ARBUTHNOT BANKING GROUP PLC

24 March 2022

ARBUTHNOT BANKING GROUP (“Arbuthnot”, “the Group” or “ABG”)
Audited Final Results for the year to 31 December 2021

Strong growth has returned the Group to profitability.

Arbuthnot Banking Group today announces its audited results for the year ended 31 December 2021.

Arbuthnot Banking Group PLC is the holding company for Arbuthnot Latham & Co., Limited.

FINANCIAL HIGHLIGHTS

- Profit Before Tax of £4.6m (2020: loss £1.1m*)
- Operating income increased to £88.7m (2020: £72.5m)
- Earnings per share of 45.2p (2020: negative 8.9p)
- Final dividend declared of 22p (2020: nil**)
- Special dividend of 21p and interim dividend of 16p already paid in the year (2020: nil)
- Net assets of £200.9m (2020: £194.0m)
- Net assets per share of 1315p (2020: 1270p)
- Total capital ratio of 14.9% (2020: 18.7%)

OPERATIONAL HIGHLIGHTS

Arbuthnot Latham

- Profit before tax and group recharges of £15.3m (2020: £8.3m), an increase of 84%
- Average net margin at 4.1% (2020: 4.1%)
- Customer loans increased 25% to £2bn*** (2020: £1.6bn)
- Customer deposits increased 18% to £2.8bn (2020: £2.4bn)
- Assets under management increased 18% to £1.36bn (2020: £1.15bn) driven by both strong net inflows and investment performance
- Completed acquisition of commercial truck leasing business, Asset Alliance, generating a bargain purchase of £8.6m
- Continued modernisation of our digital channels including introduction of Apple and Google pay facilities to complement the upgraded Arbuthnot Card app

Commenting on the results, Sir Henry Angest, Chairman and Chief Executive of Arbuthnot, said: “The Group made good progress in 2021, returning to growth and restoring profitability, notwithstanding the ultra-low interest rate environment prevailing in the period.

The Group delivered well against our Future State plan achieving significant growth and continuing to diversify through the development of specialist finance businesses, with the successful acquisition and integration of Asset Alliance, a significant strategic step.

Our lending businesses performed well with lending balances growing 25 per cent and reaching two billion pounds for the first time in the Bank’s history.

The return to profitability has allowed us to reinstate our normal practice of paying interim and final dividends, and with the special dividend paid earlier in the year this indicates the Board’s confidence in the Group’s future prospects.”

Note: * The prior year results included £1m of transaction costs related to acquisition of Asset Alliance. Excluding these the business broke even.

** On 18 February 2021 the Board declared a special dividend of 21p in lieu of the final dividend for 2019 that had been withdrawn after guidance from the Group’s Regulators.

*** This balance includes both Customer loans and assets available for lease.

The Directors of the Company accept responsibility for the contents of this announcement.

ENQUIRIES:

Arbuthnot Banking Group Sir Henry Angest, Chairman and Chief Executive Andrew Salmon, Group Chief Operating Officer James Cobb, Group Finance Director	0207 012 2400
Grant Thornton UK LLP (Nominated Adviser and AQSE Exchange Corporate Adviser) Colin Aaronson Samantha Harrison George Grainger	0207 383 5100
Numis Securities Ltd (Joint Broker) Stephen Westgate	0207 260 1000
Shore Capital Stockbrokers Ltd (Joint Broker) Hugh Morgan Daniel Bush	0207 408 4090
Maitland/AMO (Financial PR) Neil Bennett Sam Cartwright	0207 379 5151

The 2021 Annual Report and Notice of Meeting will be available on the Arbuthnot Banking Group website http://www.arbuthnotgroup.com on or before 15 April 2022. Copies will then be available from the Company Secretary, Arbuthnot Banking Group PLC, Arbuthnot House, 7 Wilson Street, London, EC2M 2SN, when practicable.

Consolidated statement of comprehensive income

	Note	Year ended 31 December 2021 £000	2020 £000
Income from banking activities			
Interest income	8	77,102	75,082
Interest expense		(13,027)	(17,024)
Net interest income		**64,075**	**58,058**
Fee and commission income	9	18,472	14,735
Fee and commission expense		(349)	(293)
Net fee and commission income		**18,123**	**14,442**
Operating income from banking activities		**82,198**	**72,500**
Income from leasing activities			
Revenue	10	74,500	-
Cost of goods sold	10	(68,023)	-
Gross profit from leasing activities	10	**6,477**	**-**
Total group operating income		**88,675**	**72,500**
Net impairment loss on financial assets	11	(3,196)	(2,849)
Gain from bargain purchase	12	8,626	-
Other income	13	3,955	678
Operating expenses	14	(93,422)	(71,419)
Profit / (loss) before tax		**4,638**	**(1,090)**
Income tax credit / (expense)	15	2,148	(242)
Profit / (loss) after tax		**6,786**	**(1,332)**
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Changes in fair value of equity investments at fair value through other comprehensive income		5,626	(12,826)
Tax on other comprehensive income		2	(69)
Other comprehensive income / (loss) for the period, net of tax		**5,628**	**(12,895)**
Total comprehensive income / (loss) for the period		**12,414**	**(14,227)**
Earnings per share for profit attributable to the equity holders of the Company during (expressed in pence per share):			
Basic earnings per share	17	**45.2**	**(8.9)**
Diluted earnings per share	17	**45.2**	**(8.9)**

Consolidated statement of financial position

	Note	At 31 December 2021 £000	2020 £000
ASSETS			
Cash and balances at central banks	18	814,692	636,799
Loans and advances to banks	19	73,444	110,267
Debt securities at amortised cost	20	301,052	344,692
Assets classified as held for sale	21	3,136	3,285
Derivative financial instruments	22	1,753	1,843
Loans and advances to customers	23	1,870,962	1,587,849
Current tax asset		-	205
Other assets	25	110,119	96,288
Financial investments	26	3,169	18,495
Deferred tax asset	27	2,562	1,009
Intangible assets	28	29,864	23,646
Property, plant and equipment	29	125,890	4,905
Right-of-use assets	30	15,674	17,703
Investment property	31	6,550	6,550
Total assets		**3,358,867**	**2,853,536**
EQUITY AND LIABILITIES			
Equity attributable to owners of the parent			
Share capital	38	154	154
Retained earnings	39	201,026	207,839
Other reserves	39	(301)	(13,970)
Total equity		**200,879**	**194,023**
LIABILITIES			
Deposits from banks	32	240,333	230,090
Derivative financial instruments	22	171	649
Deposits from customers	33	2,837,869	2,365,207
Current tax liability		413	-
Other liabilities	34	26,216	7,606
Lease liabilities	35	16,214	18,305
Debt securities in issue	36	36,772	37,656
Total liabilities		**3,157,988**	**2,659,513**
Total equity and liabilities		**3,358,867**	**2,853,536**

Chairman's statement

Arbuthnot Banking Group ("ABG or The Group") has reported a profit before tax of £4.6m. The improved performance has allowed the business to restore the paying of dividends to shareholders. During the year the Group paid a special dividend in respect of the 2019 final dividend, that was previously cancelled after the general guidance to the banking industry from the Group's Regulator. The Group has also returned to its normal practice of paying an interim and a final dividend.

The year has seen substantial progress in the growth of the balance sheet and assets under management, both of which have grown by over 15%. This, together with the positive impact from the reversal of the sharp reduction in interest rates, means that the Group is well positioned for the year ahead. Achieving this £4.6m of profit before tax I believe is very creditable, given that the Group has had a number of adverse items that have impacted the results. The Group has once again had to operate in an ultra-low interest rate environment. The continuation of the Bank of England base rate at 0.1% for almost the entire year cost the Group £11.5m in interest earnings compared to when the base rate was at 75 basis points, which is where it was prior to the onset of the COVID-19 pandemic. In addition, the Group had to absorb the cost of an industry wide asset finance fraud and the write down of a property asset, together totalling £5.9m.

Given the success of the vaccination programme, the Group was able to make a phased return to working from our offices, while adopting an Agile Working Policy. Employees gradually started to come into the office throughout the summer to meet clients and this increased in frequency until the office was fully occupied in October.

It was pleasing to see the levels of activity in both our offices and on the streets of London returning. However, I believe that working practices may not for a long time, if ever, be the same again, and perhaps we may have even witnessed a modern-day industrial revolution. It is therefore important that we embrace this change and ensure that we continue to deliver the highest levels of client service in all of our businesses, regardless of which format or channel our clients prefer to interact with us. We must also strive to make agile working a benefit to the business and our employees and in time examine the opportunities that it will present, allowing us for example to be even more relevant on a national scale. Moreover, we should continue to seek out efficiencies that can be realised. However, this must not be at the expense of training and equipping our next generations with the skills and experiences to take the Group forward.

Highlights

In 2020 the Group articulated a medium term strategic and capital allocation plan. This was titled "Future State". During 2021 the Group made good progress on its plan to deliver this Future State.

On 1 April the acquisition of Asset Alliance Group Holdings Limited ("Asset Alliance or AAG"), a market leading provider of leasing solutions for the commercial truck sector, was completed.

The acquisition generated a net bargain purchase of £8.6m. This is sometimes known as negative goodwill but is recorded in the profit and loss account in full on completion. This profit reflects the negotiation of a favourable acquisition price, and I am pleased to report that after nearly a year as part of the Group, Asset Alliance has established itself as an important contributor to the Group's growth. Despite the lack of availability of new trucks because of the well-publicised scarcity of microchips, the business has performed well and is on track to complete its integration plans.

Being a major part of the market for new truck sales, Asset Alliance has managed to negotiate a good supply of new trucks for 2022 and is already placing orders for delivery in 2023. This will enable Asset Alliance to return to growing its balance sheet.

Our lending businesses, after being constrained during the pandemic, returned to growth. Overall, customer loan balances (including assets available for lease) grew by 25% to close the year at a fraction under £2bn, an historic level for Arbuthnot Latham. This growth rate is even more impressive if the balances related to the Tay Mortgage Portfolio, which was sold in March 2021, are added back. This would show a growth in loan balances of 29%.

I was also pleased that we continued to support both our clients and the wider economy by contributing a further £77m to the CBILS and RLS government backed loan schemes. As we restricted our criteria to lending only to our existing clients, we expect to see our experience of fraud on these loans to remain at extremely low levels.

Once again the diversification of our deposit raising activities served the Bank well during the year, as client deposit levels grew to £2.8bn, an increase of 20% and at favourable rates. As a result, the overall cost of our funding declined to 32bps at the end of the year, averaging 39bps across the whole year.

I would like to draw attention also to the performance of our Wealth Management Division. Given that our investment strategies are mainly developed to preserve capital rather than take excessive risks, the performance is most noticeable in times of market turmoil, as our losses are minimised and this is appreciated by our clients. The continued professional diligence in protecting the wealth of our clients has proved attractive and our client AUM balances increased by 18% during the year to close at £1.4bn. This is a continuation of the recent trends which have shown compound annual growth rates of 8% over the past 5 years.

Finally, our steady progress to provide modern day banking facilities to our clients reached another milestone during the year, when we were able to introduce Apple and Google pay to our suite of products. In the increasingly cashless economy, it is important that we provide all forms of contactless payment mechanisms, which allows us to maintain our strapline that we are a "relationship and service-led bank, powered by modern technology."

Regulation

In my Chairman's Statement last year, I expressed a view that the Government needed to be bold to take advantage of the freedoms that Brexit would offer. Therefore, I was heartened when the PRA published its discussion paper on how smaller banks would be set free from the European rules that had been applied to all banks, regardless of their size or indeed their systemic importance to the overall economy. This project was titled "strong and simple". I hope that this will eventually lead to a regulatory environment whereby the smaller banks can operate under a more proportionate regulatory regime than they currently face. I was pleased to see that despite our limited resources we participated fully in the discussion paper, putting forward a full and reasoned response.

However, this glimmer of hope was rapidly extinguished when the Bank of England announced in December 2021 its plan for the reintroduction of the countercyclical capital buffer. Not only is this buffer being restored to levels twice those that which existed before the pandemic, but it is also being introduced at a speed that is incomprehensible, especially given the very uncertain economic future. It is clear to me that the current capital buffer regime has created many unintended consequences, as banks simply do not use these buffers in the way that they were originally designed; this is creating a vast quantity of dead capital in the system, which could be put to better use in the wider economy. The accelerated timescale in which the buffer is being brought back will, I fear, lead to mistrust between the banking sector and the Regulator in the future. When asked to lend to help the economy in downturns, banks may in future be apprehensive that they might not be allowed sufficient time to restore this buffer in the recovery phase, thus they will refuse to use the buffer in the first place, making the framework nonsensical.

If the buffer regime is not addressed in the near future, the incremental capital demanded will add approximately 15-20% to our minimum requirement and will consequently reduce our return on capital by a proportionate amount. The Board has considered the reintroduction of this capital buffer and feel that given the current opportunities that exist for the businesses across the Group, it would be undesirable for our future growth plans to be reduced to accommodate the increased capital requirement. The Group has a number of options available to manage its capital. This may include optimising the revenue generating assets to focus on core strategic areas. Also, the recent and predicted future rises in the Bank of England base rate will generate higher than planned profit reserves.

Board Changes and Personnel

During the year there were no changes to the Board. I would like to thank my colleagues on the Board for their continued helpful and committed collaboration despite the difficulties and restrictions on being able to meet face to face. Since the year end, we have announced that Nigel Boardman has been appointed as Deputy Chairman of Arbuthnot Latham & Co., Ltd. I wish him well in his new role.

Also, Sir Christopher Meyer has informed the Board of his intention to retire from the Board at the forthcoming AGM. He has been with us for fourteen years and I will miss his wise counsel and his entertaining welcome speeches at our annual reception party. I wish him well for the future.

Finally, I would like to pay tribute to Ruth Lea, who after sixteen years with the Group has decided to retire. Ruth served nine years as a Non-Executive Director and a further seven years as a farsighted senior economic advisor. I wish her otium cum dignitate.

As always, the progress of the Group reflects the hard work and commitment of our members of staff. I believe that our employees have continued to respond well in these difficult circumstances. On behalf of the Board, I extend our thanks to all of them for their efforts in 2021.

Dividend

The Board announced on the 18 February 2021 that it would pay a special dividend of 21p in-lieu of the final dividend relating to 2019 that was cancelled following guidance from the PRA. Subsequently the Board also declared a second interim dividend of 16p (nil: 2020), which was paid on 24 September 2021. Additionally, the Board is recommending a final dividend of 22p to be paid on 31 May 2022 to shareholders on the register at close of business on 22 April 2022. This gives a regular total dividend excluding the special dividend for the year of 38p and a total dividend for the year of 59p (nil: 2020).

Ukraine

The deplorable events currently taking place in Ukraine have brought to light the fact that many private banks and institutions have developed considerable client relationships with Russian wealth.

All businesses engaged in any kind of international work must reflect on what Russia's invasion of Ukraine means for their operations and relationships. Arbuthnot Latham has always had very limited appetite to have clients with high risk factors, and this includes Russian clients, whether based in or outside of Russia. Well before the invasion of Ukraine, we had classified Russia as a high risk country and we would only take on clients with any links to Russia in exceptional circumstances and where their financial activities were straightforward. We have also never operated a Russian desk. This longstanding approach means our exposure to Russian clients of any description is limited to only seven out of our total client base of six thousand.

For the avoidance of doubt, we have no clients that have been included or mentioned in any of the Government sanctions, and we do not and will not work with individuals or entities that could reasonably be seen to be controlled by, under the influence of, or connected with the Russian regime.

Outlook

It appears that given the success of the vaccination programme, the economy is returning to sustained growth. However, in addition to the situation in Ukraine, the macro-economic outlook appears to have several headwinds, the most significant being the rising rate of inflation. This is currently being caused by supply side factors but could migrate to a wage inflation cycle, which may become even more serious. The Bank of England's response of raising interest rates will have a beneficial impact on the Bank's revenues in the short to medium term.

In the meantime, we remain focused on delivering our Future State strategy.

Strategic Report - Business Review

Operating income	£88.7m	£72.5m
Other income	£4.0m	£0.7m
Operating expenses	£93.4m	£71.4m
Profit / (loss) before tax	£4.6m	(£1.1m)
Customer loans*	£2.0bn	£1.6bn
Customer deposits	£2.8bn	£2.4bn
Total assets	£3.4bn	£2.9bn
Assets under management	£1.4bn	£1.1bn
Average net margin	4.1%	4.1%
Loan to deposit ratio	65.9%	67.1%

*This balance includes both Customer loans and assets available for lease.

Arbuthnot Latham & Co., Ltd has reported a profit before tax and Group recharges of £15.3m (2020: £8.3m profit). Included in the result are a number of individual items that should be noted. Firstly, the Group acquired AAG, a business which provides vehicle finance and related services, predominantly in the truck & trailer and bus & coach markets. Operating from five locations, it is the UK's leading independent specialist in commercial vehicle financing with over 4,000 vehicles available to lease. The transaction completed on 1 April 2021 for a purchase price of £10.0m. The discount against the net assets resulted in a bargain purchase credit to the income statement of £8.6m.

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

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

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

Despite the sale of the Tay portfolio, the Group’s client assets (Customer Loans and Assets Available for Lease) grew 25% to finish the year at £2.0bn, with loan book growth from the Banking and specialist lending businesses. The Group continued its long-established strategy to hold high levels of liquidity, with lending growth matched with growth in deposits of 20% to finish the year at £2.8bn.

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

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

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

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

Following a return to profitability, the Group was able to reward high performing staff with discretionary bonuses totalling £6.1m for the period.

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

Banking

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

The Bank's deposits grew £465m to finish the year at £2.8bn, equating to a 20% increase year on year, with a continued emphasis on attracting and generating high quality client relationships. The cost of deposits reduced as older higher priced deposits matured and were replaced at lower market rates.

Net loan growth for the year was £263m, resulting in a 23% increase year on year, with a year-end loan book of £1.4bn. During the period the Bank intentionally repositioned its lending strategy towards more capital efficient lending. The Bank also participated in the Government sponsored lending schemes; the (now closed) Coronavirus Business Interruption Lending Scheme ("CBILS") and more recently the Recovery Loan Scheme ("RLS"). The amount issued under these schemes represented a small proportion of the overall lending in the year, but allowed the Bank to support additional businesses through the pandemic. The Bank has also been approved to participate in the extension to the RLS in 2022.

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

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

Wealth Management

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

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

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

Mortgage Portfolios

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

Arbuthnot Commercial Asset Based Lending ("ACABL")

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

As business activity increased in the wider economy, ACABL continued to experience strong demand for its products and enjoyed success in the transactional MBO and acquisition market.

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

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

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

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

Renaissance Asset Finance ("RAF")

RAF reported a loss of £0.1m (2020: profit of £2.1m), with balances as at the year-end of £97.1m (2020: £91.9m).

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

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

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

Arbuthnot Specialist Finance ("ASFL")

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

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

Asset Alliance Group ("AAG")

AAG was acquired by the Group on 1 April 2021 with assets available to lease totalling £136.9m.

As at 31 December 2021 AAG had assets available for lease totalling £121.6m. The total value of own book lending and leasing of assets since acquisition amounted to £33.8m, with brokered lending of £30.0m.

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

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

Owned Properties

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

Of the Group's three remaining overseas properties that were acquired as a result of defaulted loans, two are in an advanced stage of negotiations, with sales expected to complete in 2022. Included in the result is a write down of £3.8m relating to a property owned in Majorca, following an agreement to sell.

Operations

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

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

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

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

Sustainability

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

Strategic Report - Financial Review

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

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

Highlights

Summarised Income Statement	2021 £000	2020 £000
Net interest income	64,075	58,058
Net fee and commission income	18,123	14,442
Operating income from banking activities	**82,198**	**72,500**
Revenue	68,673	-
Cost of goods sold	(62,196)	-
Operating income from leasing activities	**6,477**	**-**
Total group operating income	**88,675**	**72,500**
Gain from a bargain purchase	8,626	-
Other income	3,955	678
Operating expenses	(93,422)	(71,419)
Impairment losses - loans and advances to customers	(3,196)	(2,849)
Profit / (loss) before tax	**4,638**	**(1,090)**
Income tax expense	2,148	(242)
Profit / (loss) after tax	**6,786**	**(1,332)**
Basic earnings per share (pence)	**45.2**	**(8.9)**

The Group has reported a profit before tax of £4.6m (2020: loss of £1.2m). The underlying profit before tax was £17.0m (2020: profit of £5.1m). There are a number of specific one off items which are included in the result for the year that should be noted.

Underlying profit/(loss) reconciliation 31 December 2021	Arbuthnot Latham & Co. £000	Group Centre £000	Arbuthnot Banking Group £000
Profit before tax and group recharges	15,270	(10,632)	4,638
Exceptional reduction in BoE Base Rate	11,492	-	11,492
Write down of repossessed property in Majorca	3,835	-	3,835
Arena TV Ltd impairment	2,055	-	2,055
Gain on sale of Tay mortgage portfolio	(2,239)	-	(2,239)
Gain from bargain purchase	(8,626)	-	(8,626)
Profits earned on sale of trucks included in bargain purchase	5,830	-	5,830
Underlying profit	**27,617**	**(10,632)**	**16,985**
Underlying basic earnings per share (pence)			**108.2**

Underlying profit/(loss) reconciliation 31 December 2020	Arbuthnot Latham & Co. £000	Group Centre £000	Arbuthnot Banking Group £000
Profit before tax and group recharges	8,316	(9,406)	(1,090)
Exceptional reduction in BoE Base Rate	10,335	-	10,335
Suspension of discretionary bonus payments	(4,498)	(1,611)	(6,109)
Cost of establishing new ventures	1,012	-	1,012
Costs relating to the acquisition of Asset Alliance	991	-	991
Underlying profit	**16,156**	**(11,017)**	**5,139**
Underlying basic earnings per share (pence)			**39.0**

* Loss of STB dividend income (£1.5m) removed from underlying profit reconciliation for 2020 as shareholding now sold. The loss of rental income during refurbishment work (£1.5m) has also been removed as the long term strategy of the Group is to sell the property rather than keep it to generate rental income.

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

During the year the Group acquired Asset Alliance Group Holdings Limited, which completed on 1 April 2021. The business was acquired at a discount to its fair valued net assets resulting in a bargain purchase of £8.6m.

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

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

In the previous financial year, as a result of the Group reporting a loss, no discretionary bonuses were awarded to staff. However, for 2021 with a return to profitability, management intend to recognise and reward its high performing staff with discretionary bonuses. The total charge for the year in this respect was £6.6m (2020: £nil).

Total operating income earned by the Group was £88.7m compared to £72.5m for the prior year. The average net margin on client assets was 4.1% (2020: 4.1%). Included in operating income is revenue from AAG leased assets. This has contributed 0.5% to the average yield generated from the Group's assets.

The Group's operating expenses increased to £93.4m compared to £71.4m for the prior year. This was due to three factors. Firstly, staff costs increased by £9.3m, including £6.6m as noted above for discretionary bonus payments. Secondly, £3.8m was due to the write down of the property owned in Majorca and lastly, £7.8m was due to recognition of nine months of costs for the Asset Alliance Group following its acquisition in April.

Balance Sheet Strength

Summarised Balance Sheet	2021 £000	2020 £000
Assets		
Loans and advances to customers	1,870,962	1,587,849
Assets available for lease	121,563	-
Liquid assets	1,189,188	1,091,758
Other assets	177,154	173,929
Total assets	**3,358,867**	**2,853,536**
Liabilities		
Customer deposits	2,837,869	2,365,207
Other liabilities	320,119	294,306
Total liabilities	3,157,988	2,659,513
Equity	200,879	194,023
Total equity and liabilities	**3,358,867**	**2,853,536**

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

The net assets of the Group now stand at £13.15 per share (2020: £12.70). The increase is largely due to the £5.6m increase in the value of the Secure Trust Bank shares before they were sold, which was recorded in Other Comprehensive Income.

Segmental Analysis

The segmental analysis is shown in more detail in Note 45. The Group is organised into nine operating segments as disclosed below:

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

During the year the Group started to report the Wealth Management segment separate from the Banking segment. This is the level at which management decisions are made and how the Group will manage the overall business segments going forward. The comparative numbers for the Banking division have therefore been restated to exclude the Wealth Management segment.

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	2021 £000	2020 £000
Net interest income	45,011	42,039
Net fee and commission income	2,482	2,053
Operating income	47,493	44,092
Operating expenses - direct costs	(13,812)	(12,302)
Operating expenses - indirect costs	(27,503)	(26,109)
Impairment losses - loans and advances to customers	354	(1,576)
Profit before tax	**6,532**	**4,105**

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

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

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

Customer loan balances increased by £262.3m to £1.4bn and customer deposits also increased to £2.7bn (2020: £2.2bn). The average loan to value was 51.7% (2020: 53.4%).

Wealth Management

Summarised Income Statement	2021 £000	2020 £000
Net fee and commission income	10,563	9,316
Operating income	10,563	9,316
Operating expenses - direct costs	(7,634)	(6,537)
Operating expenses - indirect costs	(5,050)	(4,559)
Loss before tax	**(2,121)**	**(1,780)**

Wealth Management reported a loss before tax of £2.1m (2020: loss of £1.8m). Fee income grew by 13% largely due to a year on year increase in AUMs of 18%, which finished the year at £1.4bn (2020: £1.1bn).

