Asset Alliance 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. As at 31 August 2020 Asset Alliance had assets for lease with a net book value of approximately £150 million.

The consideration is based on an agreed discount to the tangible net assets of Asset Alliance at completion, after adjusting for the fair value of the assets available for lease. The consideration is expected to be approximately £4 1 million The Bank has received all necessary regulatory approval and the acquisition will complete on 31 March 2021.

Tay loan portfolio
After being approached by Charter Court Financial Services Ltd (a subsidiary of One Savings Bank) who provide the third-party servicing of the portfolio, the Bank decided to sell the portfolio as it was becoming uneconomical to service. The sale completed on the 26 February 2021 and generated a net gain of £2.2m for the 2021 financial year.

Dubai branch
Following a strategic review of its international representation the Bank concluded that in the current market the Dubai office no longer fitted with its future growth plans and so consequently took the decision to close the Dubai office.

The business has generated a high volume of client relationships for the Bank, however its contribution versus its high cost base makes it unviable for the Bank's future growth aspirations. Existing clients will be serviced from the London office and once the transition has been completed the office is scheduled to close at the end of May 21.