Mortgage Portfolios

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

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

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

RAF

Summarised Income Statement	2021 £000	2020 £000
Net interest income	5,929	6,021
Net fee and commission income	166	130
Operating income	6,095	6,151
Other income	78	73
Operating expenses - direct costs	(3,943)	(2,975)
Impairment losses - loans and advances	(2,292)	(1,154)
(Loss) / profit before tax	**(62)**	**2,095**

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

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

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

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

ACABL

Summarised Income Statement	2021 £000	2020 £000
Net interest income	5,311	2,732
Net fee and commission income	4,224	2,403
Operating income	9,535	5,135
Operating expenses - direct costs	(4,748)	(3,130)
Impairment losses - loans and advances to customers	(50)	-
Profit before tax	**4,737**	**2,005**

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

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

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

ASFL

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

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

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

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

AAG

Summarised Income Statement	2021 £000	2020 £000
Net interest income	(2,401)	-
Revenue	68,673	-
Cost of goods sold	(62,196)	-
Operating income	4,076	-
Gain from bargain purchase	8,626	-
Operating expenses - direct costs	(7,872)	-
Impairment losses - loans and advances to customers	(1,001)	-
Profit before tax	**3,829**	**-**

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

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

The most significant fair value adjustment arose from the valuation of the leased truck fleet. The global computer chips shortage, used in the manufacture of vehicles, has curtailed the supply of new trucks and therefore increased the market value for second-hand vehicles. Upon acquisition the adjustment to the asset values was an overall average increase of 15.95% on the carrying value of the truck fleet resulting in an uplift totalling £19.5m. Since acquisition £5.8m of this uplift has been realised through sales.

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

Other Divisions

Summarised Income Statement	2021 £000	2020 £000
Net interest income	7,555	3,389
Net fee and commission income	681	537
Operating income	8,236	3,926
Other income	2,081	1,445
Operating expenses - direct costs	(12,570)	(6,680)
Loss before tax	**(2,253)**	**(1,309)**

The aggregated loss before tax of other divisions was £2.3m (2020: loss of £1.3m).

Reported within the other divisions in other income was rental income on our Property portfolio of £0.5m (2020: £0.5m) and an adjustment to the RAF deferred consideration of £0.6m, along with dividends received totalling £0.1m.

Group Centre

Summarised Income Statement	2021 £000	2020 £000
Net interest income	(309)	(146)
Subordi5ted loan stock interest	(2,334)	(2,464)
Operating income	(2,643)	(2,610)
Other income	397	-
Operating expenses	(8,386)	(6,796)
Loss before tax	**(10,632)**	**(9,406)**

The Group costs increased to £10.6m (2020: £9.4m). The Group received £0.4m dividends from STB in 2021, while there was no dividend in 2020.

The increase in operating expenses is mainly due to the accrual for bonuses in 2021 of £1.4m (2020: £nil).

Capital

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

The Group and the individual banking operation, are authorised by the Prudential Regulation Authority ("PRA") and regulated by the Financial Conduct Authority and the Prudential Regulation Authority and are subject to EU Capital Requirement Regulation (EU No.575/2013) ("CRR") which forms part of the retained EU legislation (EU legislation which applied in the UK before 11.00 p.m. on 31 December 2020 has been retained in UK law as a form of domestic legislation known as 'retained EU legislation') and the PRA Rulebook for CRR firms. One of the requirements for the Group and the individual banking operation is that capital resources must be in excess of capital requirements at all times.

In accordance with the parameters set out in the PRA Rulebook, the Internal Capital Adequacy Assessment Process ("ICAAP") is embedded in the risk management framework of the Group. The ICAAP identifies and assesses the risks to the Group, considers how these risks can be mitigated and demonstrates that the Group has sufficient resources, after mitigating actions, to withstand all reasonable scenarios.

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

The ICAAP document will be updated at least annually, or more frequently if changes in the business, strategy, nature or scale of the Group'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 regulated entity is also the principal trading subsidiary as detailed in Note 44.

The Group's regulatory capital is divided into two tiers:
• Common equity Tier 1 ("CET1"), which comprises shareholder funds less regulatory deductions for intangible assets, including Goodwill and deferred tax assets that do not arise from temporary differences.
• Tier 2 comprises qualifying subordinated loans.

Capital ratios are reviewed on a monthly basis to ensure that external requirements are adhered to. All regulated trading entities have complied with all of the externally imposed capital requirements to which they are subject.

Capital ratios	2021 £000	2020 £000
CET1 Capital Instruments*	202,479	195,979
Deductions	(26,244)	(15,393)
CET1 Capital after Deductions	176,235	180,586
Tier 2 Capital	36,772	37,656
Own Funds	**213,007**	**218,242**
CET1 Capital Ratio (CET1 Capital/Total Risk Exposure)	**12.3%**	**15.4%**
Total Capital Ratio (Own Funds/Total Risk Exposure)	**14.9%**	**18.7%**

* Includes year-end audited result.

Risks and Uncertainties

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

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

Reputational risk

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

ABG seeks to ensure that all of it businesses act consistently with the seven corporate principles as laid out on page 3 of the Annual Report and Accounts. 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.

Russia Ukraine Conflict

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

Coronavirus

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

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

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

Brexit

The Brexit transition period came to an end on 31 December 2020 and the EU and UK agreed the Trade and Cooperation Agreement on 24 December 2020. There is still some uncertainty around the long term consequences of Brexit. Following the closure of the Dubai office during the year, all the Group's income and expenditure is now based in the UK.

Climate change

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

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

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

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

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

Strategic risk
Strategic risk is the risk that the Group's ability to achieve its corporate and strategic objectives may be compromised. This risk is particularly important to the Group as it continues its growth strategy. However, the Group seeks to mitigate strategic risk by focusing on a sustainable business model which is aligned to the Group's business strategy. Also, the Directors normally meet once a year outside a formal Board setting to ensure that the Group's strategy is appropriate for the market and economy.

Credit risk
Credit risk is the risk that a counterparty (borrower) will be unable to pay amounts in full when due. This risk exists in Arbuthnot Latham, which currently has a loan book of £1.9bn (2020: £1.6bn). The lending portfolio in Arbuthnot Latham is extended to clients, the majority of which is secured against cash, property or other high quality assets. Credit risk is managed through the Credit Committee of Arbuthnot Latham.

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

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 £87.1m. Any changes in the market value of the property will be accounted for in the Income Statement for the Investment Property and could also impact the carrying value of inventory, which is at the lower of cost and net realisable value. As a result, it could have a significant impact on the profit or loss of the Group.

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

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

In line with further guidance issued by the Regulator, the Bank has continued to focus on ensuring that the design of systems and operational plans are robust to maintain operational resilience in the face of unexpected incidents. During 2021 the Bank continued to review these plans and undertook tests to ensure backup and recovery processes were effective even when working in a hybrid working model.

During the year the FCA, PRA and BoE published their final policy papers on building operational resilience. The Group is on track to comply with the initial requirements prior to the implementation date of 31 March 2022.

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

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

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

Regulatory and capital risk

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

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

Strategic Report – Non-Financial Information Statement

The table below sets out where stakeholders can find information on non-financial matters, as required by Sections 414CA and 414CB of the Companies Act 2006, enabling them to understand the impact of the Group's key policies and activities.

Reporting Requirement	Policies and Standards	Information Necessary to Understand Impact of Activities and Outcome of Policies
Environmental Matters	• Credit Policy • Managing Financial Risks of Climate Change Framework • Environmental Management Policy	• Financial Review, pages 18 and 19 • Stakeholder Engagement and S. 172 (1) Statement, page 23 • Sustainability Report, pages 24 to 28 • Corporate Governance Report page 37
Employees	• Agile Working Policy • Board Diversity Policy • Dignity at Work Policy • Equality and Diversity Policy • Flexible Working Policy • Health and Safety Policy • Long Service Awards Policy • Parental Leave Policy • Personal Appearance Policy • Remuneration Policy • Training & Development Policy • Whistleblowing Policy	• Stakeholder Engagement and S. 172 (1), pages 22 and 23 • Sustainability Report, pages 24 and 27 • Directors Report, page 32 • Corporate Governance Report, page 36
Social Matters	• Complaints Handling Policy • Fraud Policy • Tax Strategy • Vulnerable Clients Policy	• Arbuthnot Principles, page 3 • Stakeholder Engagement and S. 172 (1) Statement, page 23 • Sustainability Report, pages 24 and 27
Respect for Human Rights	• Anti- Modern Slavery Policy • Dignity at Work Policy • Equality and Diversity Policy • Personal Data Protection Policy	• Stakeholder Engagement and s.172 (1) Statement, page 23 • Sustainability Report, page 27
Anti-Corruption and Anti-Bribery	• Anti-Bribery and Corruption Policy • Anti-Money Laundering Policy • Client Acceptance policy • Cyber Strategy • Group Market Abuse and Insider Dealing Policy • Physical Security Policy	• Sustainability Report, page 27
Description of Principal Risks and Impact of Business Activity		• Strategic Report, pages 17 to 20
Description of the Business Model		• Arbuthnot Principles, page 3
Non-Financial Key Performance Indicators		• Sustainability Report, page 27

Strategic Report – Stakeholder Engagement and s.172 Report

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 ABG as a large-sized company under section 414CZA of the Act.

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

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

The Arbuthnot Principles and Values set out on page 3 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 32 and in the Corporate Governance Report on page 37.

The Directors are conscious that their decisions and actions have an impact on stakeholders. The stakeholders we consider in this regard are our shareholders, employees, customers, suppliers, regulators and the environment in which we operate.

Likely consequences of any decision in the long term

The Directors make their decisions to ensure that long-term prospects are not sacrificed for short term gain, reflecting the values and support of Sir Henry Angest, Chairman and Chief Executive and majority shareholder, which have proved successful in creating and maintaining value for all shareholders for over 40 years. This was demonstrated in the year by a number of Board decisions.

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

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

A further illustration of the balancing of the interests of our stakeholders in their long-term interest was the decision in October 2021 to approve an arrangement to originate and sell loans to a third party, the majority of which will be 100% risk weighted commercial investment loans. In addition to leveraging the Bank's expertise in the specialist commercial lending sector, this decision was made in order to grow towards the "Future State" vision. The Future State is the name given to the Board's key objective of generating sufficient profits and capital to keep the Bank growing at a good pace whilst making sure employees and shareholders are suitably rewarded, once our capital has been deployed.

Interests of the Company's employees

Employees are also 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 section 172 (1) Statement of Arbuthnot Latham, the Company's banking subsidiary, one of its non-executive directors has been designated by its board as the director to engage with Arbuthnot Latham group's workforce whereas the Company itself has fewer than 20 employees, all of whom have direct access to Board members.

As set out in the Whistleblowing Policy, Ian Dewar, a non-executive director and chairman of the Audit Committee, is the Company'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 material whistleblowing events are notified to the Board and to the applicable regulator.

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

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

The Company is committed to following agreed supplier payment terms. There is a Supplier Management Framework in place covering governance around the Company's procurement and supplier management activities. For due diligence and compliance purposes, suppliers are assessed through an external registration system. The Modern Slavery Statement, approved by the Board in March as part of its annual review of the Company's stance and approach to the Modern Slavery Act, explains the risk-based approach that the Company has taken to give assurance that slavery and human trafficking are not taking place in its supply chains or any part of its business. The Board requires that Arbuthnot Latham implements a Modern Slavery Policy, procedures and processes in relation to the AL Group, which reflects the commitment to act ethically and with integrity, in all their respective business relationships and additionally, to ensure that slavery and human trafficking are not taking place anywhere in the AL Group or in the AL Group's supply chain.

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

Balancing stakeholder interests
Following a strategic review of its international representation, the Board concluded that the Dubai office no longer fitted with its future growth plans and so took the decision to close the branch on 31 May 2021. When the office opened in 2013, it represented a good opportunity for the business to build assets under management. At the time, around 85% of the Group's capital was employed in Secure Trust Bank PLC, but over time opportunities were realised to grow AL, deploying capital through lending in the UK. The Dubai business generated a good volume of client relationships for the Bank, but its contribution versus its high cost base made it unviable for the Bank's future growth aspirations. Existing relationships were successfully migrated to the Bank's London based teams for continued client servicing and our employees were offered equivalent jobs in London.

Impact of the Company's operations on the community and the environment
In September 2021, the Board reviewed a Climate Change Spotlight, noting the initiatives being taken including an Environmental Social and Governance project. This was established, given the Bank's exposure to climate change transition risk as the UK evolves to a low carbon economy through political, regulatory and legal pressure with clients and investors increasingly interested in the Group's ESG stance. The Board has again approved an energy and carbon report meeting the requirements of the Streamlined Energy and Carbon Reporting standards, as set out on pages 25 and 26 of the Sustainability Report.

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 3 manifests itself at Board level and in the external view of the Group as a whole. The importance of the Group's reputation is considered at each Board meeting. These Principles are encapsulated in five Group cultural values, embedded into day-to-day activities. These values are integrity, respect, empowerment, energy and drive, and collaboration.

Acting fairly as between members of the Company
The majority shareholder, Sir Henry Angest, is the Company's Chairman and Chief Executive. There is continuing engagement with other major shareholders and the Directors make their decisions on behalf of all shareholders. The Board welcomes engagement with them and will continue to maintain communications via one-to-one meetings as appropriate.

Strategic Report – Sustainability Report

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

The world is in the middle of a profound transition when it comes to sustainability, and we recognise the role we must play in that transition.

This means operating with a strong emphasis on our environmental and societal impact, and on our governance procedures.

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

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

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

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

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

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

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

Streamlined Energy & Carbon Reporting (SECR)

The Group has worked again with a specialist energy management consultancy, Carbon Decoded, to gather the information required to be reported by large unquoted companies under the Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018:

- All energy in line with Greenhouse Gas Reporting (GHG) Scope One - gas and owned transport, Scope Two -electricity and Scope Three - non-owned transport.
- An intensity metric to enable year on year improvements to be tracked.

The report covers data from 1 January to 31 December 2021 for the Company and its subsidiaries, including Asset Alliance Group Limited which was acquired on 1 April 2021. The Group has reported all sources of environmental impact, as required in SECR, over which it has financial control, being the Company and its subsidiaries. A full 12 months' emissions have been reported for AAG in order to make year on year comparison more meaningful in future years.

Base Year

The Base Year chosen was 2019 because 2020 was not considered to provide a representative comparison year due to the impact of the pandemic on office working and travel.

Reporting Methodology

- Data has been collected for electricity, gas and transport
- GHG Protocol Corporate Accounting and Reporting Standard has been followed where relevant
- Data was collected specifically for the purpose of SECR reporting
- The 2019 and 2021 UK Government Conversion Factors for Company Reporting were used for all calculations of Carbon emissions.
- Data were estimated where necessary, as set out below.

Estimated Data

The following data were estimated in 2021:

- Dominion Street, London natural Gas — Gas use is included in the rent and sub-metering is not available, estimates are based on floor area
- Bristol and Gatwick — Energy is included on the rent and sub-metering for the office is not available, estimates are based on floor area
- Owned Commercial Properties — Estimates based on floor areas have been used for periods of the year where floors were vacant.
- Transport — Diesel mileage for the Wolverhampton AAG site as tank stored diesel is used for a variety of vehicles.

Operational Scopes

Energy consumption for the commercial office properties owned by the Group has been included in 2021 where floors in buildings were unoccupied by tenants and the responsibility for energy consumption returned to the Group since 2019.

Report Summary

	2021				2020				Baseline 2019			
Scope One	Measure	kWh	Carbon Tonnes tCO2e	Intensity Ratio tCO2e	Measure	kWh	Carbon Tonnes tCO2e	Intensity Ratio tCO2e	Measure	kWh	Carbon Tonnes tCO2e	Intensity Ratio tCO2e
Natural Gas (m2)	5,779	305,708	56	0.010	5,779	355,415	65	0.011	5,779	359,672	66	0.011
Gas Oil (m2)	1,545	12,923	3	0.002								
Kerosene (m2)	1,545	57,356	14	0.009								
Sub Total Scope One	**8,869**	**375,987**	**73**	**0.008**	**5,779**	**355,415**	**65**		**5,779**	**359,672**	**66**	
Company Vehicles (miles)	544,950	1,409,040	334	0.0006	26,880	27,314	7	0.0002	92,984	88,810	22	0.0002
Total Scope One		**1,785,027**	**407**			**382,729**	**72**			**448,482**	**88**	
Scope Two												
Electricity (m2)	14,117	1,797,245	382	0.027	7,683	1,027,760	240	0.031	7,683	1,443,054	369	0.048
Total Scope Two	**14,117**	**1,797,245**	**382**	**0.027**	**7,683**	**1,027,760**	**240**	**0.031**	**7,683**	**1,443,054**	**369**	**0.048**
Scope Three												
Grey Fleet Vehicles (miles)	173,316	212,618	50	0.0003	43,568	59,196	14	0.0003	127,516	168,093	41	0.0003
Total Scope Three	**173,316**	**212,618**	**50**	**0.0003**	**43,568**	**59,196**	**14**	**0.0003**	**127,516**	**168,093**	**41**	**0.0003**
Total of all Scopes		**3,794,890**	**839**			**1,469,685**	**326**			**2,059,629**	**498**	

Notes:
The figures reported above have been calculated and independently verified by Carbon Decoded.

The increased carbon tonnage of 342 tonnes, compared to 2019, is stated after the inclusion of AAG which was responsible for 505 tonnes.

Intensity Ratio
An intensity ratio is used to enable year on year comparison. As the Group is an office-based business, the recognised standard measure is kilowatt-hour per square metre (kWh/m2). This enables the energy use to be compared to industry standard benchmarks. Similarly for transport is kilowatt-hour per mile (kWh/mile). For reporting purposes, the Carbon Tonnes/floor area and miles have also been reported as required by the Regulations.

Energy Efficiency Actions
In 2021 the number of staff working in the Group's offices was restricted by the impact of the pandemic and the focus was on ensuring their safety and providing our clients with the best possible service. While this limited the opportunities for energy efficiency actions, we were able to save 45% of our baseline energy consumption during the first half of 2021 through the implementation of good energy management practices, such as ensuring that all non-essential equipment was switched off. This necessarily changed as staff returned to the office, initially on a voluntary basis, from 19 July 2021.
In November 2021 we identified that air conditioning fans coils at the Company's Head Office in Wilson Street, London, were staying on at night when the offices were unoccupied. A trial to manually switch off the fans identified a potential 36% saving on 2021 consumption figures. We are now investigating an automated solution. As a business the Group understands the importance of reducing its carbon emissions; in 2022 we are looking to install sub-metering at our Head Office. This should enable us to understand better where and when energy is being used and allow us to produce an energy saving strategy.

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

Policies
The Group has adopted a wide range of policies that straddle the five pillars to ensure that staff and management are aware of their responsibilities towards our customers and comply with all regulatory requirements. Some of the key policies are set out below and in the Non-Financial Statement on page 21.

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

Pillar	Current status
Ensure responsible and transparent corporate **governance** which aligns to business goals while making a positive societal impact	• We are developing a transparent framework for embedding sustainability into our business practices by recording, monitoring, and publishing performance against pre-defined targets. • We have policies in place, such as our • Anti-Money Laundering Policy, written to ensure a consistent approach across the Group to assist with the deterrence and detection of those suspected of laundering the proceeds of crime or those involved in the funding or execution of terrorism, and the disclosure to the relevant authorities; and our • Anti-Bribery and Corruption policy, expressing our condemnation of such practice, prohibiting employees from engaging in it and expecting third parties providing services to have similar commitments. • We have a published Tax Strategy, which sets out the Group's commitment to compliance with tax law and practice in the UK, which includes paying the correct amount of tax at the right place and right time, and having a transparent and constructive relationship with the tax authority.
Creating a supportive and diverse workplace in which **employees** can thrive	• We promote a working environment that seeks to develop employee skills, and ensures employees are treated fairly and supports their wellbeing. • We have been named a 5* employer by WorkBuzz for sustained high levels of employee engagement. • Arbuthnot Achievers employee recognition scheme • Annual and pulse employee surveys (conducted anonymously) • Agile and flexible working policies

	• We pay all colleagues a living wage and have market aligned job families. All employees are eligible for a bonus, pension contribution, health insurance, death in service critical illness cover, sick pay and other benefits • We publish details of our gender pay gap annually.
Having a positive impact on the **community** in which we operate	**Diversity & Inclusion** • We are committed to the promotion of a workplace culture that provides an equitable, diverse, and inclusive environment. • First Diversity & Inclusion survey for employees in 2021 to understand the status-quo. **Corporate Social Responsibility (CSR)** • We plan to review our CSR activities to ensure they are aligned with our ESG activity and the Bank's corporate principles and cultural values. **Suppliers** • We aim to engage suppliers with whom we can build mutually sustainable relationships in line with our values. • We currently screen suppliers with regard to ethical standards. • The Group's Anti-Modern Slavery Policy sets out our zero-tolerance approach to modern slavery, and any instance of modern slavery in our business or supply chain is a breach of the core values of our business.
Ensuring that our business practices have a positive impact on the **environment**	We will set targets and progress against these with a view to reaching net-zero carbon emissions as a business by 2050. **Energy** • Plan to review our working environment and practices to reduce our energy consumption. The introduction of agile working is having a positive impact on our energy usage. **Waste** • We have reduced paper usage in the office by issuing laptops to all employees. • We are reducing the printing of client communications and marketing materials. • We ensure the responsible disposal of computer equipment and have a waste recycling programme in place. **Transport** • Our carbon footprint decreased substantially with the introduction of agile working. • We have developed our virtual meeting facilities and will continue to do this, reducing the need for travel between offices. • Our benefits include a cycle to work scheme and season ticket loan.
Ensuring best outcomes for our **clients**	• We seek regular feedback from our clients to reinforce our proposition and service. • We also have a robust complaints process and take dissatisfaction seriously, remediating issues promptly. • We take the protection of our client data very seriously and have robust measures in place to protect client data in line with our legal and regulatory requirements. • In 2021 we launched a Sustainable Investment Service which incorporates environmental, social, and governance factors to achieve a positive impact without sacrificing long-term financial returns. • We completed a vulnerable clients review project which gave actionable insight into the challenges faced and the necessary actions required in order to protect them.

Group Directors Report

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

Business Activities

The principal activities of the Group are banking and financial services. The business review and information about future developments, key performance indicators and principal risks are contained in the Strategic Report on pages 7 to 28.

Corporate Governance

The Corporate Governance report on pages 34 to 41 contains information about the Group's corporate governance arrangements, including in relation to the Board's application of the UK Corporate Governance Code.

Results and Dividends

The results for the year are shown on page 55 of the financial statements. The profit after tax for the year of £6.8m (2020: loss of £1.3m) is included in reserves. The Directors recommend the payment of a final dividend of 22p (2020: Nil) per share. This represents total dividends for the year of 59p (2020: Nil), including: the special dividend of 21p paid on 19 March 2021, being equal to and in lieu of the dividend that was declared in March 2020 based on the profits reported in 2019 and which was subsequently withdrawn following the guidance issued by the PRA at that time; and the second interim dividend of 16p (2020: Nil) paid on 24 September 2021. The final dividend, if approved by members at the 2022 Annual General Meeting ("AGM"), will be paid on 31 May 2022 to shareholders on the register at close of business on 22 April 2022.

Directors

The names of the Directors of the Company at the date of this report, together with biographical details, are given on page 29 of this Annual Report. All the Directors listed on those pages were directors of the Company throughout the year.

Sir Christopher Meyer will retire from the Board at the Annual General Meeting and does not seek re-election. Sir Henry Angest, and Mr. A.A. Salmon being eligible, offer themselves for re-election under Article 78 of the Articles of Association. Sir Henry and Mr. Salmon have a service agreement terminable on twelve months' notice.

Articles of Association

The Company's articles of association may only be amended by a special resolution of the Ordinary shareholders. They were last amended at the AGM in May 2017 and can be viewed at www.arbuthnotgroup.com/corporate_governance.html.

Viability Statement

In accordance with the UK Corporate Governance Code, the Directors confirm that there is a reasonable expectation that the Group will continue to operate and meet its liabilities, as they fall due, for the three-year period up to 31 December 2024. A period of three years has been chosen because it is the period covered by the Group's strategic planning cycle and also incorporated in the Individual Capital Adequacy Assessment Process ("ICAAP"), which forecasts key capital requirements, expected changes in capital resources and applies stress testing over that period.

The Directors' assessment has been made with reference to:
• the Group's current position and prospects – please see the Financial Review on pages 11 to 20;
• the Group's key principles – please see Corporate Philosophy on page 3; and
• the Group's risk management framework and associated policies, as explained in Note 6.

The Group's strategy and three-year plan are evaluated and approved by the Directors annually. The plan considers the Group's future projections of profitability, cash flows, capital requirements and resources, and other key financial and regulatory ratios over the period. The ICAAP is embedded in the risk management framework of the Group and is subject to continuing updates and revisions when necessary. The ICAAP process is used to stress the capital position of the Group over the three-year planning period. It is updated at least annually as part of the business planning process.

Going Concern

After making appropriate enquiries which assessed strategy, profitability, funding, risk management (see Note 6 to the financial statements) 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.

Share Capital

The Company has in issue two classes of shares, Ordinary shares and Ordinary Non-Voting shares. The Non-Voting shares rank pari passu with the Ordinary shares, including the right to receive the same dividends as the Ordinary shares, except that they do not have the right to vote in shareholder meetings.

Authority to Purchase Shares

Shareholders will be asked to approve a Special Resolution renewing the authority of the Directors to make market purchases of shares not exceeding 10% of the issued Ordinary and Ordinary Non-Voting share capital. The Directors will keep the position under review in order to maximise the Company's resources in the best interests of shareholders. Details of the resolutions renewing this authority are included in the Notice of Meeting on pages 154 and 155. No shares were purchased during the year. The maximum number of Treasury shares held at any time during the year was 390,274 Ordinary shares and 19,040 Ordinary Non-Voting shares of 1p each.

Financial Risk Management

Details of how the Group manages risk are set out in in the Strategic Report and in Note 6 to the financial statements.

Directors' Interests

The interests of current Directors and their families in the shares of the Company at the dates shown, together with the percentage of the current issued share capital held (excluding treasury shares), were as follows:

Beneficial Interests - Ordinary shares	1 January 2021	31 December 2021	18 March 2022	%
Sir Henry Angest	8,351,401	8,351,401	8,351,401	56.1
N.P.G. Boardman	7,270	16,313	16,313	0.1
J.R. Cobb	6,000	6,000	6,000	0.0
A.A. Salmon	51,699	51,699	51,699	0.3

Beneficial Interests - Ordinary Non-Voting shares	1 January 2021	31 December 2021	18 March 2022	%
Sir Henry Angest	83,513	86,674	86,674	64.9
J.R. Cobb	60	60	60	0.0
A.A. Salmon	516	516	516	0.4

Substantial Shareholders

The Company was aware at 18 March 2022 of the following substantial holdings in the Ordinary shares of the Company, other than those held by one director shown above:

Holder	Ordinary Shares	%
Liontrust Asset Management	1,719,187	11.5
Slater Investments	1,049,600	7.0
Mr. R Paston	529,130	3.6

Significant Contracts

No Director, either during or at the end of the financial year, was materially interested in any contract with the Company or any of its subsidiaries, which was significant in relation to the Group's business. At 31 December 2021, one Director had a loan from Arbuthnot Latham & Co., Limited amounting to £0.5m (2020: £0.5m) and five directors had deposits amounting to £4.0m (2020: £3.9m), all on normal commercial terms as disclosed in Note 43 of the financial statements.

Directors' Indemnities

The Company's Articles of Association provide that, subject to the provisions of the Companies Act 2006, the Company may indemnify any Director or former Director in respect of liabilities (and associated costs and expenses) incurred in connection with the performance of their duties as a Director of the Company or any subsidiary and may purchase and maintain insurance against any such liability. The Company maintained directors and officers liability insurance throughout the year.

Employee Engagement

The Company 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 Company through regular communications and in other ways. Further information on employee engagement is given in the Strategic Report on pages 22 and 23.

Engagement with Suppliers, Customers and Others

Information on engagement with suppliers, customers and other stakeholders is given in the Strategic Report on page 23.

Streamlined Energy & Carbon Reporting

The information required by the Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018 is set out in the Sustainability Report on pages 25 and 26. These Regulations implement the Government's policy on Streamlined Energy and Carbon Reporting (SECR) to support businesses in understanding their Carbon emissions and to help them establish plans to become Net Zero by 2050.

Political Donations
The Company made political donations of £20,000 during the year (2020: £10,000), being payment for attendance at political functions.

Branches outside of the UK
During the year Arbuthnot Latham & Co., Limited operated a branch in Dubai, regulated by the Dubai Financial Services Authority. This office closed at the end of May 2021.

Events after the Balance Sheet Date
Details of material post balance sheet events are given in Note 48.

Annual General Meeting ("AGM")
The Company's AGM will be held on Wednesday 25 May 2022 at which Ordinary Shareholders will be asked to vote on a number of resolutions. Whilst it is assumed that shareholders will be able to attend in person, shareholders are encouraged to submit their votes in respect of the business to be discussed via proxy, appointing the Chairman of the meeting as their proxy. This will ensure that votes will be counted if shareholders are unable to attend the meeting in person. The resolutions, together with explanatory notes about voting arrangements, are set out on pages 154 to 156.

Auditor
A resolution for the re-appointment of Mazars LLP as auditor will be proposed at the forthcoming AGM in accordance with section 489 of the Companies Act 2006.

Disclosure of Information to the Auditor
Each of the persons who are Directors at the date of approval of this Annual Report confirm that:
- so far as each director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- they have taken all the steps they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

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

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 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. As required by the AIM Rules for Companies and in accordance with the Rules of the AQSE Growth Market, they are required to prepare the Group Financial Statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and have elected to prepare the Parent Company Financial Statements on the same basis.

Financial Statements
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 the Company and of the Group 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 intend either 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 and disclose with reasonable accuracy at any time the financial position of the Parent Company and enable them to ensure that its Financial Statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of Financial Statements may differ from legislation in other jurisdictions.

The Directors confirm that the Annual Report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Group and Parent Company's position, performance, business model and strategy.

Corporate Governance

Introduction and Overview

Arbuthnot Banking Group has a strong and effective corporate governance framework. The Board endorses the principles of openness, integrity and accountability which underlie good governance and takes into account the provisions of the UK Corporate Governance Code, published by the Financial Reporting Council in July 2018 ("the FRC Code"), in so far as they are considered applicable to and appropriate for it, given its size and circumstances, and the role and overall shareholding of its majority shareholder. The Group's banking subsidiary, Arbuthnot Latham & Co., Limited, is authorised by the Prudential Regulation Authority (the "PRA") and regulated by the Financial Conduct Authority ("FCA") and by the PRA. Four of its subsidiaries, Asset Alliance Limited, Asset Alliance Leasing Limited, Forest Asset Finance Limited and Renaissance Asset Finance Limited, are regulated by the FCA. Accordingly, the Group operates to the high standards of corporate accountability and regulatory compliance appropriate for such a business.

The Board has decided to report against the FRC Code. This decision was made in light of the requirement in the AIM Rules for Companies that AIM listed companies state which corporate governance code they have decided to apply, how the company complies with that code, and where it departs from its chosen code an explanation of the reasons for doing so. The Rules of the AQSE Growth Market also require the Company to adopt, as far as possible, the principles and standards set down in a recognised UK corporate governance code. This information is published on the Company's website and the Company reviews it each year as part of its annual reporting cycle. This section of the Annual Report summarises how the Company applies the FRC Code and in broad terms how it has complied with its provisions throughout the year, giving explanations where it has chosen not to do so.

Leadership and Purpose

The Company is led by the Board which comprises seven members: Sir Henry Angest, the executive Chairman; two other executive directors, Andrew Salmon and James Cobb; and four independent non-executive directors, Nigel Boardman, Ian Dewar, Sir Christopher Meyer and Sir Alan Yarrow. This means that 67% of the Board, excluding the Chairman, comprises non-executive directors whom the Board considers to be independent.

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, ensuring effective communication with shareholders, setting the Board's agenda and ensuring that all Directors are encouraged to participate fully in the activities and decision-making process of the Board.

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 (including 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 culture of openness among the workforce which combines with the prudent and effective technological and individual controls in place across the business to ensure strong risk management in the Company's continued long-term success.

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

The Board

A number of key decisions are reserved for the Board. The Schedule of Matters Reserved to the Board is reviewed annually and is published on the Company's website at http://www.arbuthnotgroup.com/corporate_governance.html. The Board met regularly throughout the year, including until September 2021 via video conference. It held seven scheduled meetings, five of which were held jointly with the Board of Arbuthnot Latham with the other two being held to approve the Annual and Interim Reports. It also held a separate strategy meeting. Substantive agenda items have briefing papers, which are circulated in a timely manner before each meeting. The Board ensures that it is supplied with all the information that it requires and requests in a form and of a quality to fulfil its duties. Since February 2021, the Directors have participated in the regular Board meetings of Arbuthnot Latham as attendees.

The Board was kept fully informed of the arrangements made by management to run the business remotely during the pandemic. The Chairman and Chief Executive continued to be kept fully informed of all material matters through regular discussions with the Chief Operating Officer and other members of senior management during the period of remote working to September 2021 which resumed from mid-December to end of January 2022.

In addition to overseeing the management of the Group, the Board has determined certain items which are reserved for decision by itself. These matters include approval of the Group's long-term objectives and commercial strategy, ensuring a sound system of internal control, risk management strategy, approval of major investments, acquisitions and disposals, any changes to the capital structure and the overall review of corporate governance.

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 Company's expense.

New directors receive induction training upon joining the Board, with individual listed company training provided by the Company's AIM Nominated Adviser and AQSE Corporate Adviser. Regulatory and compliance training is provided by the Group Head of Compliance or by an external lawyers and accountants. Risk management training is provided, including that in relation to the ICAAP and ILAAP, by the Arbuthnot Latham Chief Risk Officer with an overview of credit and its associated risks and mitigation by the Arbuthnot Latham Chief Credit Officer.

Board Evaluation

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

Overview of Compliance with the FRC Code, together with Exceptions

The Board focuses not only on the provisions of the Code but its principles, ensuring as follows:

- The Company's purpose, values and strategy as a prudently managed organisation align with its culture, with a focus on fairness and long-term shareholder returns.
- The Board has an appropriate combination of executive and non-executive directors, who have both requisite knowledge and understanding of the business and the time to commit to their specific roles.
- The Board comprises directors with the necessary combination of skills to ensure the effective discharge of its obligations, with an annual evaluation of the capability and effectiveness of each director as well as the Board as a composite whole; appropriate succession plans are also in place and reviewed annually, or more frequently if appropriate.
- The Board and Audit Committee monitor the procedures in place to ensure the independence and effectiveness of both external and internal auditors, and the risk governance framework of the Company, with all material matters highlighted to the relevant forum (Board/Committee).
- Remuneration policies and practices are designed to support strategy and promote long-term sustainable success, with a Remuneration Committee in place to oversee director and senior management pay.

In respect of the Code's specific provisions, an annual review is carried out, comparing the Company's governance arrangements and practices against them. Any divergences are noted, with relevant rationale considered carefully to determine whether it is appropriate. Consideration is also given to guidance issued, which may require a review of the relevant reasoning intra-year.
In line with the FRC's Guidance on Board Effectiveness, the Board additionally takes into account its suggestions of good practice when applying the Code focusing on the five key principles specified in the Code.

Where the Company's governance does not completely align with the Code, it is generally as a result of the role of its overall majority shareholder, itself adding a level of protection to long-term shareholder interests, and it has had no negative impact on the Company.

All divergences from the Code, with an explanation of the reasons for doing so are set out below:

Provision 5 – The Board has regard to the interests of all its key stakeholders in its decision making. The Company has fewer than 20 employees, all of whom have direct access to Board members. As such, it has not been deemed necessary to appoint an employee representative to the Board, nor a formal workforce advisory panel, nor a designated non-executive Director. As stated in the s.172 Statement on page 22, one of the non-executive directors of Arbuthnot Latham and its Whistleblowing Champion, has been designated by its board as the director to engage with the Group's workforce.

Provision 9 - Sir Henry Angest carries out the role of Chairman and Chief Executive, given his long-term interest as majority shareholder, itself aligning with the interests of other shareholders. The Group Chief Operating Officer and the Group Finance Director provide a strong, independent counterbalance, ensuring challenge and independence from a business perspective, against the stakeholder focus of the Chairman carrying out his Chairman's role. The Company follows the US model that is very successful in ensuring commercial success with strong corporate governance and stakeholder awareness, having a shared Chairman and CEO, with a separate, empowered, Chief Operating Officer.

Provision 10 ¬ The Board considers Sir Christopher Meyer to be independent, notwithstanding his serving more than nine years, since his views and any challenge to executive management remain firmly independent. Sir Christopher will be stepping down from the Board at the conclusion of the AGM on 25 May 2022.

Provision 12 – The Board has not appointed a Senior Independent Director, as major shareholders talk openly with the Chairman, the Group Chief Operating Officer and the Group Finance Director on request.

Provision 14 – Attendance at meetings is not reported since, should a Director be unable to attend a meeting, that Director receives relevant papers in the normal manner and relays any comments in advance of the meeting to the Chairman. The same process applies in respect of the Board Committees.

Provision 18 – For the purposes of stability and continuity, the Company continues to offer Directors for re-election on a three-year rolling basis in accordance with the Company's Articles of Association and company law. The Directors seeking re-election at the 2021 AGM are Sir Henry Angest and Andrew Salmon who have served on the Board for 36 and 18 years respectively. The contributions of Sir Henry Angest, who beneficially owns more than 50% of the issued share capital, and of Andrew Salmon, an executive director, have been invaluable in the successful development of the Company. Accordingly, the Board fully supports the resolutions for their reappointment.

Provision 19 - Sir Henry Angest's role as Chairman has extended over nine years and is expected to continue for the foreseeable future, given his key role as majority shareholder both in protecting the stability of his and other shareholder interests and in overseeing a balanced and risk-managed approach to growing the business with a view to the longer-term. For this reason he is surrounded by a strong team of non-executives who ensure the protection of all shareholders' interests.

Provision 23 – The Nomination Committee takes into account the provisions of the Board Diversity Policy and in terms of succession planning the Equality and Diversity Policy which promotes equality of opportunity for all staff. Further information on diversity and inclusion is given in the Sustainability Report on page 27, though the gender balance of senior management and their direct reports has not been given.

Provision 32 – Sir Henry Angest is Chairman of the Remuneration Committee, as is appropriate in the context of his majority shareholding.

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 Management Policy describes and articulates the risk management and risk governance framework, methodologies, processes and infrastructure required to ensure due attention to all material risks for Arbuthnot Latham, including compliance with relevant regulatory requirements.

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 Arbuthnot Latham management, and are governed through Arbuthnot Latham committees.

There are well-established budgeting procedures in place and reports are presented regularly to the Board detailing the results, in relation to Arbuthnot Latham, of each principal business unit, variances against budget and prior year, and other performance data. The Board receives regular reports on risk matters that need to be brought to its attention, enabling it to assess the Group's principal and emerging risks. Material items are presented to the Board in the Risk Report, which includes a risk dashboard, from the Arbuthnot Latham Chief Risk Officer, who now attends the Board meetings held concurrently with those of Arbuthnot Latham or otherwise via the Group Chief Operating Officer in March. Significant risks identified in connection with the development of new activities are subject to consideration by the Board. The risk dashboard covers key management actions which have included the climate change agenda and its potential longer-term impact on property and other asset classes and on management's approach to sustainability. The Board was also updated during the year on Arbuthnot Latham's Managing Financial Risks of Climate Change Framework which sets out the group's approach to managing the financial risks of climate change through its risk management framework.

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

Shareholder Communications

The majority shareholder is Sir Henry Angest, Chairman and Chief Executive. The Company maintains communications with its major external shareholders via one to one meetings, as appropriate, by the Chairman and Chief Executive, the Group Chief Operating Officer or the Group Finance Director on governance and other matters. When practicable it also makes use of the AGM to communicate with shareholders in person. The Company aims to present a balanced and understandable assessment in all its reports to shareholders, its regulators, other stakeholders and the wider public. Key announcements and other information can be found at www.arbuthnotgroup.com.

Board Committees

The Board has Audit, Nomination, Remuneration, Donations 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 and the terms of reference of the Audit, Nomination and Remuneration Committees are published on the Company's website. The Board maintains direct responsibility for issues of Risk without the need for its own Risk Committee, since responsibility for large lending proposals is a direct responsibility of its subsidiary, Arbuthnot Latham. Additionally the Chairman of the Arbuthnot Latham Risk Committee reports to the ABG Board at its regular meetings on the activities of that Committee which is responsible for monitoring the status of the Arbuthnot Latham group against its principal risks.

Audit Committee

Membership and meetings

Membership of the Audit Committee comprises Ian Dewar (as Chairman), Sir Christopher Meyer and Sir Alan Yarrow. 100% of the Committee's membership therefore comprises non-executive Directors independent in the view of the Board. Mr. Dewar has recent and relevant financial experience and the Committee as a whole has competence relevant to the financial sector in which the Company operates. The Company Secretary acts as its Secretary.

The Audit Committee oversees, on behalf of the Board, 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 and the Interim Report lies 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 reappointment. 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 has concluded that Mazars are independent and that their audit is effective.

Activity in 2021

The Audit Committee held four meetings during the year, three of which were held jointly with the Audit Committee of Arbuthnot Latham with the other one being held to review the Annual Report & Accounts and draft results announcement.

Internal Audit

Internal Audit provides the Audit Committee and the Board with detailed independent and objective assurance on the effectiveness of governance, risk management and internal controls. The ultimate responsibility for reviewing and approving the annual report and accounts rests with the Board.

The Audit Committee approves the Internal Audit 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 Arbuthnot Latham Audit Committee. He provides reports on the outcomes of Internal Audit work directly to the Company's Committee and the Committee monitors progress against actions identified in these reports. Most of the Audit Committee's meetings are now held concurrently with those of the Arbuthnot Latham Audit Committee and, as such, it discusses Arbuthnot Latham's internal audits, all of the reports on which include an assessment of culture.

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

Integrity of Financial Statements and oversight of external audit

The Committee:

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

The reports from the external auditors 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 the Board. In addition, the Committee receives by exception reports on the ICAAP and ILAAP which are key control documents that receive detailed consideration by the board of Arbuthnot Latham.

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

The charge for impaired financial assets totalled £3.2m for the year ended 31 December 2021. The disclosures relating to impairment provisions are set out in Note 4.1(a) to the financial statements.

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

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

As at 31 December 2021, Arbuthnot Latham's total property portfolio totalled £96.8m. The disclosures relating to the carrying value of the investment property and the properties held as inventory and for sale are set out in Notes 4.1(c), 4.1(d), 21, 25 and 31 to the financial statements.

Going Concern and Viability Statement
The financial statements are prepared on the basis that the Group and Company are each a going concern. The Audit Committee reviewed management's assessment, which incorporated analysis of the ICAAP and ILAAP approved by the Board of Arbuthnot Latham 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.

Other Committee activities
During the year, the Audit Committee received a briefing from Mazars on the BEIS consultation on audit and governance reforms. In November 2021, Committee members contributed to the review of the Committee's effectiveness as part of its evaluation by the Board. The outcome of the review was positive and there were no issues or concerns raised by them in regard to discharging their responsibilities.

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

On behalf of the Board, the Committee reviewed the financial statements as a whole in order to assess whether they were fair, balanced and understandable. The Committee discussed and challenged the balance and fairness of the overall report with the executive directors and also considered the views of the external auditor. The Committee was satisfied that the Annual Report could be regarded as fair, balanced and understandable and that it provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy. It proposed that the Board approve the Annual Report in that respect.

Nomination Committee

Membership and meetings
The Nomination Committee is chaired by Sir Henry Angest and its other members are Sir Christopher Meyer and Sir Alan Yarrow. 67% of the Committee's membership therefore comprises independent non-executive Directors. The Group General Counsel acts as its Secretary. The Committee meets once a year and otherwise as required.

The Nomination 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 on the Board, 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 Nomination Committee also considers performance, training requirements and succession planning, taking into account the skills and expertise that will be needed on and beneficial to the Board in the future.

Activity in 2021
The Nomination Committee met once during the year when it assessed and confirmed the collective and individual suitability of Board members. The contribution of Sir Henry Angest remains invaluable in the successful development of the Company. As regards the non-executive Directors' skill sets, Nigel Boardman's credibility, knowledge and reputation have been a real benefit to the Board both in terms of collective and individual suitability and when third parties are considering dealings with the wider group. Ian Dewar, with a wealth of experience as a partner in a major accounting firm, has successfully chaired the Audit Committee. Sir Christopher Meyer's wide-ranging experience including as a diplomat at the highest level has provided an important independent measure of challenge to executive management. The Board has benefitted from Sir Alan Yarrow's wise counsel, challenge to management and many years' banking experience in the City of London.

In terms of individual performance, the Chairman confirmed that his assessment of all Directors was that they were performing well, with the Executive Directors additionally being formally reviewed in the context of the Senior Managers' Regime applicable to Arbuthnot Latham which confirmed continued strong performance. The Committee agreed with this assessment individually in relation to all members of the Board. Collectively, it was agreed that the Board had operated effectively with a wide range of experience and knowledge. As noted, in the responses to the Board Effectiveness Questionnaire, Non-Executives had provided appropriate challenge and guidance.

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 2021 and noted that, notwithstanding the continued impact of the pandemic, Directors had been able to carry out sufficient training online.

In November 2021, the Nomination Committee confirmed that the Board's current composition 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 size of the business. The Committee reviewed succession planning and agreed that a sensible and strong plan remained in place. It 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
Membership is detailed in the Remuneration Report on page 42. The Committee meets once a 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 Company's policy on executive remuneration determining, the individual remuneration and benefits package of each of the Executive Directors and the fees for Non-Executive Directors.

The Committee also deals with remuneration-related issues under the IFPRU Remuneration Code of the Financial Conduct Authority. The Remuneration Report on pages 43 and 44 gives further information and details of each Director's remuneration.

Donations Committee

Membership and meetings
The Donations Committee is chaired by Sir Henry Angest and its other members are Sir Christopher Meyer and Sir Alan Yarrow. The Committee considers any political donation or expenditure as defined within sections 366 and 367 of the Companies Act 2006. It meets as necessary.

Activity in 2021
The Donations Committee met once during the year. It agreed that the Committee was constituted and continued to operate efficiently with its overall performance and the performance of its individual members effective throughout the year. As such, no changes to its membership or activities were proposed to the Board.

Policy Committee

Membership and meetings
The Policy Committee is chaired by Andrew Salmon and its other members are James Cobb and Nicole Smith, General Counsel who also acts as its Secretary. Amongst its responsibilities, the Committee reviews the content of policy documentation to ensure that it meets legal and regulatory requirements and approves it on behalf of the Board.

Activity in 2021
The Policy Committee met six times during the year to review and approve Company policies.

Remuneration Report

Remuneration Committee

Membership of the Remuneration Committee is limited to non-executive directors together with Sir Henry Angest as Chairman. The members of the Committee are Sir Henry Angest, Sir Christopher Meyer and Sir Alan Yarrow. 67% of the Committee's membership therefore comprises independent non-executive Directors. The General Counsel acts as its Secretary. The Committee met twice during the year.

The Committee has responsibility for producing recommendations on the overall remuneration policy for directors for review by the Board and for setting the remuneration of individual directors. Members of the Committee do not vote on their own remuneration.

Remuneration Policy

The Remuneration Committee determines the remuneration of individual directors having regard to the size and nature of the business; the importance of attracting, retaining and motivating management of the appropriate calibre without paying more than is necessary for this purpose; remuneration data for comparable positions, in particular the rising remuneration packages at challenger banks; the need to align the interests of executives with those of shareholders; and an appropriate balance between current remuneration and longer-term performance-related rewards. The remuneration package can comprise a combination of basic annual salary and benefits (including pension), a discretionary annual bonus award related to the Committee's assessment of the contribution made by the executive during the year and longer-term incentives, including executive share options. Pension benefits take the form of annual contributions paid by the Company to individuals in the form of cash allowances. The Remuneration Committee reviews salary levels each year based on the performance of the Group during the preceding financial period. This review does not necessarily lead to increases in salary levels. For the purposes of the FCA's IFPRU Remuneration Code, all the provisions of which have been implemented, the Group and its subsidiaries are all considered to be Tier 3 institutions.

Activity in 2021

The Remuneration Committee met three times during the year. In July it proposed further grants of phantom options to Messrs Salmon and Cobb, as set out on page 144. It also amended the Rules of the Arbuthnot Banking Group PLC Phantom Share Option Scheme 2016 in order to ensure that the Scheme is consistent with regulatory changes made to the IFPRU Remuneration Code since the implementation of the Scheme in 2016, particularly in relation to material risk takers. It made a further change to the Scheme Rules relating to one of the performance conditions, that relating to the payment of dividends. Whilst the Committee is entitled to vary any condition in accordance with the Scheme Rules, specific reference was added to the Rules to its ability to waive the dividend condition, should it consider it appropriate as this is an element that is potentially out of the control of the Board of directors. At subsequent meetings, it reviewed the Company's Remuneration Policy, the level of fees for Non-Executive Directors and the Executive Directors' remuneration, approving the award of bonuses to Messes Salmon and Cobb for exceptional performance in the year and, after due consideration of comparable market rates a salary rise for Mr. Cobb. As in previous years, Sir Henry Angest waived his right to be considered for receipt of a bonus. The Remuneration Committee agreed that it continued to operate effectively with its overall performance and the performance of its individual members effective throughout the year.

The Committee decided not to change the fees for non-executive directors, reflecting the appropriate level of fee to continue to secure the services of a high level non-executive director.

Directors' Service Contracts

Sir Henry Angest, Mr. Salmon and Mr. Cobb each have service contracts terminable at any time on 12 months' notice in writing by either party.

Long Term Incentive Schemes

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 2020 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, these directors were granted a phantom option to acquire 200,000 and 100,000 ordinary 1p shares respectively in the Company. The value of each phantom option is related to the market price of an Ordinary Share. The fair value of these options at the grant date was £1m. The first tranche of share options remained outstanding at 31 December 2021, but will lapse if not exercised at 1591p before 14 June 2023. The second tranche has not vested and so lapsed in 2020 as one of the performance conditions was not met, being the payment of dividends which was not possible in 2020 due to the regulators' response to the pandemic, requiring banks to cease payment of dividends, and to its economic impact.

On 23 July 2021, following Board approval, Messrs Salmon and Cobb were granted further phantom options relating to 200,000 and 100,000 ordinary shares respectively. The fair value of these options at the grant date was £1.4m. The value of each Ordinary Share for the purposes of this grant of phantom options is 990 pence (being the mid-market share price at close of business on 23 July 2021). An increase in the value of an Ordinary Share over 990 pence will give rise to an entitlement to a cash payment by the Company on the exercise of a phantom option. The right to exercise phantom options is subject to the satisfaction of performance conditions. 50% of each director's individual holding of phantom options is exercisable after 23 July 2024 and the other 50% is exercisable after 23 July 2026. These phantom options will lapse if not exercised within seven years of the date of grant, i.e. by 23 July 2028. The fair value of the outstanding options as at 31 December 2021 was £0.1m (2020: £0.1m).

Details of outstanding options are set out below.

Phantom Options	At 1 January 2021	Granted	At 31 December 2021	Exercise Price £	Date from which exercisable	Expiry
AA Salmon	100,000	-	100,000	£15.90	15-Jun-19	14-Jun-23
	-	100,000	100,000	£9.90	23-Jul-24	23-Jul-28
	-	100,000	100,000	£9.90	23-Jul-26	23-Jul-28
	100,000	200,000	300,000			
JR Cobb	50,000	-	50,000	£15.90	15-Jun-19	14-Jun-23
	-	50,000	50,000	£9.90	23-Jul-24	23-Jul-28
	-	50,000	50,000	£9.90	23-Jul-26	23-Jul-28
	50,000	100,000	150,000			
	150,000	**300,000**	**450,000**			

Directors' Emoluments

	2021 £000	2020 £000
Fees (including benefits in kind)	265	265
Salary payments (including benefits in kind)	4,109	3,172
Pension contributions	70	70
	4,444	**3,507**

	Salary £000	Bonus £000	Benefits £000	Pension £000	Fees £000	Total 2021 £000	Total 2020 £000
Sir Henry Angest	1,200	-	68	-	-	1,268	1,281
NPG Boardman	-	-	-	-	60	60	60
JR Cobb	650	350	17	35	-	1,052	702
IA Dewar	-	-	-	-	75	75	75
Sir Christopher Meyer	-	-	-	-	60	60	60
AA Salmon	1,200	600	24	35	-	1,859	1,259
Sir Alan Yarrow	-	-	-	-	70	70	70
	3,050	**950**	**109**	**70**	**265**	**4,444**	**3,507**

Details of any shares or options held by directors are presented above and on page 144.

The emoluments of the Chairman were £1,268,000 (2020: £1,281,000). The emoluments of the highest paid director were £1,859,000 (2020: £1,281,000) including pension contributions of £35,000 (2020: £nil).

Retirement benefits are accruing under money purchase schemes for two directors who served during 2021 (2020: two directors).

Independent Auditor's Report

Opinion

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

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

In our opinion, the financial statements:

- give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2021 and of the Group's profit for the year then ended;
- have been properly prepared in accordance with UK-adopted international accounting standards and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.
Our audit procedures to evaluate the directors' assessment of the Group's and the Parent Company's ability to continue to adopt the going concern basis of accounting included but were not limited to:

- Undertaking an initial assessment at the planning stage of the audit to identify events or conditions that may cast significant doubt on the Group's and the Parent Company's ability to continue as a going concern;
- Making enquiries of the directors to understand the period of assessment considered by them, the assumptions they considered and the implication of those when assessing the Group's and Parent Company's future financial performance;
- Evaluating management's going concern assessment of the Group and Parent Company and challenging the appropriateness of the key assumptions used in management's forecasts, including assessing the historical accuracy of management's forecasting and budgeting;
- Assessing the sufficiency of the Group's capital and liquidity taking into consideration the most recent Internal Capital Adequacy Assessment Process and Internal Liquidity Assessment Process, and evaluating the results of management stress testing, including consideration of principal and emerging risks on liquidity and regulatory capital;
- Evaluating the Group's Resolution and Recovery plans 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 the impact of COVID-19 pandemic;
- Reading regulatory correspondence, minutes of meetings of the Audit Committee and the Board of Directors, and post balance sheet events to identify events of conditions that may impact the Group's and the Parent Company's ability to continue as a going concern;
- Considering the consistency of Management's forecasts with other areas of the financial statements and our audit; and
- Evaluating the appropriateness of the directors' disclosures in the financial statements on going concern.

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

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.
In relation to Arbuthnot Banking Group PLC's reporting on how it has applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the director's considered it appropriate to adopt the going concern basis of accounting.

Key audit matters

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

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

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

Key Audit Matter	How our scope addressed this matter
Allowances for expected credit losses Group - £6.4m; 2020: £4.6m (note 4, note 23 and 24) *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 overthe ability of the Groups' customers to make future loan repayments. The most significant risk relates to loans and advances to customers where the Group is exposed to secured and unsecured lending to private and commercial customers. As set out in note 3.4, ECL is measured basedon a three-stage model. For loans with no signification deterioration in credit risk sinceorigination (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 inputparameters 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 isdetermined based on probability of default ('PD') and the present value of future cash flowsarising primarily from the sale or repossession of security which determines the loss givendefault ('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-19 driven actions such as payment holidays; • Key assumptions in the model including PDand LGD including the present value offuture cash flows from collateral; and • Use of macro-economic variables reflecting a range of future scenarios. • Further detail on the key judgements and estimation involved are set out within the	Our audit procedures included but were not limited to: *Planning* We have performed a risk assessment over the Group's loan portfolio to identify areas of heightened risk, with consideration for the continued impact of COVID-19. We have assessed the methodology of identifyingsignificant increase in credit risk and tested the stage allocation. As part of our audit of the methodology, we tested the model design and model implementation. We also performed benchmarking, sensitivities, detailed IFRS 9 compliance checklist review and the recalculation of the key components such as PD, LGD, EAD and final ECL *Controls* We have evaluated the design and implementation and tested the operating effectiveness of the key controls operating across theGroup in relation to credit processes (including underwriting, monitoring, collections and provisioning). This also included attendance at the Potential & Problem Debt Management Committee meetings, missed payments monitoring, credit reviewsat origination and annual review, watch list movements through the year, and collateral revaluation controls. *Test of detail* We have performed credit file reviews in order to verify data used in the determination of PD and LGD assumptions. This was performed for all loans in Stage 3 and Stage 2 and for a sample of loans in Stage 1 with characteristics of heightened credit risk (e.g. high Loan-to-Value secured exposures and unsecured exposures). *ECL models* We have assessed the models used by managementto determine ECL calculations. We have: • considered the methodology used by management; • tested the data inputs used in applying the methodology adopted and assessed for reasonableness; • tested the completeness of the loan portfolio applied to the model; • tested the process in place to allocate loans to the respective risk categories (staging); • tested and challenged the key assumptions applied to determine probability of default and loss given default; • on sample of higher risk individually assessed loans (stage 3), we involved our in-house valuation specialist to independently assess the underlying collateral used in the ECL calculations. However, in some cases we relied on management's external valuation experts and in this situation, we assessed the capabilities, professional competence, and objectivity of the experts; • we have involved our in-house credit risk specialists and economists in the assessment of model approach and assumptions, including macro- economic scenarios and the impact on house prices; • we have assessed the valuation, completeness and appropriateness

significant areas of judgement and estimation within the critical accounting estimates and judgements in applying accounting policies in note 4 and note 22 and 23 to the financial statements. • Use of macro-economic variables reflecting a range of future scenarios; and • Post model adjustments to capture uncertainties not captured by the models.	of post model adjustments; and • we performed stand back analysis to assess the overall adequacy of the ECL coverage. In performing this procedure, we considered the credit quality of the portfolio and performed benchmarking across similar banks considering both staging percentages and provision coverage ratios; and • we assessed the adequacy and appropriateness of disclosures made within the financial statements. *Our observations* 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.

Property Valuations Group: Inventory: £87.1m (2020: £84.7m) (note 25) Investment properties: £6.6m (2020: £6.6m) (note 31) Assets classified as held for sale: £3.1m (2020: £3.3m) (note 21) *Risk* The Group recognises commercial property aseither investment property under IAS 40 or, where commercial property is being developed for future sale, as inventory under IAS 2. The Group has an accounting policy to hold investment properties at fair value and otherproperty held as inventory or for sale at lower of costand net realisable value. Management engaged qualified third party experts to provide observations and market data e.g. property rental yields. This data is included in models built in-house to determine fair value or recoverable amount. The outcome of the model is highly sensitive to assumptions made. Further detail on the key judgements and estimates involved are set out within the Corporate Governance report on page 34 and the Critical accounting estimates and judgements in applying accounting policies in note 4 to the financial statements.	Our audit procedures included but were not limited to: *Planning* We have assessed the accounting classification of all commercial property, held as either investmentproperty or within inventory and of all property security repossessed by the Group during workout of defaulted loans, held either within inventory or as held for sale. We have held meetings with property developers and legal representatives engaged by the Group in relation to repossessed property security. *Controls* We have assessed the design effectiveness and implementation of key controls around valuation models prepared by management. *Valuation models* We engaged with our in-house real estate valuation specialists to assist us in our review of the valuation approach and testing of the assumptions used by management. We havecompared property valuations determined by management against our own independent valuation ranges. We have tested and challenged 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; and, • fees and contingencies. We assessed the capabilities, professional competence and objectivity of the external valuation experts who were engaged by management in valuing the properties. We assessed the adequacy of the disclosures made, and their compliance with the accounting standards including the appropriateness of the key assumptions. *Our observations* 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.

Acquisition of Asset Alliance Group Holdings Limited ("AAG") £8.6m gain on bargain purchase (note 12) *Risk* On 1 April 2021, the Group completed the acquisition of 100% of AAG for an equity consideration of c.£10.0m. The transaction resulted in a £8.6m gain on bargain purchase reported in the income statement. The most significant areas where we identified greater levels of management judgement and estimates are: • allocation of the purchase price consideration and its compliance with IFRS 3, *Business Combination.* • the cash flow forecasts used to determine the value of AAG is judgemental as it's based on expectation about growth in new originations in commercial vehicles market that is currently constraint due to the global semi-conductor shortage; and • the valuation of operating lease residual values. Management must forecast residual values based onexpectation of future selling prices upon lease maturity. Further detail on the key judgements involved is set out within the significant areas of judgement and estimation within the CorporateGovernance report on page 34, the Critical accounting estimates and judgements in applying accounting policies in note 4 and note 12 to the financial statements.	Our audit procedures included but were not limited to: *Planning* We first understood the purpose of the transaction and its consistency within the current business modelof the Group. We also performed detailed risk assessment of the transaction by inspecting Management's expert reports, key management papers, and attended meetings with management and those charge withgovernance. *Controls* We walked through the Group's process and assessed design effectiveness and implementation of the key controls, specifically around the accuracy of the purchase price allocation, including its cashflow forecast and the valuation of its residual values. *Test of details* *Purchase price allocation* We assessed the Group's purchase price allocation with our in-house valuation specialists who tested the appropriateness of the allocation with reference to IFRS3, *Business Combination*. Part of this procedure includes benchmarking key assumptions to external market data and assessed the reasonableness of the discount rate used. We assessed the capabilities, professional competence and objectivity of management's external valuation expert that was employed to allocate the purchase price. We assessed the appropriateness of the accounting and disclosures to ensure compliance with IFRS 3, *Business Combination*. *Cashflow forecast* We challenged the Group's key assumptions relatingto the estimated future cash flows. Our procedures included: • assessing the Group's ability to accurately forecast business performance with reference to historical trading performance and as well as any potential impact on future business performance such as disruptions tosupply chain; • challenging the reasonableness of the Group's assessment of the cash flow forecasts new originations and growth ratesapplied; and • held discussion with key executives to understand their experience and knowledgein the sector. *Residual values* • We obtained management's residual valuescalculation and tested key inputs by tracing to source documents; • We performed independent research on current and expected market conditions thatimpact residual values and challenge their inclusion in the determination of the residualvalues; • We performed post-acquisition sales testing to validate the accuracy of the values determined by management on acquisition; and • We assessed the appropriateness of the accounting and its compliance with IFRS. *Our observations* We concluded that the approach adopted by management on the acquisition of AAG was performed in line with IFRS 3, *Business Combinatio*n. We were able to satisfy ourselves that the cashflow forecast was appropriately supported and key uncertainties considered were reasonable. Management residual values adopted were considered to be reasonable. We consider management's disclosures in note 12 to be appropriate.

In the prior year, our audit report included a significant risk in relation to Effective Interest Rate ("EIR") accounting within Revenue Recognition. We determined that the nature and complexity of the adjustment no longer contribute significantly to our audit efforts and therefore is no longer considered as a key audit matter.

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

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

	Group financial statements	Parent company financial statements
Overall materiality	£1.0m (2020: £0.5m)	£0.7m (2020: £0.3m)
How we determined it	0.5% of Net assets (2020: 0.5% of net assets but capped at component materiality levels)	
Rationale for benchmark applied	We consider net assets to be the main the focus for the users of the financial statements given net assets being an approximation of regulatory capital resources and the importance of regulatory capital to the Parent Company's solvency. Also, the principal activity of the Group and Parent Company is the investment of Capital.	
Performance materiality	Performance materiality is set to reduce to an appropriately low level theprobability that the aggregate of uncorrected and undetected misstatements in the financial statements exceeds materiality for the financial statements as a whole. We set performance materiality at £0.7m (2020: £0.3m) for the Group and £0.5m (2020: £0.2m) for the Parent Company, which represents 70% of overall materiality. We considered several factors in determining performance materiality, including: • The level and nature of uncorrected and corrected misstatements in the prior year; • The robustness of the control environment; • Business acquisitions in the current year; and • The level of integration of new business segments.	
Reporting threshold	We agreed with the directors that we would report to them misstatements identified during our audit above £30,000 (2020: £16,000) for the Group and £6,000 (2020: £8,000) for the Parent Company as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.	

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

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

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

Our component materiality ranged from £0.02m to £1.0m (2020: £0.04m to £0.5m). Full scope audits were carried out on all companies in the Group and therefore, account for 100% (2020: 100%) of the Group's net interest income, 100% (2020: 100%) of the Group's profit before tax, 100% (2020: 100%) of the Group's net assets, and 100% (2020: 100%) of the Group's total assets.

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

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

Working with our component auditors

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

Other information

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

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

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

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

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

- the information about internal control and risk management systems in relation to financial reporting processes and about share capital structures, given in compliance with rules 7.2.5 and 7.2.6 in the Disclosure Guidance and Transparency Rules sourcebook made by the Financial Conduct Authority (the FCA Rules), is consistent with the financial statements and has been prepared in accordance with applicable legal requirements; and
- information about the Parent Company's corporate governance code and practices and about its administrative, management and supervisory bodies and their committees complies with rules 7.2.2, 7.2.3 and 7.2.7 of the FCA Rules.

Matters on which we are required to report by exception

In light of the knowledge and understanding of the Group and the Parent Company and their environment obtained in the course of the audit, we have not identified material misstatements in the:

- strategic report or the directors' report; or
- information about internal control and risk management systems in relation to financial reporting processes and about share capital structures, given in compliance with rules 7.2.5 and 7.2.6 of the FCA Rules.

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 and the part of the directors' remuneration report to be audited 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; or
- a corporate governance statement has not been prepared by the Parent Company.

Corporate governance statement

The Listing Rules require us to review the directors' statement in relation to going concern, longer- term viability and that part of the Corporate Governance Statement relating to the Group's and the Parent Company's compliance with the provisions of the UK Corporate Governance Statement specified for our review.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Statement is materially consistent with the financial statements or our knowledge obtained during the audit:

- Directors' statement with regards the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified, set out on page 30;
- Directors' explanation as to its assessment of the entity's prospects, the period this assessment covers and why they period is appropriate, set out on page 30;

- Directors' statement on fair, balanced and understandable, set out on page 33;
- Board's confirmation that it has carried out a robust assessment of the e-merging and principal risks, set out on page 17;
- The section of the annual report that describes the review of effectiveness of risk management and internal control systems, set out on page 17; and;
- The section describing the work of the audit committee, set out on page 37.

Responsibilities of Directors

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

Based on our understanding of the Group and the Parent Company and its industry, we identified that the principal risks of non-compliance relate to regulations and supervisory requirements of the Prudential Regulation Authority (PRA) and Financial Conduct Authority (FCA), Anti Money Laundering regulations (AML), General Data Protection Regulation (GDPR), Corporate Governance Code, FCA's Disclosure Guidance and Transparency Rules and other laws and regulations, such as the Companies Act 2006, that have a direct impact on the preparation of the financial statements, and UK tax legislation.

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

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

In addition, we evaluated the directors' and management's incentives and opportunities for fraudulent manipulation of the financial statements, including the risk of management override of controls, and determined that the principal risks related to posting manual journal entries to manipulate financial performance, management bias through judgements and assumptions in significant accounting estimates, in particular in relation to ECL (as described in the "Key audit matters" section of our report) and significant one-off or unusual transactions.

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

- Making enquiries of the Directors and management on whether they had knowledge of any actual, suspected or alleged fraud;
- Gaining an understanding of the internal controls established to mitigate risks related to fraud;
- Discussing amongst the engagement team the risks of fraud such as opportunities for fraudulent manipulation of financial statements, and determined that the principal risks were related to posting manual journal entries to manipulate financial performance, management bias through judgements and assumptions in significant accounting estimates, in particular in relation to ECL, and significant one-off or unusual transactions; and
- Addressing the risks of fraud through management override of controls by performing journal entry testing on a sample basis.

The primary responsibility for the prevention and detection of irregularities, including fraud, rests with both those charged with governance and management. As with any audit, there remained a risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal controls.

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

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

Other matters which we are required to address

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

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

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

Use of the audit report

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

Greg Simpson
(Senior Statutory Auditor) for and on behalf of Mazars LLP
Chartered Accountants and Statutory Auditor
Tower Bridge House, St Katherine's Dock
London
23 March 2022

Company statement of financial position

	Note	At 31 December 2021 £000	2020 £000
ASSETS			
Loans and advances to banks	19	7,587	15,162
Debt securities at amortised cost	20	24,367	24,308
Financial investments	26	-	14,171
Current tax asset		239	438
Deferred tax asset	27	523	395
Intangible assets	28	2	4
Property, plant and equipment	29	137	161
Other assets	25	56	103
Interests in subsidiaries	44	159,404	133,904
Total assets		**192,315**	**188,646**
EQUITY AND LIABILITIES			
Equity			
Share capital	38	154	154
Other reserves	39	(1,280)	(13,444)
Retained earnings	39	153,528	160,721
Total equity		**152,402**	**147,431**
LIABILITIES			
Other liabilities	34	3,141	3,559
Debt securities in issue	36	36,772	37,656
Total liabilities		**39,913**	**41,215**
Total equity and liabilities		**192,315**	**188,646**

The Company 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.

Consolidated statement of changes in equity

	Attributable to equity holders of the Group					
	Share capital	Capital redemption reserve	Fair value reserve	Treasury shares	Retained earnings	Total
	£000	£000	£000	£000	£000	£000
Balance at 31 December 2020	**154**	**19**	**(12,690)**	**(1,299)**	**207,839**	**194,023**
Total comprehensive income for the period						
Profit for 2021	-	-	-	-	6,786	6,786
Other comprehensive income, net of tax						
Changes in fair value of equity investments at fair value through other comprehensive income*	-	-	5,626	-	-	5,626
Tax on other comprehensive income	-	-	2	-	-	2
Total other comprehensive income	**-**	**-**	**5,628**	**-**	**-**	**5,628**
Total comprehensive income for the period	**-**	**-**	**5,628**	**-**	**6,786**	**12,414**
Transactions with owners, recorded directly in equity						
Contributions by and distributions to owners						
Sale of Secure Trust Bank shares	-	-	8,041	-	(8,041)	-
Special dividend relating to 2019**	-	-	-	-	(3,155)	(3,155)
Interim dividend relating to 2021	-	-	-	-	(2,403)	(2,403)
Total contributions by and distributions to owners	**-**	**-**	**8,041**	**-**	**(13,599)**	**(5,558)**
Balance at 31 December 2021	**154**	**19**	**979**	**(1,299)**	**201,026**	**200,879**

* Mainly relates to movements in the STB share price. There are currently no tax implications to the movement as the shareholding still qualifies for significant shareholding exemption.

** On 19 March 2021 the Group paid a special dividend of 21p per share to replace the dividend that was withdrawn at the request of the regulators at the outset of the pandemic.

	Attributable to equity holders of the Group					
	Share capital	Capital redemption reserve	Fair value reserve	Treasury shares	Retained earnings	Total
	£000	£000	£000	£000	£000	£000
Balance at 31 December 2019	**154**	**19**	**205**	**(1,214)**	**209,171**	**208,335**
Total comprehensive income for the period						
Loss for 2020	-	-	-	-	(1,332)	(1,332)
Other comprehensive income, net of tax						
Changes in fair value of equity investments at fair value through other comprehensive income*	-	-	(12,825)	-	-	(12,825)
Tax on other comprehensive income	-	-	(70)	-	-	(70)
Total other comprehensive income	**-**	**-**	**(12,895)**	**-**	**-**	**(12,895)**
Total comprehensive income for the period	**-**	**-**	**(12,895)**	**-**	**(1,332)**	**(14,227)**
Transactions with owners, recorded directly in equity						
Contributions by and distributions to owners						
Purchase of own shares	-	-	-	(85)	-	(85)
Total contributions by and distributions to owners	**-**	**-**	**-**	**(85)**	**-**	**(85)**
Balance at 31 December 2020	**154**	**19**	**(12,690)**	**(1,299)**	**207,839**	**194,023**

* Mainly relates to movements in the STB share price. There are no tax implications to the movement as the shareholding qualified for significant shareholding exemption.

Company statement of changes in equity

	Attributable to equity holders of the Company					
	Share capital	Capital redemption reserve	Fair value reserve	Treasury shares	Retained earnings	Total
	£000	£000	£000	£000	£000	£000
Balance at 1 January 2020	**154**	**19**	**(423)**	**(1,214)**	**161,556**	**160,092**
Total comprehensive income for the period						
Loss for 2020	-	-	-	-	(835)	(835)
Other comprehensive income, net of income tax						
Changes in fair value of equity investments at fair value through other comprehensive income*	-	-	(11,741)	-	-	(11,741)
Total other comprehensive income	-	-	**(11,741)**	-	-	**(11,741)**
Total comprehensive income for the period	-	-	**(11,741)**	-	**(835)**	**(12,576)**
Transactions with owners, recorded directly in equity						
Contributions by and distributions to owners						
Purchase of own shares	-	-	-	(85)	-	(85)
Total contributions by and distributions to owners	-	-	-	**(85)**	-	**(85)**
Balance at 31 December 2020	**154**	**19**	**(12,164)**	**(1,299)**	**160,721**	**147,431**
Total comprehensive income for the period						
Profit for 2021	-	-	-	-	5,541	5,541
Other comprehensive income, net of income tax						
Changes in fair value of equity investments at fair value through other comprehensive income*	-	-	4,988	-	-	4,988
Total other comprehensive income	-	-	**4,988**	-	-	**4,988**
Total comprehensive income for the period	-	-	**4,988**	-	**5,541**	**10,529**
Transactions with owners, recorded directly in equity						
Contributions by and distributions to owners						
Sale of Secure Trust Bank shares	-	-	7,176	-	(7,176)	-
Special dividend relating to 2019**	-	-	-	-	(3,155)	(3,155)
Interim dividend relating to 2021	-	-	-	-	(2,403)	(2,403)
Total contributions by and distributions to owners	-	-	**7,176**	-	**(12,734)**	**(5,558)**
Balance at 31 December 2021	**154**	**19**	-	**(1,299)**	**153,528**	**152,402**

* Relates to movements in the STB share price. There are no tax implications to the movement as the shareholding qualified for significant shareholding exemption.

** On 19 March 2021 the Group paid a special dividend of 21p per share to replace the dividend that was withdrawn at the request of the regulators at the outset of the pandemic.

Consolidated Statement of Cash Flows

	Note	Year ended 31 December 2021 £000	Year ended 31 December 2020 £000
Cash flows from operating activities			
Interest received		77,321	99,308
Interest paid		(14,395)	(19,264)
Fees and commissions received		15,579	14,685
Other income		3,955	678
Cash payments to employees and suppliers		(46,018)	(85,931)
Taxation paid		-	(237)
Cash flows from operating profits before changes in operating assets and liabilities		36,442	9,239
Changes in operating assets and liabilities:			
- net (increase)/decrease in derivative financial instruments		(388)	291
- net (increase)/decrease in loans and advances to customers		(280,646)	11,366
- net increase in other assets		(3,554)	(5,513)
- net increase in amounts due to customers		472,662	280,304
- net increase/(decrease) in other liabilities		4,604	(5,894)
Net cash inflow from operating activities		**229,120**	**289,793**
Cash flows from investing activities			
Acquisition of financial investments		(621)	(420)
Disposal of financial investments		21,547	-
Purchase of computer software	28	(5,100)	(6,392)
Purchase of property, plant and equipment	29	(35,930)	(683)
Proceeds from sale of property, plant and equipment	29	19,632	23
Acquisition of Asset Alliance Group Holdings Limited	12	(9,998)	-
Cash balance acquired through Asset Alliance Holdings Limited acquisition	12	3,883	-
Purchase of debt securities		(590,492)	(623,614)
Proceeds from redemption of debt securities		635,155	719,242
Net cash inflow from investing activities		**38,076**	**88,156**
Cash flows from financing activities			
Purchase of treasury shares		-	(85)
Decrease in borrowings		(117,675)	(331)
Lease payments		(2,893)	(2,633)
Dividends paid		(5,558)	-
Net cash outflow from financing activities		**(126,126)**	**(3,049)**
Net increase in cash and cash equivalents		141,070	374,900
Cash and cash equivalents at 1 January		747,066	372,166
Cash and cash equivalents at 31 December	42	**888,136**	**747,066**

Company Statement of Cash Flows

	Note	Year ended 31 December 2021 £000	Year ended 31 December 2020 £000
Cash flows from operating activities			
Dividends received from subsidiaries and financial investments		5,550	385
Interest received		22	51
Interest paid		(2,665)	(2,664)
Other income		11,030	9,537
Cash payments to employees and suppliers		(9,274)	(7,965)
Taxation paid		62	(21)
Cash flows from operating profit/(loss) before changes in operating assets and liabilities		4,725	(677)
Changes in operating assets and liabilities:			
- net (increase)/decrease in group company balances		(1,655)	2,087
- net decrease in other assets		47	12
- net increase/(decrease) in other liabilities		1,237	(1,591)
Net cash inflow/(outflow) from operating activities		**4,354**	**(169)**
Cash flows from investing activities			
Receipt on dissolution of insurance cell	44	-	100
Capital contribution to Arbuthnot Latham		(25,500)	-
Disposal/disposal of financial investments		19,129	-
Net cash (outflow)/inflow from investing activities		**(6,371)**	**100**
Cash flows from financing activities			
Purchase of treasury shares		-	(85)
Dividends paid		(5,558)	-
Net cash used in financing activities		**(5,558)**	**(85)**
Net decrease in cash and cash equivalents		(7,575)	(154)
Cash and cash equivalents at 1 January		15,162	15,316
Cash and cash equivalents at 31 December	42	**7,587**	**15,162**

Notes to the Consolidated Financial Statements

1. Reporting entity

Arbuthnot Banking Group PLC is a company domiciled in the United Kingdom. The registered address of Arbuthnot Banking Group PLC is 7 Wilson Street, London, EC2M 2SN. The consolidated financial statements of Arbuthnot Banking Group PLC as at and for the year ended 31 December 2021 comprise Arbuthnot Banking Group PLC and its subsidiaries (together referred to as the "Group" and individually as "subsidiaries"). The Company is the holding company of a group 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.

The consolidated financial statements were authorised for issue by the Board of Directors on 23 March 2022.

(b) Basis of measurement

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

(c) Functional and presentational currency

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

(d) Use of estimates and judgements

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

(e) Going concern

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

(f) Accounting developments

The accounting policies adopted are consistent with those of the previous financial year.

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 fair value are recognised in the profit or 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, where an election has been made to present subsequent fair value changes in Other Comprehensive Income ("OCI"), will also be recognised in OCI.

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 ("FVPL"). Liabilities are measured at amortised cost or FVPL. The Group classifies financial assets and financial liabilities in the following categories: financial assets and financial liabilities at FVPL; FVOCI, financial assets and liabilities at amortised cost and other financial liabilities. 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 FVPL 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.

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 FVPL
Financial assets and liabilities are classified at FVPL where they do not meet the criteria to be measured at amortised cost or FVOCI or where financial assets are designated at FVPL 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 FVPL, 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 FVPL 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 FVPL until the investment is sold.

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

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

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

There is a rebuttable presumption that all equity investments are FVPL, 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 assets are 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 expected to be significantly less; 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 liabilities are recognised when cash is received from the depositors and carried at amortised cost using the effective interest rate method. The fair value of these liabilities repayable on demand is assumed to be the amount payable on demand at the Statement of Financial Position date.

Basis of measurement for financial assets and liabilities
Amortised cost measurement
The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition, minus principal payments, plus or minus the cumulative amortisation using the effective interest rate method of any difference between the initial amount recognised and the maturity amount, less any reduction for impairment.

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

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

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

Derecognition

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

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

Offsetting
Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRS, or for gains and losses arising from a group of similar transactions such as the Group's trading activity.

3.4 Impairment for financial assets and lease receivables

IFRS 9 impairment model adopts a three stage expected credit loss approach ("ECL") 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, where any proposed amendments will be reviewed and approved by the Groups Credit Committees at least annually and more frequently if required.

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

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

- The rebuttable assumption that more than 90 days past due is an indicator of default. The Group therefore deems more than 90 days past due as an indicator of default except for cases where the customer is already within forbearance. This will ensure that the policy is aligned with the Basel/Regulatory definition of default.

- The Group has also deemed it appropriate to classify accounts where there has been a breach in agreed forbearance arrangements, recovery action is in hand or bankruptcy proceedings have been initiated or similar insolvency process of a client, or director of a company.

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

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

The Group uses bespoke macroeconomic models to determine the most significant factors which may influence the likelihood of an exposure defaulting in the future. At present, the most significant macroeconomic factors relate to property prices, UK real GDP growth and unemployment rate. The Group currently consider five probability weighted scenarios: baseline (2020: "no change"); severe decline; moderate decline; decline and upside (2020: "growth"). The Group has derived an approach for factoring probability weighted macroeconomic forecasts into ECL calculations, adjusting PD and LGD estimates.

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

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

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

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

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

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

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

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

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

3.6. Impairment of non-financial assets

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Impairment for goodwill is discussed in more detail under Note 28.

3.7. Fiduciary activities

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

3.8. Adoption of new and revised reporting standards

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

Interest Rate Benchmark Reform

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

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

3.9. Standards issued but not yet effective

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

Other standards

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

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

4. Critical accounting estimates and judgements in applying accounting policies

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

4.1 Estimation uncertainty

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

The Group reviews its loan portfolios and debt security investments to assess impairment at least on a quarterly basis. The basis for evaluating impairment losses is described in Note 11. The measurement of ECL required by the implementation of IFRS 9, from 1 January 2018, necessitates a number of significant judgements. Specifically, judgements and estimation uncertainties relate to assessment of whether credit risk on the financial asset has increased significantly since initial recognition, incorporation of forward-looking information ("FLI") in the measurement of ECLs and key assumptions used in estimating recoverable cash flows. These estimates are driven by a number of factors that are subject to change which may result in different levels of ECL allowances.

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

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

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

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

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

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

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

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

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

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

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

The tables below list the macroeconomic assumptions at 31 December 2021 used in the base, upside and downside scenarios over the five-year forecast period. The assumptions represent the absolute percentage unemployment rates and year-on-year percentage change for GDP and property prices.

UK House price index - four quarter growth

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

UK Commercial real estate price - four quarter growth

Year	Baseline	Upside	Decline	Moderate Decline	Severe Decline
2022	1.5%	5.9%	(12.8%)	(17.4%)	(22.0%)

2023	1.5%	6.3%	(1.0%)	(3.5%)	(6.0%)
2024	1.3%	5.4%	2.9%	4.4%	6.0%
5 year average	1.4%	5.1%	(1.2%)	(1.8%)	(2.4%)

UK Unemployment rate - annual average

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

UK GDP - annual growth

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

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

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

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

Group	Economic scenarios as at 2021 £000	2020 £000
ECL Provision		
Stage 1	388	831
Stage 2	77	157
Stage 3	5,922	5,968
At 31 December 2021	6,387	6,956

Additionally, management have assessed the impact of assigning a 100% probability to each of the economic scenarios,

Group	2021 £m	2020 £m
Impact of 100% scenario probability		
Baseline (2020: No Change)	0.1	0.8
Upside (2020: Growth)	0.1	0.9
Decline	(0.8)	0.4
Moderate Decline	(4.0)	(6.0)
Severe Decline	(13.6)	(51.0)

(b) Effective Interest Rate

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

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

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

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

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

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

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

(c) Investment property

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

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

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

Crescent Office Park in Bath with value of £6.6m (2020: £6.6m)

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

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

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

The valuation of the property has the following key inputs:
- yield: 6.50%
- future rent increases (every five years): 4.00%

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

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

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

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

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

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

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

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

The profitability of the Group's operating lease contracts is highly dependent on the RV of the vehicle at the end of the agreement. On inception of the lease, the Group uses its knowledge and experience of the market and industry to estimate the final RV of the vehicle. The Group is exposed to the risk that the RV of the vehicle may be less than anticipated at the outset of the contract

impacting profitability. The Group manages the risk through effective and robust procedures by continually monitoring historic, current and forecast RF performance.

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

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

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

5. Maturity analysis of assets and liabilities

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

At 31 December 2021	Due within one year £000	Due after more than one year £000	Total £000
ASSETS			
Cash and balances at central banks	814,692	-	814,692
Loans and advances to banks	73,444	-	73,444
Debt securities at amortised cost	147,696	153,356	301,052
Assets classified as held for sale	3,136	-	3,136
Derivative financial instruments	118	1,635	1,753
Loans and advances to customers	646,507	1,224,455	1,870,962
Other assets	109,741	378	110,119
Financial investments	124	3,045	3,169
Deferred tax asset	-	2,562	2,562
Intangible assets	7,340	22,524	29,864
Property, plant and equipment	78,897	46,993	125,890
Right-of-use assets	2,729	12,945	15,674
Investment property	-	6,550	6,550
	1,884,424	**1,474,443**	**3,358,867**
LIABILITIES			
Deposits from banks	15,333	225,000	240,333
Derivative financial instruments	132	39	171
Deposits from customers	1,640,627	1,197,242	2,837,869
Current tax liability	413	-	413
Other liabilities	21,126	28	21,154
Lease liabilities	5,802	15,474	21,276
Debt securities in issue	-	36,772	36,772
	1,683,433	**1,474,555**	**3,157,988**

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	110,267	-	110,267
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	205	-	205
Loans and advances to customers	533,856	1,053,993	1,587,849
Other assets	96,180	108	96,288
Financial investments	1,754	16,741	18,495
Deferred tax asset	-	1,009	1,009
Intangible assets	13,895	9,751	23,646
Property, plant and equipment	3,113	1,792	4,905
Right-of-use assets	2,793	14,910	17,703
Investment property	-	6,550	6,550
	1,601,351	**1,252,185**	**2,853,536**
LIABILITIES			
Deposits from banks	5,090	225,000	230,090
Derivative financial instruments	188	461	649
Deposits from customers	2,170,339	194,868	2,365,207
Other liabilities	7,606	-	7,606
Lease Liabilities	2,798	15,507	18,305
Debt securities in issue	-	37,656	37,656
	2,186,021	**473,492**	**2,659,513**

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

At 31 December 2021	Due within one year £000	Due after more than one year £000	Total £000
ASSETS			
Loans and advances to banks	6	-	6

Loans and advances to banks - due from subsidiary undertakings	7,581	-	7,581
Debt securities at amortised cost	-	24,367	24,367
Current tax asset	239	-	239
Deferred tax asset	-	523	523
Intangible assets	-	2	2
Property, plant and equipment	-	137	137
Other assets	55	-	55
Interests in subsidiaries	-	159,404	159,404
	7,881	**184,433**	**192,314**
LIABILITIES			
Other liabilities	3,142	-	3,142
Debt securities in issue	-	36,772	36,772
	3,142	**36,772**	**39,914**

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

At 31 December 2020	Due within one year £000	Due after more than one year £000	Total £000
ASSETS			
Loans and advances to banks	7	-	7
Loans and advances to banks - due from subsidiary undertakings	15,155	-	15,155
Debt securities at amortised cost	-	24,308	24,308
Financial investments	-	14,171	14,171
Current tax asset	438	-	438
Deferred tax asset	-	395	395
Intangible assets	-	4	4
Property, plant and equipment	-	161	161
Other assets	102	-	102
Interests in subsidiaries	-	133,904	133,904
	15,702	**172,943**	**188,645**
LIABILITIES			
Other liabilities	3,559		3,559
Debt securities in issue		37,656	37,656
	3,559	**37,656**	**41,215**

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.

(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. 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 of the banking subsidiary.

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. However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards.

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

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

The IFRS 9 impairment model adopts a three stage approach based on the extent of credit deterioration since origination, see Note 11.

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

	2021							
Group	Banking	Mortgage Portfolios	RAF	ABL	ASFL	AAG	All Other Divisions	Total
Credit risk exposures (all stage 1, unless otherwise stated)	£000	£000	£000	£000	£000	£000	£000	£000
On-balance sheet:								
Cash and balances at central banks	-	-	-	-	-	-	814,499	814,499
Loans and advances to banks	-	-	-	-	-	-	73,444	73,444
Debt securities at amortised cost	-	-	-	-	-	-	301,052	301,052

Derivative financial instruments	-	-	-	-	-	-	1,753	1,753
Loans and advances to customers	1,399,389	178,153	99,969	182,213	10,125	7,500	-	1,877,349
Stage 1	1,297,782	157,566	82,952	182,213	9,896	7,500	-	1,737,909
Stage 2	70,132	13,728	11,374	-	229	-	-	95,463
Stage 3	31,475	6,859	5,643	-	-	-	-	43,977
Other assets	-	-	-	-	-	-	13,098	13,098
Financial investments	-	-	-	-	-	-	3,169	3,169
Off-balance sheet:								
Guarantees	2,931	-	-	-	-	1,629	-	4,560
Loan commitments and other credit related liabilities	261,797	-	-	200,478	2,115	-	-	464,390
At 31 December	**1,664,117**	**178,153**	**99,969**	**382,691**	**12,240**	**9,129**	**1,207,015**	**3,553,314**

Group	2020							
	Banking	Mortgage Portfolios	RAF	ABL	ASFL	AAG	All Other Divisions	Total
Credit risk exposures (all stage 1, unless otherwise stated)	£000	£000	£000	£000	£000	£000	£000	£000
On-balance sheet:								
Cash and balances at central banks	-	-	-	-	-	-	636,631	636,631
Loans and advances to banks	-	-	-	-	-	-	110,267	110,267
Debt securities at amortised cost	-	-	-	-	-	-	344,692	344,692
Derivative financial instruments	-	-	-	-	-	-	1,843	1,843
Loans and advances to customers (net of ECL)	1,122,299	268,827	91,927	87,331	5,964	-	11,501	1,587,849
Stage 1	1,019,470	223,800	74,542	87,331	5,964	-	11,501	1,422,608
Stage 2	72,626	36,794	16,394	-	-	-	-	125,814
Stage 3	30,203	8,233	991	-	-	-	-	39,427
Other assets	-	-	-	-	-	-	5,458	5,458
Financial investments	-	-	-	-	-	-	18,495	18,495
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	**1,281,519**	**268,827**	**91,927**	**242,631**	**6,119**	**-**	**1,128,887**	**3,019,910**

The Company's maximum exposure to credit risk (all stage 1) before collateral held or other credit enhancements is as follows

	2021	2020
	£000	£000
Credit risk exposures relating to on-balance sheet assets are as follows:		
Loans and advances to banks	7,587	15,162
Debt securities at amortised cost	24,367	24,308
Financial investments	-	14,171
At 31 December	**31,954**	**53,641**

The above tables represent the maximum credit risk exposure (net of impairment) to the Group and Company at 31 December 2021 and 2020 without taking account of any collateral held or other credit enhancements attached. For financial assets, the balances are based on carrying amounts as reported in the Statement of Financial Position. For guarantees and loan commitments, the amounts in the table represent the amounts for which the group is contractually committed.

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

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

*In addition to property, other security is taken, including charges over Arbuthnot Latham Investment Management portfolios, other chattels and personal guarantees. The increase in loan to values greater than 100% is due to an increase in exposures collateralised

by other assets. Additionally under the government scheme for BBLs, collateral is not required as the loans are 100% backed by the government.

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

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

	2020					
	Banking		Mortgage Portfolios		Total	
	Loan Balance	Collateral	Loan Balance	Collateral	Loan Balance	Collateral
Group	£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.

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

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

	2020	
	Loan commitments	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**

Renegotiated loans and forbearance

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

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

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

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

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

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

Forbearance is a qualitative indicator of a SICR (see Notes 3.3 and 3.4)

As at 31 December 2021, loans for which forbearance measures were in place totalled 3.8% (2020: 5.0%) of total value of loans to customers for the Group. These are set out in the following table:

	2021							
	Stage 1		Stage 2		Stage 3		Total	
	Number	Loan Balance	Number	Loan Balance	Number	Loan Balance	Number	Loan Balance
Group		£000		£000		£000		£000
Time for asset sale	-	-	6	7,586	1	43	7	7,629
Term extension	-	-	9	18,875	-	-	9	18,875
Time for refinance with third party	-	-	8	14,867	-	-	8	14,867
Payment holiday	-	-	1	1,651	2	88	3	1,739
Covenant waived	-	-	4	7,384	-	-	4	7,384
Switch to interest only	-	-	1	10,681	-	-	1	10,681
Modification in terms and conditions	-	-	63	9,809	15	915	78	10,724
Total forbearance	**-**	**-**	**92**	**70,853**	**18**	**1,046**	**110**	**71,899**

Group	2020 Stage 1 Number	Stage 1 Loan Balance £000	Stage 2 Number	Stage 2 Loan Balance £000	Stage 3 Number	Stage 3 Loan Balance £000	Total Number	Total Loan Balance £000
Interest capitalisation	-	-	4	564	-	-	4	564
Time for asset sale	-	-	7	10,496	3	11,110	10	21,606
Term extension	-	-	3	8,084	-	-	3	8,084
Switch to interest only	-	-	4	519	-	-	4	519
Reduced monthly payments	-	-	10	1,100	-	-	10	1,100
Payment holiday	19	507	333	45,954	2	1,193	354	47,654
More than one measure	-	-	2	12,740	-	-	2	12,740
Total forbearance	**19**	**507**	**363**	**79,457**	**5**	**12,303**	**387**	**92,267**

Concentration risk

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

	Loans and advances to customers 2021 £000	Loans and advances to customers 2020 £000	Loan Commitments 2021 £000	Loan Commitments 2020 £000
Concentration by product				
Asset based lending*	182,306	87,331	200,478	155,300
Asset finance	104,613	87,529	2,115	155
Cash collateralised	177,697	13,905	3,083	5,952
Commercial lending	209,617	255,891	41,865	17,484
Investment portfolio secured	26,353	29,051	8,689	781
Residential mortgages	1,107,301	1,056,022	174,452	110,938
Mixed collateral*	37,250	30,442	17,589	4,705
Unsecured**	25,825	27,678	16,119	13,112
At 31 December	**1,870,962**	**1,587,849**	**464,390**	**308,427**
Concentration by location				
East Anglia	25,350	44,304	21,389	2,925
London	767,968	573,188	148,046	89,796
Midlands	97,102	102,504	11,248	8,117
North East	4,707	37,499	3,122	1,170
North West	50,276	111,793	3,681	4,017
Northern Ireland	111,400	9,222	-	-
Scotland	33,952	25,611	50	50
South East	230,384	232,311	15,049	7,370
South West	189,685	171,581	12,243	14,130
Wales	16,179	17,403	5,662	848
Overseas	-	1,000	-	-
Non-property collateral	343,959	261,433	243,900	180,004
At 31 December	**1,870,962**	**1,587,849**	**464,390**	**308,427**

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

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

(b) Operational risk (unaudited)

The Group's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Group's reputation with overall cost effectiveness and to avoid control procedures that restrict initiatives and creativity. The Group is exposed to operational risks from its Information Technology and Operations platforms. There are additional internal controls in these processes that are designed to protect the Group from these risks. The Group's overall approach to managing internal control and financial reporting is described in the Corporate Governance section of the Annual Report.

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

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

Compliance with Group standards is supported by a programme of periodic reviews undertaken by Internal Audit. The results of the Internal Audit reviews are discussed with senior management, with summaries submitted to the Arbuthnot Banking Group 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 tests the infrastructure to ensure that it remains robust to a range of threats, and has continuity of business plans in place including a disaster recovery plan.

Conduct risk

As a financial services provider we face conduct risk, including selling products to customers which do not meet their needs; failing to deal with 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 continued to have, a significant impact on all businesses around the world and the markets in which they operate in 2021. The pandemic has also increased uncertainty for the longer-term economic outlook, adding to existing uncertainties stemming from Brexit.

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

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

Brexit

The Brexit transition period came to an end on 31 December 2020 and the EU and UK agreed the Trade and Cooperation Agreement on 24 December 2020. There is still some uncertainty around the long term consequences of Brexit. Following the closure of the Dubai office during the year, all the Group's income and expenditure is now based in the UK.

Climate change

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

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

The risk assessment process has been integrated into existing risk frameworks and will be governed through the various risk governance structures including review and recommendations by the AL Risk Committee. 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.

(d) Market risk

Price risk

The Company and Group are exposed to price risk from equity investments and derivatives held by the Group. The Group is not exposed to commodity price risk.

Based upon the financial investment exposure in Note 26, a stress test scenario of a 10% (2020: 10%) decline in market prices, would result in a £12k (2020: £14k) decrease in the Group's income and a decrease of £0.3m (2020: £1.8m) in the Group's equity. The Group considers a 10% stress test scenario appropriate after taking the current values and historic data into account.

Based upon the financial investment exposure given in Note 26, a stress test scenario of a 10% (2020: 10%) decline in market prices, would result in a £nil (2020: £nil) decrease in the Company's income and a decrease of £nil (2020: £1.4m) in the Company's equity.

Currency risk

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

At 31 December 2021	GBP (£) £000	USD ($) £000	Euro (€) £000	Other £000	Total £000
ASSETS					
Cash and balances at central banks	814,601	46	41	4	814,692
Loans and advances to banks	17,438	23,983	24,885	7,138	73,444
Debt securities at amortised cost	204,474	96,579	-	(1)	301,052
Derivative financial instruments	1,663	39	-	51	1,753
Loans and advances to customers	1,838,679	7,816	24,870	(403)	1,870,962
Other assets	(17,075)	33,314	(4,320)	1,179	13,098
Financial investments	-	3,031	138	-	3,169
	2,859,780	**164,808**	**45,614**	**7,968**	**3,078,170**
LIABILITIES					
Deposits from banks	240,333	-	-	-	240,333
Derivative financial instruments	103	-	-	68	171
Deposits from customers	2,651,717	128,667	50,340	7,145	2,837,869
Other liabilities	7,601	-	(495)	-	7,106
Debt securities in issue	24,367	-	12,405	-	36,772
	2,924,121	**128,667**	**62,250**	**7,213**	**3,122,251**
Net on-balance sheet position	**(64,341)**	**36,141**	**(16,636)**	**755**	**(44,081)**
Credit commitments	**464,390**	**-**	**-**	**-**	**464,390**

The table below summarises the Group's exposure to foreign 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	46,152	26,005	25,415	12,695	110,267
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	1,564,148	1,611	22,192	(102)	1,587,849
Other assets	6,490	-	-	(1,033)	5,457
Financial investments	15,921	2,436	138	-	18,495
	2,505,279	**140,679**	**47,809**	**11,635**	**2,705,402**
LIABILITIES					
Deposits from banks	230,090	-	-	-	230,090
Derivative financial instruments	581	-	-	68	649
Deposits from customers	2,163,484	140,786	50,438	10,499	2,365,207
Other liabilities	2,444	-	(495)	-	1,949
Debt securities in issue	24,308	-	13,348	-	37,656
	2,420,907	**140,786**	**63,291**	**10,567**	**2,635,551**
Net on-balance sheet position	**84,372**	**(107)**	**(15,482)**	**1,068**	**69,851**
Credit commitments	**308,427**	**-**	**-**	**-**	**308,427**

Derivative financial instruments (see Note 22) are in place to mitigate foreign currency risk on net exposures for each currency. A 10% strengthening of the pound against the US dollar would lead to a £4k decrease (2020: £11k increase) in Group profits and equity, while a 10% weakening of the pound against the US dollar would lead to the same decrease in Group profits and equity. Additionally the Group holds £3.1m of properties classified as assets held for sale (2020: £3.3m) and £7.7m classified as inventory (2020: £12.3m). These properties are located in the EU and relate to Euro denominated loans where the properties were repossessed and are either being held for sale or being developed with a view to sell. Including these Euro assets, the net Euro exposure is positive £6.1m (2020: £0.1m).

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 rate risk at 31 December 2021:

At 31 December 2021	GBP (£) £000	Euro (€) £000	Total £000
ASSETS			
Loans and advances to banks	(4,923)	12,510	7,587
Debt securities at amortised cost	24,367	-	24,367
Other assets	4	-	4
	19,448	**12,510**	**31,958**
LIABILITIES			
Other liabilities	1,490	-	1,490
Debt securities in issue	24,367	12,405	36,772
	25,857	**12,405**	**38,262**
Net on-balance sheet position	**(6,409)**	**105**	**(6,304)**

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

At 31 December 2020	GBP (£) £000	Euro (€) £000	Total £000
ASSETS			
Loans and advances to banks	1,565	13,597	15,162
Debt securities at amortised cost	24,308	-	24,308
Financial investments	14,171	-	14,171
	40,044	**13,597**	**53,641**
LIABILITIES			
Other liabilities	3,132	-	3,132
Debt securities in issue	24,308	13,348	37,656
	27,440	**13,348**	**40,788**
Net on-balance sheet position	**12,604**	**249**	**12,853**

A 10% strengthening of the pound against the Euro would lead to £20k decrease (2020: £31k decrease) in the Company profits and equity, conversely a 10% weakening of the pound against the Euro would lead to a £25k increase (2020: £37k increase) in the Company profits and equity.

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, fixed rate savings accounts and floating rate products dependent on when they re-price at a future date.

Interest rate risk is measured throughout the maturity bandings of the book on a parallel shift scenario for a 200 basis points movement. Interest rate risk is managed to limit value at risk to be less than £0.5m. The current position of the balance sheet is such that it results in an adverse impact on the economic value of equity of £0.3m (2020: favourable impact of £2.4m) for a positive 200bps shift and a favourable impact of £37k (2020: adverse impact of £0.1m) for a negative 200bps movement capped at negative 0.25%. The Company has no fixed rate exposures, but an upward change of 50bps on variable rates would increase pre-tax profits and equity by £51k (2020: increase pre-tax profits and equity by £8k), while a downward change of 50bps (capped at 25bps) would increase pre-tax profits and equity by £29k (2020: increase pre-tax profits and equity by £1k).

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 As at 31 December 2021	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	814,692	-	-	-	-	-	814,692
Loans and advances to banks	73,120	324	-	-	-	-	73,444
Debt securities at amortised cost	262,943	7,403	14,806	15,900	-	-	301,052
Derivative financial instruments	118	-	-	1,635	-	-	1,753
Loans and advances to customers	1,674,763	17,040	40,194	102,488	36,477	-	1,870,962
Other assets*	-	-	-	-	-	293,795	293,795
Financial investments	-	-	-	-	-	3,169	3,169
	2,825,636	**24,767**	**55,000**	**120,023**	**36,477**	**296,964**	**3,358,867**
LIABILITIES							
Deposits from banks	240,333	-	-	-	-	-	240,333
Derivative financial instruments	171	-	-	-	-	-	171
Deposits from customers	2,147,186	109,337	217,645	363,691	10	-	2,837,869
Other liabilities**	-	-	-	-	-	42,843	42,843
Debt securities in issue	36,772	-	-	-	-	-	36,772
Equity	-	-	-	-	-	200,879	200,879
	2,424,462	**109,337**	**217,645**	**363,691**	**10**	**243,722**	**3,358,867**
Impact of derivative instruments	57,889	-	-	(57,889)	-	-	
Interest rate sensitivity gap	**459,063**	**(84,570)**	**(162,645)**	**(303,192)**	**36,467**	**53,242**	
Cumulative gap	**459,063**	**374,493**	**211,848**	**(89,709)**	**(53,242)**	**-**	

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

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

Group 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	109,936	331	-	-	-	-	110,267
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	1,343,863	17,463	19,946	193,122	13,455	-	1,587,849
Other assets	-	-	-	-	-	160,077	160,077
Financial investments	-	-	-	-	-	18,495	18,495
	2,359,814	**59,751**	**35,623**	**212,807**	**13,455**	**178,572**	**2,860,022**
LIABILITIES							
Deposits from banks	230,090	-	-	-	-	-	230,090
Derivative financial instruments	649	-	-	-	-	-	649
Deposits from customers	1,531,104	182,703	249,828	401,562	10	-	2,365,207
Other liabilities	-	-	-	-	-	34,215	34,215
Debt securities in issue	37,656	-	-	-	-	-	37,656
Equity	-	-	-	-	-	192,205	192,205
	1,799,499	**182,703**	**249,828**	**401,562**	**10**	**226,420**	**2,860,022**
Impact of derivative instruments	25,292	-	-	(25,292)	-	-	
Interest rate sensitivity gap	**585,607**	**(122,952)**	**(214,205)**	**(214,047)**	**13,445**	**(47,848)**	
Cumulative gap	**585,607**	**462,655**	**248,450**	**34,403**	**47,848**	**-**	

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

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

Company As at 31 December 2021	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							
Debt securities at amortised cost	24,367	-	-	-	-	-	24,367
Loans and advances to banks	7,547	-	-	-	-	40	7,587
Other assets*	-	-	-	-	-	160,361	160,361
	31,914	**-**	**-**	**-**	**-**	**160,401**	**192,315**
LIABILITIES							
Other liabilities**	-	-	-	-	-	3,142	3,142
Debt securities in issue	36,772	-	-	-	-	-	36,772
Equity	-	-	-	-	-	152,401	152,401
	36,772	**-**	**-**	**-**	**-**	**155,543**	**192,315**
Interest rate sensitivity gap	**(4,858)**	**-**	**-**	**-**	**-**	**4,858**	
Cumulative gap	**(4,858)**	**(4,858)**	**(4,858)**	**(4,858)**	**(4,858)**	**-**	

* Other assets include all remaining assets in the Statement of Financial Position, which are not shown separately above.
** Other liabilities include all remaining liabilities in the Statement of Financial Position, which are not shown separately 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							
Derivative financial instruments	24,308	-	-	-	-	-	24,308
Loans and advances to banks	15,113	-	-	-	-	49	15,162
Other assets*	-	-	-	-	-	135,005	135,005
Financial investments	-	-	-	-	-	14,171	14,171
	39,421	**-**	**-**	**-**	**-**	**149,225**	**188,646**
LIABILITIES							
Other liabilities**	-	-	-	-	-	3,559	3,559
Debt securities in issue	37,656	-	-	-	-	-	37,656
Equity	-	-	-	-	-	147,431	147,431
	37,656	**-**	**-**	**-**	**-**	**150,990**	**188,646**
Interest rate sensitivity gap	**1,765**	**-**	**-**	**-**	**-**	**(1,765)**	
Cumulative gap	**1,765**	**1,765**	**1,765**	**1,765**	**1,765**	**-**	

(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 and stressed conditions, 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 of AL 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, particularly in a period of liquidity stress.

Arbuthnot Latham & Co., Limited ("AL") 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 has 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 20%, 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.

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

At 31 December 2021	Carrying amount	Gross inflow/ (outflow)	Not more than 3 months	More than 3 months but less than 1 year	More than 1 year but less than 5 years	More than 5 years
	£000	£000	£000	£000	£000	£000
Financial liability by type						
Non-derivative liabilities						
Deposits from banks	240,333	(240,333)	(240,333)	-	-	-
Deposits from customers	2,837,869	(2,894,435)	(1,717,377)	(672,029)	(505,029)	-
Other liabilities	7,106	(7,106)	(3,052)	(2,968)	(1,086)	-
Debt securities in issue	36,772	(56,567)	(586)	(1,788)	(9,560)	(44,633)
Issued financial guarantee contracts	-	(4,560)	(4,560)	-	-	-
Unrecognised loan commitments	-	(463,783)	(463,783)	-	-	-
	3,122,080	**(3,666,784)**	**(2,429,691)**	**(676,785)**	**(515,675)**	**(44,633)**
Derivative liabilities						
Risk management:	171					
- Outflows	-	(171)	(171)	-	-	-
	171	**(171)**	**(171)**	**-**	**-**	**-**

At 31 December 2021	Carrying amount	Gross inflow/ (outflow)	Not more than 3 months	More than 3 months but less than 1 year	More than 1 year but less than 5 years	More than 5 years
	£000	£000	£000	£000	£000	£000
Financial asset by type						
Non-derivative assets						
Cash and balances at central banks	814,692	814,692	814,692	-	-	-
Loans and advances to banks	73,444	73,439	73,439	-	-	-
Debt securities at amortised cost	301,052	336,772	318,658	9,666	8,448	-
Loans and advances to customers	1,870,962	2,174,795	207,166	296,957	1,361,543	309,130
Other assets	13,098	13,098	13,098	-	-	-
Financial investments	3,169	3,169	3,169	-	-	-
	3,076,417	**3,415,965**	**1,430,222**	**306,623**	**1,369,991**	**309,130**
Derivative assets						
Risk management:	1,753					
- Inflows	-	1,753	118	-	1,635	-
	1,753	**1,753**	**118**	**-**	**1,635**	**-**

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

At 31 December 2020	Carrying amount £000	Gross inflow/ (outflow) £000	Not more than 3 months £000	More than 3 months but less than 1 year £000	More than 1 year but less than 5 years £000	More than 5 years £000
Financial liability by type						
Non-derivative liabilities						
Deposits from banks	230,090	(230,090)	(230,090)	-	-	-
Deposits from customers	2,365,207	(2,414,329)	(1,547,262)	(560,425)	(306,642)	-
Other liabilities	1,949	(1,949)	(3,268)	-	-	1,319
Debt securities in issue	37,656	(62,222)	(629)	(1,816)	(11,601)	(48,176)
Issued financial guarantee contracts	-	(6,248)	(6,248)	-	-	-
Unrecognised loan commitments	-	(308,427)	(308,427)	-	-	-
	2,634,902	**(3,023,265)**	**(2,095,923)**	**(562,241)**	**(318,243)**	**(46,857)**
Derivative liabilities						
Risk management:	649					
- Outflows	-	(649)	(649)	-	-	-
	649	**(649)**	**(649)**	**-**	**-**	**-**

At 31 December 2020	Carrying amount £000	Gross inflow/ (outflow) £000	Not more than 3 months £000	More than 3 months but less than 1 year £000	More than 1 year but less than 5 years £000	More than 5 years £000
Financial asset by type						
Non-derivative assets						
Cash and balances at central banks	636,799	636,799	636,799	-	-	-
Loans and advances to banks	110,267	110,268	109,937	331	-	-
Debt securities at amortised cost	344,692	349,718	104,854	96,830	148,034	-
Loans and advances to customers	1,587,849	1,783,559	306,330	178,534	1,195,396	103,299
Other assets	5,457	5,457	5,457	-	-	-
Financial investments	18,495	18,495	4,324	-	14,171	-
	2,703,559	**2,904,296**	**1,167,701**	**275,695**	**1,357,601**	**103,299**
Derivative assets						
Risk management:	1,843					
- Inflows	-	1,843	-	-	-	1,843
	1,843	**1,843**	**-**	**-**	**-**	**1,843**

The table below sets out the components of the Group's liquidity reserves:

Liquidity reserves	31 December 2021 Amount £000	31 December 2021 Fair value £000	31 December 2020 Amount £000	31 December 2020 Fair value £000
Cash and balances at central banks	814,692	814,692	636,799	636,799
Loans and advances to banks	73,444	73,444	110,267	110,267
Debt securities at amortised cost	301,052	303,337	344,692	346,660
	1,189,188	**1,191,473**	**1,091,758**	**1,093,726**

Assets pledged as collateral or encumbered

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

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

The table below analyses the contractual cash flows of the Company's financial liabilities and assets as at 31 December 2021:

At 31 December 2021	Carrying amount £000	Gross inflow/ (outflow) £000	Not more than 3 months £000	More than 3 months but less than 1 year £000	More than 1 year but less than 5 years £000	More than 5 years £000
Financial liability by type						
Non-derivative liabilities						
Other liabilities	1,490	(1,490)	-	-	-	(1,490)
Debt securities in issue	36,772	(56,567)	(586)	(1,788)	(9,560)	(44,633)
	38,262	**(58,057)**	**(586)**	**(1,788)**	**(9,560)**	**(46,123)**

At 31 December 2021	Carrying amount £000	Gross inflow/ (outflow) £000	Not more than 3 months £000	More than 3 months but less than 1 year £000	More than 1 year but less than 5 years £000	More than 5 years £000
Financial asset by type						
Non-derivative assets						
Loans and advances to banks	7,587	7,587	7,587	-	-	-
Debt securities at amortised cost	24,367	39,878	509	1,558	8,336	29,475
	31,954	**47,465**	**8,096**	**1,558**	**8,336**	**29,475**

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

At 31 December 2020	Carrying amount	Gross inflow/ (outflow)	Not more than 3 months	More than 3 months but less than 1 year	More than 1 year but less than 5 years	More than 5 years
	£000	£000	£000	£000	£000	£000
Financial liability by type						
Non-derivative liabilities						
Other liabilities	3,132	(3,132)	(1,542)	-	-	(1,590)
Debt securities in issue	37,656	(62,222)	(629)	(1,816)	(11,601)	(48,176)
	40,788	**(65,354)**	**(2,171)**	**(1,816)**	**(11,601)**	**(49,766)**

At 31 December 2020	Carrying amount	Gross inflow/ (outflow)	Not more than 3 months	More than 3 months but less than 1 year	More than 1 year but less than 5 years	More than 5 years
	£000	£000	£000	£000	£000	£000
Financial asset by type						
Non-derivative assets						
Loans and advances to banks	15,162	15,162	15,162	-	-	-
Debt securities at amortised cost	24,308	43,860	545	1,566	10,264	31,485
Financial investments	14,171	14,171	-	-	14,171	-
	53,641	**73,193**	**15,707**	**1,566**	**24,435**	**31,485**

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. Those assets 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 £1.4bn (2020: £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 2021	FVPL £000	FVOCI £000	Amortised cost £000	Total carrying amount £000	Fair value £000
ASSETS					
Cash and balances at central banks	-	-	814,692	814,692	814,692
Loans and advances to banks	-	-	73,444	73,444	73,444
Debt securities at amortised cost	-	-	301,052	301,052	303,337
Derivative financial instruments	1,753	-	-	1,753	1,753
Loans and advances to customers	-	-	1,870,962	1,870,962	1,821,549
Other assets	-	-	13,098	13,098	13,098
Financial investments	165	3,004	-	3,169	3,169
	1,918	**3,004**	**3,073,248**	**3,078,170**	**3,031,042**
LIABILITIES					
Deposits from banks	-	-	240,333	240,333	240,333
Derivative financial instruments	171	-	-	171	171
Deposits from customers	-	-	2,837,869	2,837,869	2,837,869
Other liabilities	-	-	7,106	7,106	7,106
Debt securities in issue	-	-	36,772	36,772	36,772
	171	**-**	**3,122,080**	**3,122,251**	**3,122,251**

At 31 December 2020	FVPL £000	FVOCI £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	-	-	110,267	110,267	110,267
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	-	-	1,587,849	1,587,849	1,552,622
Other assets	-	-	5,457	5,457	5,457
Financial investments	165	18,330	-	18,495	18,495
	2,008	**18,330**	**2,685,064**	**2,705,402**	**2,672,143**
LIABILITIES					
Deposits from banks	-	-	230,090	230,090	230,090
Derivative financial instruments	649	-	-	649	649
Deposits from customers	-	-	2,365,207	2,365,207	2,365,207
Other liabilities	-	-	1,949	1,949	1,949
Debt securities in issue	-	-	37,656	37,656	37,656
	649	**-**	**2,634,902**	**2,635,551**	**2,635,551**

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

At 31 December 2021	FVPL £000	FVOCI £000	Amortised cost £000	Total carrying amount £000	Fair value £000
ASSETS					
Loans and advances to banks	-	-	7,587	7,587	7,587
Debt securities at amortised cost	-	-	24,367	24,367	24,367
Other assets	-	-	4	4	4
	-	**-**	**31,958**	**31,958**	**31,958**
LIABILITIES					
Other liabilities	-	-	1,490	1,490	1,490
Debt securities in issue	-	-	36,772	36,772	36,772
	-	**-**	**38,262**	**38,262**	**38,262**

At 31 December 2020	FVPL £000	FVOCI £000	Amortised cost £000	Total carrying amount £000	Fair value £000
ASSETS					
Loans and advances to banks	-	-	15,162	15,162	15,162
Debt securities at amortised cost	-	-	24,308	24,308	24,308
Financial investments	-	-	14,171	14,171	14,171
	-	**-**	**53,641**	**53,641**	**53,641**
LIABILITIES					
Other liabilities	-	-	3,312	3,312	3,312
Debt securities in issue	-	-	37,656	37,656	37,656
	-	**-**	**40,788**	**40,788**	**40,788**

Valuation of financial instruments

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

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

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

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

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

	Level 1	Level 2	Level 3	Total

At 31 December 2021	£000	£000	£000	£000
ASSETS				
Derivative financial instruments	-	1,753	-	1,753
Financial investments	-	-	3,169	3,169
Investment property	-	-	6,550	6,550
	-	**1,753**	**9,719**	**11,472**
LIABILITIES				
Derivative financial instruments	-	171	-	171
	-	**171**	**-**	**171**

	Level 1	Level 2	Level 3	Total
At 31 December 2020	£000	£000	£000	£000
ASSETS				
Derivative financial instruments	-	1,843	-	1,843
Financial investments	15,925	-	2,570	18,495
Investment property	-	-	6,550	6,550
	15,925	**1,843**	**9,120**	**26,888**
LIABILITIES				
Derivative financial instruments	-	649	-	649
	-	**649**	**-**	**649**

There were no transfers between level 1 and level 2 during the year.

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

Group	2021	2020
Movement in level 3	£000	£000
At 1 January	9,120	8,565
Purchases	670	419
Movements recognised in Other Comprehensive Income	(57)	366
Movements recognised in the Income Statement	(14)	(230)
At 31 December	**9,719**	**9,120**

Secure Trust bank investment
In the prior year the Group held equity shares in Secure Trust Bank plc, valued at £15.9m. The shares were recognised at fair value using quoted prices on the London Stock Exchange. All the shares were sold in 2021 at market value.

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

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

There is a haircut of 31% 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 FVPL in a property company which owns an office building through its 100% owned subsidiary. During 2018 the subsidiary company was sold. Under the terms of the sale agreement the buyer agreed to purchase 100% of the share capital and reimburse all outstanding loans. The proceeds of the sale have been distributed to the investors, except for the amount withheld for the general and specific warranties (which will be released in three instalments at 18 month intervals) included as a condition of the sale agreement. A loss of £14k (2020: loss of £14k) has been recognised in profit or loss during the year. The investment has been valued at £124k (2020: £138k) based on 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 USD2.5m of the total closing fund capital of USD55.0m. At 31 December 2021 Arbuthnot Latham & Co., Ltd had made capital contributions into the Fund of USD1.8m (2020: USD0.9m).

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

Investment property
Please see Note 4 (c) for investment property valuation detail.

The tables below show the fair value of financial instruments carried at cost by the level in the fair value hierarchy:

Group At 31 December 2021	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
ASSETS				
Cash and balances at central banks	-	814,692	-	814,692
Loans and advances to banks	-	73,444	-	73,444
Debt securities at amortised cost	-	301,052	-	301,052
Loans and advances to customers	-	-	1,870,962	1,870,962
Other assets	-	-	11,375	11,375
	-	**1,189,188**	**1,882,337**	**3,071,525**
LIABILITIES				
Deposits from banks	-	240,333	-	240,333
Deposits from customers	-	2,837,869	-	2,837,869
Other liabilities	-	-	7,106	7,106
Debt securities in issue	-	-	36,772	36,772
	-	**3,078,202**	**43,878**	**3,122,080**

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	-	110,267	-	110,267
Debt securities at amortised cost	-	344,692	-	344,692
Loans and advances to customers	-	-	1,587,849	1,587,849
Other assets	-	-	5,457	5,457
	-	**1,091,758**	**1,593,306**	**2,685,064**
LIABILITIES				
Deposits from banks	-	230,090	-	230,090
Deposits from customers	-	2,365,207	-	2,365,207
Other liabilities	-	-	1,949	1,949
Debt securities in issue	-	-	37,656	37,656
	-	**2,595,297**	**39,605**	**2,634,902**

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

Company At 31 December 2021	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
ASSETS				
Loans and advances to banks	-	6	7,581	7,587
Debt securities at amortised cost	-	24,367	-	24,367
	-	**24,373**	**7,581**	**31,954**
LIABILITIES				
Other liabilities	-	-	1,490	1,490
Debt securities in issue	-	-	36,772	36,772
	-	**-**	**38,262**	**38,262**

Company At 31 December 2020	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
ASSETS				
Loans and advances to banks	-	7	15,155	15,162
Debt securities at amortised cost	-	24,308	-	24,308
	-	**24,315**	**15,155**	**39,470**
LIABILITIES				
Other liabilities	-	-	3,132	3,132
Debt securities in issue	-	-	37,656	37,656
	-	**-**	**40,788**	**40,788**

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

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

Deposits from banks
The fair value of amounts due to banks was calculated based upon the present value of the expected future principal and interest cash flows. The rate used to discount the cash flows was the market rate of interest at the balance sheet date.
At the end of each year, the fair value of amounts due to banks was calculated to be equivalent to their carrying value due to the short maturity term of the amounts due.

Deposits from customers

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

Financial liabilities

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

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

Debt Securities in Issue

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

7. Capital management (unaudited)

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

The Group and the individual banking operation, are authorised by the Prudential Regulation Authority ("PRA") and regulated by the Financial Conduct Authority and the Prudential Regulation Authority and are subject to EU Capital Requirement Regulation (EU No.575/2013) ("CRR") which forms part of the retained EU legislation (EU legislation which applied in the UK before 11.00 p.m. on 31 December 2020 has been retained in UK law as a form of domestic legislation known as 'retained EU legislation') and the PRA Rulebook for CRR firms. One of the requirements for the Group and the individual banking operation is that capital resources must be in excess of capital requirements at all times.

In accordance with the parameters set out in the PRA Rulebook, the Internal Capital Adequacy Assessment Process ("ICAAP") is embedded in the risk management framework of the Group. The ICAAP identifies and assesses the risks to the Group, considers how these risks can be mitigated and demonstrates that the Group has sufficient resources, after mitigating actions, to withstand all reasonable scenarios.

Not all material risks can be mitigated by capital, but where capital is appropriate the Board has adopted a "Pillar 1 plus" approach to determine the level of capital the Group needs to hold. This method takes the Pillar 1 capital requirement for credit, market and operational risk as a starting point, and then considers whether each of the calculations delivers a sufficient amount of capital to cover risks to which the Group is, or could be, exposed. Where the Board considers that the Pillar 1 calculations do not adequately cover the risks, an additional Pillar 2A capital requirement is applied. The PRA will set a Pillar 2A capital requirement in light of the calculations included within the ICAAP. The Group's Total Capital Requirement, as issued by the PRA, is the sum of the minimum capital requirements under the CRR (Pillar 1) and the Pillar 2A requirement. The current TCR of the Group is 8.69%.

The Group's regulatory capital is divided into two tiers:

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

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

	2021 £000	2020 £000
CET1 Capital		
Share capital	154	154
Capital redemption reserve	19	19
Treasury shares	(1,299)	(1,299)
Retained earnings*	201,026	207,839
IFRS 9 - Transitional add back	1,600	1,956
Fair value reserve	979	(12,690)
Deduction for goodwill	(5,202)	(5,202)
Deduction for other intangibles**	(18,667)	(8,745)
Deduction for deferred tax asset that do not arise from temporary differences	(2,370)	(1,425)
Deduction for Prudent valuation	(5)	(21)
CET1 capital resources	**176,235**	**180,586**
Tier 2 Capital		
Debt securities in issue	36,772	37,656
Total Tier 2 capital resources	**36,772**	**37,656**
Own Funds (sum of Tier 1 and Tier 2)	**213,007**	**218,242**
CET1 Capital Ratio (CET1 Capital/Total Risk Exposure)*	**12.3%**	**15.4%**
Total Capital Ratio (Own Funds/Total Risk Exposure)*	**14.9%**	**18.7%**

* Includes current year audited profit.

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

The ICAAP includes a summary of the capital required to mitigate the identified risks in the Group's regulated entities and the amount of capital that the Group has available. The PRA sets a Pillar 2A capital requirement in light of the calculations included

within the ICAAP. The Group’s Total Capital Requirement, as issued by the PRA, is the sum of the minimum capital requirements under the CRR (Pillar 1) and the Pillar 2A requirement.

Capital ratios are reviewed on a monthly basis to ensure that external requirements are adhered to. During the period all regulated entities have complied with all of the externally imposed capital requirements to which they are subject.

Pillar 3 complements the minimum capital requirements (Pillar 1) and the supervisory review process (Pillar 2). Its aim is to encourage market discipline by developing a set of disclosure requirements which will allow market participants to assess key pieces of information on a firm's capital, risk exposures and risk assessment processes. Our Pillar 3 disclosures for the year ended 31 December 2020 are published as a separate document on the Group website under Investor Relations (Announcements & Shareholder Info).

8. Net interest income

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

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

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

The 'gross carrying amount of a financial asset' is the amortised cost of a financial asset before adjusting for any expected credit loss allowance. When calculating the effective interest rate, the Group takes into account all contractual terms of the financial instrument but does not consider expected credit losses.

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

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

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

	2021 £000	2020 £000
Cash and balances at central banks	521	807
Loans and advances to banks*	(165)	(143)
Debt securities at amortised cost	1,156	2,942
Loans and advances to customers	75,590	71,476
Total interest income	**77,102**	**75,082**
Deposits from banks	69	(513)
Deposits from customers	(10,056)	(12,856)
Debt securities in issue	(2,016)	(2,775)
Interest on lease liabilities	(1,024)	(880)
Total interest expense	**(13,027)**	**(17,024)**
Net interest income	**64,075**	**58,058**

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

9. 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 2021	Banking £000	Wealth Management £000	RAF £000	ACABL £000	ASFL £000	All other divisions £000	Total £000
Banking commissions	1,961	-	166	4,308	7	-	6,442
Foreign exchange fees	888	-	-	-	-	681	1,569
Investment management fees	-	10,101	-	-	-	-	10,101
Wealth planning fees	-	360	-	-	-	-	360
Total fee and commission income	**2,849**	**10,461**	**166**	**4,308**	**7**	**681**	**18,472**

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

10. Gross profit from leasing activities

Accounting for operating lease and related income:
The statement of comprehensive income is credited with:

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

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

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

Group	2021 £000	2020 £000
Operating lease income	33,577	-
Sale of vehicles at the end of operating lease agreements	32,123	-
Income from service and maintenance contracts	8,800	-
Revenue	**74,500**	**-**
Operating lease depreciation	(25,197)	-
Carrying amount of vehicles sold	(31,339)	-
Service & maintenance costs	(11,487)	-
Cost of goods sold	**(68,023)**	**-**
Gross profit from leasing activities	**6,477**	**-**

11. Net impairment loss on 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 18), loans and advances to banks (Note 19) and debt securities at amortised cost (Note 20). 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. 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. At each reporting date, the Group will assess whether financial assets carried at amortised cost are in default. A financial asset will be considered to be in default when an event(s) that has a detrimental impact on estimated future cash flows have occurred.

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

The credit risk of financial assets that become credit impaired are not expected to improve, beyond the extent that they are no longer considered to be credit impaired.

A borrower will move back into Stage 1 conditional upon both a minimum of six months' 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.

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

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

(c) Forbearance

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

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

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

	2021 £000	2020 £000
Net Impairment losses on financial assets	3,196	2,849
Of which:		
Stage 1	664	525
Stage 2	(456)	134
Stage 3	2,966	2,190
Impairment losses on financial investments	22	-
	3,196	**2,849**

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

12. Acquisition of Asset Alliance Group Holdings Limited

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

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

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

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

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

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

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

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

13. Other income

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

Other items reflected in other income include rental income from the investment property (see Note 31) of £0.3m (2020: £0.5m) and dividends received on the shares held in STB of £0.5m (2020: £nil).

Accounting for rental income

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

14. Operating expenses

Operating expenses comprise:	2021 £000	2020 £000
Staff costs, including Directors:		
Wages, salaries and bonuses	49,754	36,512
Social security costs	5,861	4,010
Pension costs	2,578	2,251
Share based payment transactions (Note 40)	(53)	(142)
Amortisation of intangibles (Note 28)	3,211	2,828
Depreciation (Note 29)	1,814	1,569
Profit on disposals of property, plant and equipment	3	-
Financial Services Compensation Scheme Levy	430	309
Expenses relating to short-term leases	608	413
Write down of repossessed property in Majorca	3,835	-
Other administrative expenses	25,381	23,669
Total operating expenses from continuing operations	**93,422**	**71,419**

Details on Directors remuneration are disclosed in the Remuneration Report on page 43.

Remuneration of the auditor and its associates, excluding VAT, was as follows:	2021 £000	2020 £000
Fees payable to the Company's auditor for the audit of the Company's annual accounts	112	110
Fees payable to the Company's auditor and its associates for other services:		
Audit of the accounts of subsidiaries	481	395
Audit related assurance services	113	103
Total fees payable	**706**	**608**

15. Income tax expense

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.

	2021 £000	2020 £000
United Kingdom corporation tax at 19% (2020: 19%)		
Current taxation		
Corporation tax charge - current year	54	-
Corporation tax charge - adjustments in respect of prior years	25	179
	79	**179**
Deferred taxation		
Origination and reversal of temporary differences	(2,165)	89
Adjustments in respect of prior years	(63)	(26)
	(2,228)	**63**
Income tax (credit)/expense	**(2,149)**	**242**
Tax reconciliation		
Profit/(loss) before tax	4,638	(1,090)
Tax at 19% (2020: 19%)	881	(207)
Other permanent differences	(1,756)	296
Tax rate change	(1,237)	-
Prior period adjustments	(37)	153
Corporation tax (credit)/charge for the year	**(2,149)**	**242**

Permanent differences in both years mainly relate to the acquisition of the Asset Alliance Group; in 2021 the bargain purchase and in 2020 the professional fees of a capital nature.

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

16. Average number of employees

	2021	2020
Banking	223	202
RAF	34	31
ACABL	24	18
ASFL	9	11
AAG	51	-
All Other Divisions	246	232
Group Centre	19	20
	606	**514**

The Group did not take advantage of the government 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.

17. Earnings per ordinary share

Basic

Basic earnings per ordinary share are calculated by dividing the profit after tax attributable to equity holders of the Company by the weighted average number of ordinary shares 15,022,629 (2020: 15,024,514) in issue during the year (this includes Ordinary shares and Ordinary Non-Voting shares). On 31 March 2020 the Company purchased 7,730 Ordinary Non-Voting shares into treasury.

Diluted

Diluted earnings per ordinary share are calculated by dividing the dilutive profit after tax attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year, as well as the number of dilutive share options in issue during the year. The number of dilutive share options in issue at the year end was nil (2020: nil).

Profit & dilutive profit attributable	2021 £000	2020 £000
Profit / (loss) after tax attributable to equity holders of the Company	6,786	(1,332)

Basic & Diluted Earnings per share	2021 p	2020 p
Basic Earnings per share	45.2	(8.9)

18. Cash and balances at central banks

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

ECL has been assessed to be insignificant.

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

19. Loans and advances to banks

Group	2021 £000	2020 £000
Placements with banks included in cash and cash equivalents (Note 42)	**73,444**	**110,267**

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

Group	2021 £000	2020 £000
Aa3	-	341
A1	61,527	100,748
A2	11,909	10
A3	-	3,956
Baa1	-	5,204
Unrated	8	8
	73,444	**110,267**

None of the loans and advances to banks are past due (2020: nil). ECL has been assessed as insignificant.

Company	2021 £000	2020 £000
Placements with banks included in cash and cash equivalents (Note 42)	**7,587**	**15,162**

Loans and advances to banks include bank balances of £7.6m (2020: £15.2m) with Arbuthnot Latham & Co., Ltd. ECL has been assessed as insignificant.

20. Debt securities at amortised cost

Debt securities represent certificates of deposit.

The movement in debt securities may be summarised as follows:

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

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

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

None of the debt securities are past due (2020: nil). ECL has been assessed as immaterial.

The movement in debt securities for the Company may be summarised as follows:

Company	2021 £000	2020 £000
At 1 January	24,308	24,239
Additions	-	-
Interest	2,014	2,111
Redemptions	(1,955)	(2,042)
At 31 December	**24,367**	**24,308**

The exposure relates to Arbuthnot Latham & Co., Limited, which is unrated. The subordinated loan notes were issued on 3 June 2019 and are denominated in Pound Sterling. The principal amount outstanding at 31 December 2020 was £25m (2020: £25m). The notes carry interest at 7.75% over the three month LIBOR rate and are repayable at par in June 2029 unless redeemed or repurchased earlier by the Arbuthnot Latham & Co., Limited. ECL has been assessed as immaterial. With the discontinuation of LIBOR, the rate charged will reference to Synthetic LIBOR as administered by ICE Benchmark Administration Limited.

21. 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 sales 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	
	2021	2020
	£000	£000
Repossessed property held for sale	3,136	3,285
	3,136	**3,285**

Repossessed property held for sale

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

22. 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.

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

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

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

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

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

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

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

Derivatives held for risk management and hedge accounting

See accounting policy in Note 3.5.

Derivatives held for risk management

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

	2021		2020	
	Fair value assets	Fair value liabilities	Fair value assets	Fair value liabilities
Group	£000	£000	£000	£000
Interest rate - Designated fair value hedges	1,635	-	-	-
Total interest rate derivatives	**1,635**	-	-	-

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

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

Hedge accounting

Fair value hedges of interest rate risk

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

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

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

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

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

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

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

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

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

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

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

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

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

2021

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

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

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

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

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

No hedge accounting was applied at 31 December 2020.

23. Loans and advances to customers

Analyses of loans and advances to customers:

Group	2021			
	Stage 1 £000	Stage 2 £000	Stage 3 £000	Total £000
Gross loans and advances at 1 January 2021	**1,423,332**	**126,347**	**42,798**	**1,592,477**
Originations and repayments	345,787	(53,132)	(11,297)	281,358
Write-offs	-	-	(614)	(614)
Acquired portfolio	4,128	-	-	4,128
Transfer to Stage 1	8,726	(8,726)	-	-
Transfer to Stage 2	(40,132)	44,147	(4,015)	-
Transfer to Stage 3	(3,932)	(13,173)	17,105	-
Gross loans and advances at 31 December 2021	**1,737,909**	**95,463**	**43,977**	**1,877,349**
Less allowances for ECLs (see Note 24)	(388)	(77)	(5,922)	(6,387)
Net loans and advances at 31 December 2021	**1,737,521**	**95,386**	**38,055**	**1,870,962**

Group	2020			
	Stage 1 £000	Stage 2 £000	Stage 3 £000	Total £000
Gross loans and advances at 1 January 2020	**1,506,024**	**66,372**	**31,447**	**1,603,843**
Originations	4,941	(4,045)	(8,982)	(8,086)
Repayments and 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	-
Gross loans and advances at 31 December 2020	**1,423,332**	**126,347**	**42,798**	**1,592,477**
Less allowances for ECLs (see Note 24)	(725)	(533)	(3,370)	(4,628)
Net loans and advances at 31 December 2020	**1,422,607**	**125,814**	**39,428**	**1,587,849**

*Originations include further advances and drawdowns on existing commitments.

For a maturity profile of loans and advances to customers, refer to Note 6.

Loans and advances to customers by division (net of ECL):

Group	Banking £000	Mortgage Portfolios £000	RAF £000	ACABL £000	ASFL £000	AAG £000	All Other Divisions £000	Total £000
Stage 1	1,297,625	157,561	82,845	182,122	9,868	7,500	-	1,737,521
Stage 2	70,100	13,719	11,338	-	229	-	-	95,386
Stage 3	28,324	6,802	2,929	-	-	-	-	38,055
At 31 December 2021	**1,396,049**	**178,082**	**97,112**	**182,122**	**10,097**	**7,500**	**-**	**1,870,962**

Group	Banking £000	Mortgage Portfolios £000	RAF £000	ACABL £000	ASFL £000	AAG £000	All Other Divisions £000	Total £000
Stage 1	1,030,970	223,800	74,541	87,331	5,965	-	-	1,422,607
Stage 2	72,626	36,794	16,394	-	-	-	-	125,814
Stage 3	30,204	8,233	991	-	-	-	-	39,428
At 31 December 2020	**1,133,800**	**268,827**	**91,926**	**87,331**	**5,965**	**-**	**-**	**1,587,849**

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

	2021						
Group	Banking £000	Mortgage Portfolios £000	RAF £000	ACABL £000	ASFL £000	All Other Divisions £000	Total £000
Up to 30 days	42,125	6,293	1,813	-	1,890	-	52,121
Stage 1	36,118	3,699	1,647	-	1,890	-	43,354
Stage 2	4,623	2,594	-	-	-	-	7,217
Stage 3	1,384	-	166	-	-	-	1,550
30 - 60 days	1,509	2,561	2,736	-	-	-	6,806
Stage 1	-	-	40	-	-	-	40
Stage 2	1,495	2,561	-	-	-	-	4,056
Stage 3	14	-	2,696	-	-	-	2,710
60 - 90 days	25,648	1,566	98	-	-	-	27,312
Stage 2	18,889	1,566	-	-	-	-	20,455
Stage 3	6,759	-	98	-	-	-	6,857
Over 90 days	31,820	7,753	2,583	-	-	-	42,156
Stage 2	6,251	-	2	-	-	-	6,253
Stage 3	25,569	7,753	2,581	-	-	-	35,903
At 31 December 2021	**101,102**	**18,173**	**7,230**	**-**	**1,890**	**-**	**128,395**

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

Group	Banking £000	Mortgage Portfolios £000	RAF £000	ACABL £000	ASFL £000	All Other Divisions £000	Total £000
	2020						
Up to 30 days	10,554	6,354	1,928	-	-	-	18,836
Stage 1	9,902	5,948	1,468	-	-	-	17,318
Stage 2	652	406	346	-	-	-	1,404
Stage 3	-	-	114	-	-	-	114
30 - 60 days	9	4,187	274	-	-	-	4,470
Stage 1	9	-	-	-	-	-	9
Stage 2	-	4,187	209	-	-	-	4,396
Stage 3	-	-	65	-	-	-	65
60 - 90 days	9,467	1,788	475	-	-	-	11,730
Stage 1	-	-	58	-	-	-	58
Stage 2	9,467	1,788	104	-	-	-	11,359
Stage 3	-	-	313	-	-	-	313
Over 90 days	65,226	7,125	1,096	-	-	-	73,447
Stage 2	29,871	-	276	-	-	-	30,147
Stage 3	35,355	7,125	820	-	-	-	43,300
At 31 December 2020	**85,256**	**19,454**	**3,773**	**-**	**-**	**-**	**108,483**

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

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

(b) Loans and advances renegotiated

Restructuring activities include external payment arrangements, modification and deferral of payments. Following restructuring, a previously overdue customer account is reset to a normal status and managed together with other similar accounts. Restructuring policies and practices are based on indicators or criteria which, in the judgement of management, indicate that payment will most likely continue. These policies are kept under continuous review. Renegotiated loans that would otherwise be past due or impaired totalled £nil (2020: £nil).

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

Where individual borrowers received COVID-19 relief, which were primarily in the form of payment holidays, the individual borrower was assessed to have a significant increase in credit risk where they were considered to have suffered long term financial difficulty. They were 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 were 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 the collateral held against loans and advances in Stage 3 is £42.6m (2020: £60.6m), against loans of £38.3m (2020: £41.5m). The weighted average loan-to-value of loans and advances in Stage 3 is 73% (2020: 73%).

24. Allowances for impairment of loans and advances

An analysis of movements in the allowance for ECLs (2021):

Group	Stage 1 £000	Stage 2 £000	Stage 3 £000	Total £000
At 1 January 2021	**725**	**533**	**3,370**	**4,628**
Transfer to Stage 1	4	(4)	-	-
Transfer to Stage 2	(13)	13	-	-
Transfer to Stage 3	(15)	(82)	97	-
Current year charge	194	(49)	3,506	3,651
Adjustment due to variation in expected future cash flows	(142)	(280)	65	(357)
Change in assumptions	(191)	(43)	(106)	(340)
Financial assets that have been derecognised	-	-	(230)	(230)
Repayments and write-offs	(174)	(11)	(780)	(965)
At 31 December 2021	**388**	**77**	**5,922**	**6,387**

An analysis of movements in the allowance for ECLs (2020):

Group	Stage 1 £000	Stage 2 £000	Stage 3 £000	Total £000
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	1,613	1,897
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**	**3,370**	**4,628**

25. Other assets

Group	2021 £000	2020 £000
Trade receivables	13,098	5,458
Inventory	88,787	84,722
Prepayments and accrued income	8,234	6,108
	110,119	**96,288**

Trade receivables		
Gross balance	13,893	5,459
Allowance for bad debts	(795)	-
Net receivables	**13,098**	**5,459**

Inventory

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

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

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

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

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

Company	2021 £000	2020 £000
Prepayments and accrued income	52	103
	52	**103**

26. Financial investments

Group	2021 £000	2020 £000
Designated at fair value through profit and loss		
- Debt securities	124	138
Designated at fair value through other comprehensive income		
- Listed securities	-	15,925
- Unlisted securities	3,045	2,432
Total financial investments	**3,169**	**18,495**

Listed securities

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

On 8 August 2018, ABG lost significant influence over Secure Trust Bank plc ("STB"). At this date the interest in associate was de-recognised and the shares held in STB were marked to market and disclosed as a financial investment. During 2021 the remaining shares were sold at market value. The carrying value at year end is £nil (2020: £15.9m) and £0.5m (2020: £nil) of dividends were received in the year.

The shares were designated as FVOCI for strategic reasons. The shares were measured at fair value in the Statement of Financial Position with fair value gains/losses recognised in OCI.

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 (2020: £nil) was received and a loss of £14k (2020: loss of £14k) recognised in profit or loss during the year. The investment has been valued at £124k (2020: £138k). These securities are designated at FVPL. They are measured at fair value in the Statement of Financial Position with fair value gains/losses recognised in the profit or loss.

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

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

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

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

A further investment in an unlisted investment vehicle was made in 2021. The carrying value at year end is £1.4m (2020: £0.8m) 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.

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

Company	2021 £000	2020 £000
Financial investments comprise:		
- Listed securities (at fair value through OCI)	-	14,171
Total financial investments	**-**	**14,171**

27. Deferred taxation

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.

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

The deferred tax asset comprises:

Group	2021 £000	2020 £000
Accelerated capital allowances and other short-term timing differences	37	(579)
Movement in fair value of financial investments FVOCI	(152)	(117)
Unutilised tax losses	2,369	1,425
IFRS 9 adjustment*	308	280
Deferred tax asset	**2,562**	**1,009**
At 1 January	1,009	1,815
On acquisition of AAG	(1,315)	-
Other Comprehensive Income - FVOCI	(35)	(69)
Profit and loss account - accelerated capital allowances and other short-term timing differences	1,923	(310)
Profit and loss account - tax losses	945	(315)
IFRS 9 adjustment*	35	(112)
Deferred tax asset at 31 December	**2,562**	**1,009**

* This relates to the timing difference on the adoption of IFRS 9 spread over 10 years for tax purposes.

Company	2021 £000	2020 £000
Accelerated capital allowances and other short-term timing differences	10	5
Movement in fair value of financial investments	147	112
Unutilised tax losses	366	278
Deferred tax asset	**523**	**395**
At 1 January	395	391
Profit and loss account - accelerated capital allowances and other short-term timing differences	40	4
Profit and loss account - tax losses	88	-
Deferred tax asset at 31 December	**523**	**395**

Deferred tax assets are recognised for tax losses to the extent that the realisation of the related tax benefit through future taxable profits is probable.

28. Intangible assets

(a) Goodwill

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

The Group reviews the goodwill for impairment at least annually or more frequently when events or changes in economic circumstances indicate that impairment may have taken place and carries goodwill at cost less accumulated impairment losses. Assets are grouped together in the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit" or "CGU"). For impairment testing purposes goodwill cannot be allocated to a CGU that is greater than a reported operating segment. CGUs to which goodwill has been allocated are aggregated so that the level at which impairment is tested reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the synergies of the combination. The test for impairment involves comparing the carrying value of goodwill with the present value of pre-tax cash flows, discounted at a rate of interest that reflects the inherent risks of the CGU to which the goodwill relates, or the CGU's fair value if this is higher.

(b) Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised on a straight line basis over 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 a straight line basis over the expected useful lives (three to fourteen years).

Group	Goodwill £000	Computer software £000	Other intangibles £000	Total £000
Cost				
At 1 January 2020	5,202	18,994	2,562	26,758
Additions	-	6,392	-	6,392
At 31 December 2020	**5,202**	**25,386**	**2,562**	**33,150**
On acquisition of AAG	-	-	4,416	4,416
Additions	-	5,100	-	5,100
At 31 December 2021	**5,202**	**30,486**	**6,978**	**42,666**
Accumulated amortisation				
At 1 January 2020	-	(5,806)	(870)	(6,676)
Amortisation charge	-	(2,582)	(246)	(2,828)
At 31 December 2020	**-**	**(8,388)**	**(1,116)**	**(9,504)**
Amortisation charge	-	(2,715)	(583)	(3,298)
At 31 December 2021	**-**	**(11,103)**	**(1,699)**	**(12,802)**
Net book amount				
At 31 December 2020	**5,202**	**16,998**	**1,446**	**23,646**
At 31 December 2021	**5,202**	**19,383**	**5,279**	**29,864**

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 three year budget is done every year and management also uses judgement in applying a growth rate. The accuracy of future cash flows is subject to a high degree of uncertainty in volatile market conditions. During such conditions, management would perform impairment testing more frequently than annually to ensure that the assumptions applied are still valid in the current market conditions.

• Discount rate - Management also apply judgement in determining the discount rate used to discount future expected cash flows. The discount rate is derived from the cost of capital for each CGU.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. There are currently two CGUs (2020: two) with goodwill attached; the core Arbuthnot Latham CGU (£1.7m) and RAF CGU (£3.5m).

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

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

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

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

Currently, the value in use and fair value less costs to sell of both CGUs exceed the carrying values of the associated goodwill and as a result no sensitivity analysis was performed.

Company	Computer software £000
Cost	
At 1 January 2020	7
At 31 December 2020	**7**
At 31 December 2021	**7**
Accumulated amortisation	
At 1 January 2020	(2)
Amortisation charge	(1)
At 31 December 2020	(3)
Amortisation charge	(2)
At 31 December 2021	(5)
Net book amount	
At 31 December 2020	**4**
At 31 December 2021	**2**

29. Property, plant and equipment

Land and buildings comprise mainly branches and offices and are stated at the latest valuation with subsequent additions at cost less depreciation. Plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, applying the following annual rates, which are subject to regular review:

Leasehold improvements	3 to 20 years
Commercial vehicles	Over the lease period
Plant and machinery	5 years
Computer and other equipment	3 to 10 years
Motor vehicles	4 years

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

Group	Leasehold improvements £000	Commercial vehicles £000	Plant and machinery £000	Computer and other equipment £000	Motor Vehicles £000	Total £000
Cost or valuation						
At 1 January 2020	7,388	-	-	5,009	91	12,488
Additions	65	-	-	618	-	683

Disposals	(20)	-	-	(77)	-	(97)
At 31 December 2020	**7,433**	**-**	**-**	**5,550**	**91**	**13,074**
On acquisition of AAG	228	136,418	37	110	193	136,986
Additions	248	35,228	9	398	47	35,930
Disposals	(253)	(47,362)	-	(319)	(8)	(48,256)
Transfer	-	33	(33)	-	-	-
At 31 December 2021	**7,656**	**124,317**	**13**	**5,739**	**323**	**138,048**
Accumulated depreciation						
At 1 January 2020	(3,778)	-	-	(2,859)	(38)	(6,675)
Depreciation charge	(704)	-	-	(842)	(22)	(1,568)
Disposals	20	-	-	54	-	74
At 31 December 2020	**(4,462)**	**-**	**-**	**(3,647)**	**(60)**	**(8,169)**
Depreciation charge	(753)	(30,487)	(10)	(957)	(95)	(32,302)
Disposals	253	27,735	7	318	-	28,313
Transfer	-	(2)	2	-	-	-
At 31 December 2021	**(4,962)**	**(2,754)**	**(1)**	**(4,286)**	**(155)**	**(12,158)**
Net book amount						
At 31 December 2020	**2,971**	**-**	**-**	**1,903**	**31**	**4,905**
At 31 December 2021	**2,694**	**121,563**	**12**	**1,453**	**168**	**125,890**

Company	Computer and other equipment £000	Motor Vehicles £000	Total £000
Cost or valuation			
At 1 January 2020	217	91	308
At 31 December 2020	**217**	**91**	**308**
At 31 December 2021	**217**	**91**	**308**
Accumulated depreciation			
At 1 January 2020	(86)	(38)	(124)
Depreciation charge	(1)	(22)	(23)
At 31 December 2020	**(87)**	**(60)**	**(147)**
Depreciation charge	(1)	(22)	(23)
At 31 December 2021	**(88)**	**(82)**	**(170)**
Net book amount			
At 31 December 2020	**130**	**31**	**161**
At 31 December 2021	**129**	**9**	**138**

30. Right-of-use assets

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.

Breakdown of right-of-use assets:

Group	Investment property £000	Properties £000	Equipment £000	Total £000
At 1 January 2020	-	19,490	454	19,944
Additions	-	346	-	346
Amortisation	-	(2,406)	(181)	(2,587)
At 31 December 2020	**-**	**17,430**	**273**	**17,703**
Additions	-	738	77	815
Amortisation	-	(2,652)	(192)	(2,844)
At 31 December 2021	**-**	**15,516**	**158**	**15,674**

In the year, the Group received £nil (2020: £0.5m) of rental income from subleasing right-of-use assets through operating leases.

The Group recognised £0.8m (2020: £0.9m) of interest expense related to lease liabilities. The Group also recognised £0.6m (2020: £0.4m) of expense in relation to leases with a duration of less than 12 months.

31. 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	2021 £000	2020 £000
Opening balance	6,550	6,763
Fair value adjustment	-	(213)
At 31 December 2021	**6,550**	**6,550**

Crescent Office Park, Bath

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

In 2017, the Fund was recognised as an asset held for sale under IFRS 5 and therefore not consolidated in the financial statements. At 31 December 2019 it was consolidated into the Group as it no longer met the IFRS 5 criteria and is recognised as an investment property. The Group has elected to apply the fair value model (see Note 4.1 (c)).

The Group recognised £0.3m (2020: £0.4m) rental income during the year and incurred £0.08m (2020: £0.03m) of direct operating expenses. The property remained tenanted during 2021.

32. Deposits from banks

Group	2021 £000	2020 £000
	240,333	**230,090**

Deposits from banks include £225m (2020: £225m) obtained through the Bank of England Term Funding Scheme with additional incentives for small and medium-sized enterprises ("TFSME"). For a maturity profile of deposits from banks, refer to Note 7.

33. Deposits from customers

Group	2021 £000	2020 £000
Current/demand accounts	1,859,417	1,496,483
Notice accounts	309,488	157,934
Term deposits	668,964	710,790
	2,837,869	**2,365,207**

Included in customer accounts are deposits of £14.7m (2020: £16.4m) held as collateral for loans and advances. The fair value of these deposits approximates their carrying value.

For a maturity profile of deposits from customers, refer to Note 6.

34. Other liabilities

Group	2021 £000	2020 £000
Trade payables	5,079	1,949
Other creditors	2,027	
Accruals and deferred income	14,048	5,657
	21,154	**7,606**

Company	2021 £000	2020 £000
Trade payables	234	221
Due to subsidiary undertakings	1,256	2,911
Accruals and deferred income	1,652	427
	3,142	**3,559**

35. 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	Properties £000	Equipment £000	Total £000
At 1 January 2020	20,020	411	20,431
Additions	508	-	508
Interest expense	864	17	881
Lease payments	(3,322)	(193)	(3,515)
At 31 December 2020	**18,070**	**235**	**18,305**
Additions	725	5,139	5,864
Interest expense	807	9	816
Lease payments	(3,503)	(206)	(3,709)
At 31 December 2021	**16,099**	**5,177**	**21,276**

Maturity analysis

Group	2021 £000	2020 £000
Less than one year	6,669	3,551
One to five years	8,592	8,830
More than five years	57,893	58,317
Total undiscounted lease liabilities at 31 December	**73,153**	**70,698**
Lease liabilities included in the statement of financial position at 31 December	**21,276**	**18,305**
Current	5,802	2,766
Non-current	15,474	15,539

36. 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 the policy in Note 3.3(e).

Group and Company	2021 £000	2020 £000
Subordinated loan notes	**36,772**	**37,656**

Euro subordinated loan notes

The subordinated loan notes were issued on 7 November 2005 and are denominated in Euros. The principal amount outstanding at 31 December 2021 was €15,000,000 (2020: €15,000,000). The notes carry interest at 3% over the interbank rate for three month deposits in euros and are repayable at par in August 2035 unless redeemed or repurchased earlier by the Company.

The contractual undiscounted amount that will be required to be paid at maturity of the above debt securities is €15,000,000.

Subordinated loan notes

The subordinated loan notes were issued on 3 June 2019 and are denominated in Pound Sterling. The principal amount outstanding at 31 December 2021 was £25m (2020: £25m). The notes carry interest at 7.75% over the three month LIBOR rate and are repayable at par in June 2029 unless redeemed or repurchased earlier by the Company. With the discontinuation of LIBOR, the rate charged will reference to Synthetic LIBOR as administered by ICE Benchmark Administration Limited.

The contractual undiscounted amount that will be required to be paid at maturity of the above debt securities is £25m.

37. Contingent liabilities and commitments

Financial guarantees and loan commitments policy

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 theoretically exposed to loss in an amount equal to the total guarantees or unused commitments. However, the likely amount of loss is expected to be significantly less; most commitments to extend credit are contingent upon customers maintaining specific credit standards. 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 best estimate of the expenditure to settle obligations.

Provisions and contingent liabilities policy

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

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

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

Contingent liabilities

The Group is subject to extensive regulation in the conduct of its business. A failure to comply with applicable regulations could result in regulatory investigations, fines and restrictions on some of the Group's business activities or other sanctions. The Group seeks to minimise this risk through the adoption and compliance with policies and procedures, continuing to refine controls over business practices and behaviour, employee training, the use of appropriate documentation, and the involvement of outside legal counsel where appropriate.

Capital commitments

At 31 December 2021, the Group had capital commitments of £0.5m (2020: £0.1m) 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	2021 £000	2020 £000
Guarantees and other contingent liabilities	4,560	6,248
Commitments to extend credit:		
- Original term to maturity of one year or less	464,390	308,427
	468,950	**314,675**

38. Share capital

Ordinary share capital

Group and Company	Number of shares	Share Capital £000
At 1 January 2020	15,279,322	153
At 31 December 2020 & 2021	**15,279,322**	**153**

Ordinary non-voting share capital

Group and Company	Number of shares	Share Capital £000
At 1 January 2020	152,621	1
At 31 December 2020 & 2021	**152,621**	**1**

Total share capital

Group and Company	Number of shares	Share Capital £000
At 1 January 2020	15,431,943	154
At 31 December 2020 & 2021	**15,431,943**	**154**

(a) Share issue costs
Incremental costs directly attributable to the issue of new shares or options by Company are shown in equity as a deduction, net of tax, from the proceeds.

(b) Dividends on ordinary shares
Dividends on ordinary shares are recognised in equity in the period in which they are approved.

(c) Share buybacks
Where any Group company purchases the Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Company's equity holders until the shares are cancelled or reissued.

The Ordinary shares have a par value of 1p per share (2020: 1p per share). At 31 December 2021 the Company held 409,314 shares (2020: 409,314) in treasury. This includes 390,274 (2020: 390,274) Ordinary shares and 19,040 (2020: 19,040) Ordinary Non-Voting shares.

39. Reserves and retained earnings

Group	2021 £000	2020 £000
Capital redemption reserve	19	19
Fair value reserve	979	(12,690)
Treasury shares	(1,299)	(1,299)
Retained earnings	201,026	207,839
Total reserves at 31 December	**200,725**	**193,869**

The capital redemption reserve represents a reserve created after the Company purchased its own shares which resulted in a reduction of share capital.

The fair value reserve relates to gains or losses on assets which have been recognised through other comprehensive income.

Company	2021 £000	2020 £000
Capital redemption reserve	19	19
Fair value reserve	-	(12,164)
Treasury shares	(1,299)	(1,299)
Retained earnings	153,528	160,721
Total reserves as 31 December	**152,248**	**147,277**

40. Share-based payment options

Company – cash settled

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

Under this Scheme, Mr. Salmon and Mr. Cobb were granted a phantom option to acquire 200,000 and 100,000 ordinary 1p shares respectively in the Company. The fair value of these options at the grant date was £1m. The first tranche of the share options has vested, but will lapse if not exercised at 1591p before 14 June 2023. The second tranche of the share options will not vest as the performance conditions have not been met, due to the non payment of dividends. The first tranche of share options remained outstanding at 31 December 2021. The valuation of the share options are considered as level 2 within the fair value hierarchy, with the Group adopting a Black-Scholes valuation model as adjusted for an attrition rate for members of the scheme and a probability of pay-out reflecting the risk of not meeting the terms of the scheme over the vesting period. The number of share options that are expected to vest are reviewed at least annually. The fair value of the options as at 31 December 2021 was £0.03m (2020: £0.1m).

On 23 July 2021 Mr. Salmon and Mr. Cobb were granted further phantom options to subscribe for 200,000 and 100,000 ordinary 1p shares respectively in the Company at 990p. 50% of each director's individual holding of phantom options is exercisable at any time after 23 July 2023 and the other 50% is exercisable at any time after 23 July 2026. All share options awarded 23 July 2021, regardless of first exercise date, may not be exercised later than 23 July 2028 being the day before the seventh anniversary of the date of grant. The fair value of the options as at 31 December 2021was £0.09m (2020: £nil).

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

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

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

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

In such circumstances, the performance conditions may be modified or waived as the Remuneration Committee, acting fairly and reasonably and taking due consideration of the circumstances, thinks fit. The number of Ordinary Shares which can be acquired on exercise will be pro-rated on a time elapsed basis, unless the Remuneration Committee, acting fairly and reasonably and taking due

consideration of the circumstances, decides otherwise. In determining whether to exercise its discretion in these respects, the Remuneration Committee must satisfy itself that the early exercise of an option does not constitute a reward for failure.

The Remuneration Committee has amended the Scheme Rules due to regulatory changes to the IFPRU Remuneration Code of the Financial Conduct Authority since 2016, particularly in relation to material risk takers. A further change to the Scheme Rules relates to one of the performance conditions, that relating to the payment of dividends. Whilst the Committee is entitled to vary any condition in accordance with the Scheme Rules, specific reference has been added to the Rules to its ability to waive the dividend condition, should it consider it appropriate as this is an element that is potentially out of the control of the Board of directors.

The probability of payout has been assigned based on the likelihood of meeting the performance criteria, which is 100%. The Directors consider that there is some uncertainty surrounding whether the participants will all still be in situ and eligible at the vesting date. Therefore the directors have assumed a 15% attrition rate for the share options vesting in June 2021, July 2023 and July 2026. The attrition rate will increase by 3% per year until the vesting date. ABG had a cost £0.01m in relation to share based payments during 2021 (2020: £0.1m income), as disclosed in Note 14.

Measurement inputs and assumptions used in the Black-Scholes model are as follows:

	2021	2020
Expected Stock Price Volatility	35.4%	42.7%
Risk Free Interest Rate	0.5%	0.0%
Average Expected Life (in years)	2.03	-

41. Dividends per share

The Directors recommend the payment of a final dividend of 22p (2020: Nil) per share. This represents total dividends for the year of 59p (2020: Nil), including: the special dividend of 21p paid on 19 March 2021, being equal to and in lieu of the dividend that was declared in March 2020 based on the profits reported in 2019 and which was subsequently withdrawn following the guidance issued by the PRA at that time; and the second interim dividend of 16p (2020: Nil) paid on 24 September 2021. The final dividend, if approved by members at the 2022 AGM, will be paid on 31 May 2022 to shareholders on the register at close of business on 22 April 2022.

42. Cash and cash equivalents

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

	2021	2020
Group	£000	£000
Cash and balances at central banks (Note 18)	814,692	636,799
Loans and advances to banks (Note 19)	73,444	110,267
	888,136	**747,066**

	2021	2020
Company	£000	£000
Loans and advances to banks	**7,587**	**15,162**

43. Related party transactions

Related parties of the Company and Group include subsidiaries, directors, 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.

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

Group - Directors	2021 £000	2020 £000
Loans		
Loans outstanding at 1 January	502	503
Loans advanced during the year	39	51
Loan repayments during the year	(39)	-
Transfer to deposits during the year	-	(52)
Loans outstanding at 31 December	**502**	**502**
Interest income earned	**1**	**15**

The loans to directors are mainly secured on property, shares or cash and bear interest at rates linked to base rate. No provisions have been recognised in respect of loans given to related parties (2020: £nil).

Group - Directors	2021 £000	2020 £000
Deposits		
Deposits at 1 January	3,928	3,065
Deposits placed during the year	1,709	2,676
Deposits repaid during the year	(1,619)	(1,761)
Transfer to loans during the year	-	(52)
Deposits at 31 December	**4,018**	**3,928**
Interest expense on deposits	**-**	**5**

Details of directors' remuneration are given in the Remuneration Report on pages 43 and 44. The Directors do not believe that there were any other transactions with key management or their close family members that require disclosure.

Details of principal subsidiaries are given in Note 44. Transactions and balances with subsidiaries are shown below:

	2021		2020	
	Highest balance during the year	Balance at 31 December	Highest balance during the year	Balance at 31 December
	£000	£000	£000	£000
ASSETS				
Due from subsidiary undertakings - Loans and advances to banks	30,879	7,581	15,319	15,155
Due from subsidiary undertakings - Debt securities at amortised cost	24,688	24,367	24,785	24,308
Shares in subsidiary undertakings	159,404	159,404	134,004	133,904
	214,971	**191,352**	**174,108**	**173,367**
LIABILITIES				
Due to subsidiary undertakings	2,334	1,256	2,911	2,911
	2,334	**1,256**	**2,911**	**2,911**

The disclosure of the year end balance and the highest balance during the year is considered the most meaningful information to represent the transactions during the year. The above transactions arose during the normal course of business and are on substantially the same terms as for comparable transactions with third parties.

The Company undertook the following transactions with other companies in the Group during the year:

	2021	2020
	£000	£000
Arbuthnot Latham & Co., Ltd - Recharge of property and IT costs	891	930
Arbuthnot Latham & Co., Ltd - Recharge for costs paid on the Company's behalf	364	3,668
Arbuthnot Latham & Co., Ltd - Recharge of costs paid on behalf of Arbuthnot Latham & Co., Ltd	(2,792)	(3,820)
Arbuthnot Latham & Co., Ltd - Group recharges for shared services	(5,560)	(4,633)
Arbuthnot Latham & Co., Ltd - Group recharges for liquidity	(5,073)	(4,904)
Total	**(12,170)**	**(8,759)**

44. Interests in subsidiaries

Company	Investment at cost £000	Net £000
At 1 January 2020	134,004	134,004
Receipt on dissolution of Windward Insurance Company PCC Limited	(100)	(100)
At 31 December 2020	**133,904**	**133,904**
Capital contribution to Arbuthnot Latham & Co., Limited	25,500	25,500
At 31 December 2021	**159,404**	**159,404**

Company	2021 £000	2020 £000
Subsidiary undertakings:		
Bank	157,814	132,314
Other	1,590	1,590
Total	**159,404**	**133,904**

(a) List of subsidiaries

Arbuthnot Latham & Co., Limited is the only significant subsidiary of Arbuthnot Banking Group. Arbuthnot Latham is incorporated in the United Kingdom, has a principal activity of Private and Commercial Banking and is 100% owned by the Group.

The table below provides details of other subsidiaries of Arbuthnot Banking Group PLC at 31 December:

	% shareholding	Country of incorporation	Principal activity
Direct shareholding			
Arbuthnot Fund Managers Limited	100.0%	UK	Dormant
Arbuthnot Investments Limited	100.0%	UK	Dormant
Arbuthnot Limited	100.0%	UK	Dormant
Arbuthnot Properties Limited	100.0%	UK	Dormant
Arbuthnot Unit Trust Management Limited	100.0%	UK	Dormant
Gilliat Financial Solutions Limited	100.0%	UK	Dormant
Peoples Trust and Savings Plc	100.0%	UK	Dormant
Indirect shareholding via intermediate holding companies			
Arbuthnot Commercial Asset Based Lending Limited	100.0%	UK	Asset Finance
Arbuthnot Latham (Nominees) Limited	100.0%	UK	Dormant
Arbuthnot Latham Real Estate PropCo 1 Limited	100.0%	Jersey	Property Investment
Arbuthnot Latham Real Estate Holdings Limited*	100.0%	UK	Property Investment
Arbuthnot Securities Limited	100.0%	UK	Dormant
Arbuthnot Specialist Finance Limited	100.0%	UK	Specialist Finance
Asset Alliance Finance Limited**	100.0%	UK	Commercial Vehicle Financing
Asset Alliance Group Finance No.2 Limited**	100.0%	UK	Commercial Vehicle Financing
Asset Alliance Group Holdings Limited**	100.0%	UK	Commercial Vehicle Financing
Asset Alliance Leasing Limited**	100.0%	UK	Commercial Vehicle Financing
Asset Alliance Limited**	100.0%	UK	Commercial Vehicle Financing
ATE Truck & Trailer Sales Limited**	100.0%	UK	Dormant
Forest Asset Finance Limited**	100.0%	UK	Commercial Vehicle Financing
Hanbury Riverside Limited**	100.0%	UK	Dormant
John K Gilliat & Co., Limited	100.0%	UK	Dormant
Pinnacle Universal Limited	100.0%	BVI	Property Development
Pinnacle Universal Limited	100.0%	UK	Property Development
Renaissance Asset Finance Limited	100.0%	UK	Asset Finance
Total Reefer Limited**	100.0%	UK	Dormant
Valley Finance Limited**	100.0%	UK	Dormant

* On 22 February 2022, Arbuthnot Latham Real Estate Holdings Limited was dissolved.
** Entities acquired as part of the Asset Alliance Group acquisition on 1 April 2021.

The following Jersey entities were dissolved during the year:

- Arbuthnot Real Estate Investors Limited – dissolved 19 March 2021
- Arbuthnot Latham Real Estate Holdco Limited – dissolved 23 April 2021
- Arbuthnot Real Estate Investors GP 1 Limited – dissolved 30 April 2021
- Arbuthnot Real Estate Investors Funds 1 LP – dissolved 4 May 2021

All the subsidiaries above were 100% owned during the current and prior year and are unlisted and none are banking institutions. All entities are included in the consolidated financial statements and have an accounting reference date of 31 December.

The Jersey entity's registered office is 26 New Street, St Helier, Jersey, JE2 3RA. Pinnacle Universal Limited's (BVI) 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 were no non-controlling interests at the end of 2021 or 2020.

(c) Significant restrictions
The Group does not have significant restrictions on its ability to access or use its assets and settle its liabilities other than those resulting from the supervisory frameworks within which banking subsidiaries operate. The supervisory frameworks require banking subsidiaries to keep certain levels of regulatory capital and liquid assets, limit their exposure to other parts of the Group and comply with other ratios. The carrying amounts of the banking subsidiary's assets and liabilities are £3.4bn and £3.2bn respectively (2020: £2.9bn and £2.7bn respectively).

(d) Risks associated with interests
During the year Arbuthnot Banking Group PLC made £25.5m (2020: £nil) capital contributions to Arbuthnot Latham & Co., Ltd. The contributions were made to assist the Bank during a period of growth to ensure that all regulatory capital requirements were met.

45. Operating segments

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

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

During the year the Group started to report the Wealth Management sector separate from the Banking sector. This is the level at which management decisions are made and how the Group will manage the overall business sectors going. The comparative numbers for the Banking division have therefore been restated to exclude the Wealth Management sector.

Transactions between the operating segments are on normal commercial terms. Centrally incurred expenses are charged to operating segments on an appropriate pro-rata basis. Segment assets and liabilities comprise loans and advances to customers and customer deposits, being the majority of the balance sheet.

Year ended 31 December 2021	Banking £000	Wealth Management £000	Mortgage Portfolios £000	RAF £000	ACABL £000	ASFL £000	AAG £000	All Other Divisions £000	Group Centre £000	**Total £000**
Interest revenue	48,281	-	6,805	8,300	8,010	803	190	4,713	22	**77,124**
Inter-segment revenue	-								(22)	**(22)**
Interest revenue from external	48,281	-	6,805	8,300	8,010	803	190	4,713	-	**77,102**
Fee and commission income	2,747	10,563	-	166	4,308	7	-	681		**18,472**
Revenue	-	-	-	-	-	-	68,673	-	-	**68,673**
Revenue from external customers	**51,028**	**10,563**	**6,805**	**8,466**	**12,318**	**810**	**68,863**	**5,394**	**-**	**164,247**
Interest expense	(3,270)	-	(2,070)	(2,371)	(2,699)	(225)	(2,591)	2,842	(201)	**(10,585)**
Cost of goods sold	-	-	-	-	-	-	(62,196)	-	-	**(62,196)**
Add back inter-segment revenue	-								22	**22**
Subordinated loan note interest									(2,464)	**(2,464)**
Fee and commission expense	(265)	-	-	-	(84)	-	-	-		**(349)**
Segment operating income	47,493	10,563	4,735	6,095	9,535	585	4,076	8,236	(2,643)	**88,675**
Impairment losses	354	-	(186)	(2,292)	(50)	(21)	(1,001)	-		**(3,196)**
Gain from a bargain purchase							8,626		-	**8,626**
Other income	-	-	2,239	78	-	-	-	2,081	(443)	**3,955**
Operating expenses	(41,315)	(12,684)	(1,154)	(3,943)	(4,748)	(1,590)	(7,872)	(12,570)	(7,546)	**(93,422)**
Segment profit / (loss) before tax	6,532	(2,121)	5,634	(62)	4,737	(1,026)	3,829	(2,253)	(10,632)	**4,638**
Income tax (expense) / income	-	-	-	52	-	-	-	2,105	(9)	**2,148**
Segment profit / (loss) after tax	**6,532**	**(2,121)**	**5,634**	**(10)**	**4,737**	**(1,026)**	**3,829**	**(148)**	**(10,641)**	**6,786**
Loans and advances to customers	1,396,048	-	178,082	97,113	182,122	10,096	-	19,000	(11,500)	**1,870,961**
Assets available for lease	-	-	-	-	-	-	121,563	-	-	**121,563**
Other assets	-	-	-	-	-	-	-	1,369,014	(2,671)	**1,366,343**
Segment total assets	**1,396,048**	**-**	**178,082**	**97,113**	**182,122**	**10,096**	**-**	**1,388,014**	**(14,171)**	**3,358,867**
Customer deposits	2,655,454	-	-	-	-	-	-	201,495	(19,080)	**2,837,869**
Other liabilities	-	-	-	-	-	-	-	306,064	14,055	**320,119**
Segment total liabilities	**2,655,454**	**-**	**-**	**-**	**-**	**-**	**-**	**507,559**	**(5,025)**	**3,157,988**
Other segment items:										
Capital expenditure	-	-	-	-	-	-	-	(41,030)	-	**(41,030)**
Depreciation and amortisation	-	-	-	-	-	-	-	(35,575)	(25)	**(35,600)**

The "Group Centre" segment above includes the parent entity and all intercompany eliminations.

Year ended 31 December 2020	Banking £000	Wealth Management £000	Mortgage Portfolios £000	RAF £000	ACABL £000	ASFL £000	All Other Divisions £000	Group Centre £000	**Total £000**
Interest revenue	44,837	-	10,353	8,687	4,316	782	6,107	54	**75,136**
Inter-segment revenue	-							(54)	**(54)**
Interest revenue from external customers	44,837	-	10,353	8,687	4,316	782	6,107	-	**75,082**
Fee and commission income	2,304	9,316	-	131	2,443	4	537		**14,735**
Revenue from external customers	**47,141**	**9,316**	**10,353**	**8,818**	**6,759**	**786**	**6,644**	**-**	**89,817**
Interest expense	(2,798)	-	(4,402)	(2,666)	(1,584)	(246)	(2,718)	(200)	**(14,614)**
Add back inter-segment revenue	-							54	**54**
Subordinated loan note interest	-	-	-	-	-	-	-	(2,464)	**(2,464)**
Fee and commission expense	(251)	-	-	(1)	(40)	(1)	-	-	**(293)**
Segment operating income	44,092	9,316	5,951	6,151	5,135	539	3,926	(2,610)	**72,500**
Impairment losses	(1,576)	-	(115)	(1,154)	-	(4)	-		**(2,849)**
Other income	-	-	-	73	-	-	1,445	(840)	**678**
Operating expenses	(38,411)	(11,096)	(1,624)	(2,975)	(3,130)	(1,547)	(6,680)	(5,956)	**(71,419)**
Segment profit / (loss) before tax	4,105	(1,780)	4,212	2,095	2,005	(1,012)	(1,309)	(9,406)	**(1,090)**
Income tax (expense) / income	-	-	-	(441)	-	-	1,420	(1,221)	**(242)**
Segment profit / (loss) after tax	**4,105**	**(1,780)**	**4,212**	**1,654**	**2,005**	**(1,012)**	**111**	**(10,627)**	**(1,332)**
Loans and advances to customers	1,133,799	-	268,827	91,927	87,331	5,964	11,501	(11,500)	**1,587,849**
Other assets	-	-	-	-	-	-	1,255,689	9,998	**1,265,687**
Segment total assets	**1,133,799**	**-**	**268,827**	**91,927**	**87,331**	**5,964**	**1,267,190**	**(1,502)**	**2,853,536**
Customer deposits	2,159,160	-	-	-	-	-	232,701	(26,654)	**2,365,207**
Other liabilities	-	-	-	-	-	-	280,533	13,773	**294,306**
Segment total liabilities	**2,159,160**	**-**	**-**	**-**	**-**	**-**	**513,234**	**(12,881)**	**2,659,513**
Other segment items:									
Capital expenditure	-	-	-	-	-	-	(7,075)	-	**(7,075)**
Depreciation and amortisation	-	-	-	-	-	-	(4,373)	(23)	**(4,396)**

Segment profit is shown prior to any intra-group eliminations.

Prior year numbers have been represented (splitting out Wealth Management from Banking) according to the 2020 operating segments reported to management. The Banking division had a branch in Dubai, which generated £1.7m (2020: £4.1m) of income and had direct operating costs of £1.3m (2020: £2.5m). All Dubai branch income was booked in the UK. Other than the Dubai branch, all operations of the Group are conducted wholly within the United Kingdom and geographical information is therefore not presented. The Dubai branch was closed in May 2021.

46. 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 2021 Location	Turnover £m	FTE employees Number	Profit/(loss) before tax £m	Tax paid £m
UK	88.7	601	5.2	-
Dubai	-	6	(0.6)	-

31 December 2020 Location	Turnover £m	FTE employees Number	Profit/(loss) before tax £m	Tax paid £m
UK	72.5	500	(0.5)	0.3
Dubai	-	14	(0.6)	-

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 £0.4m profit (2020: £1.7m). No public subsidies were received during 2021 or 2020.

Following a strategic review of the Group's operations, the Dubai branch was closed in May 2021.

47. Ultimate controlling party

The Company regards Sir Henry Angest, the Group Chairman and Chief Executive Officer, who has a beneficial interest in 56.1% of the issued share capital of the Company, as the ultimate controlling party. Details of his remuneration are given in the Remuneration Report and Note 43 of the consolidated financial statements includes related party transactions with Sir Henry Angest.

48. Events after the balance sheet date

There were no material post balance sheet events to report.

Five Year Summary

		2017	2018	2019	2020	2021
		£000	£000	£000	£000	£000
Profit / (loss) for the year after tax		6,523	(20,033)	6,176	(1,332)	**6,786**
Profit / (loss) before tax from continuing operations		2,534	6,780	7,011	(1,090)	**4,638**
Total Earnings per share						
Basic (p)		43.9	(134.5)	41.2	(8.9)	**45.2**
Earnings per share from continuing operations						
Basic (p)		14.0	38.0	41.2	(8.9)	**45.2**
Dividends per share (p)	- ordinary	33.0	35.0	37.0	-	**38.0**
	- special	-	-	-	-	**21.0**

Other KPI:

	2017	2018	2019	2020	2021
	£000	£000	£000	£000	£000
Net asset value per share	1,547.0	1,282.5	1,363.5	1,269.8	1,314.7