ARBUTHNOT BANKING GROUP PLC

25 March 2021

ARBUTHNOT BANKING GROUP (“Arbuthnot”, “the Group” or “ABG”)
Audited Final Results for the year to 31 December 2020

Strong financial resources have allowed the Group to accelerate strategy via acquisition.

Arbuthnot Banking Group today announces its audited results for the year ended 31 December 2020.

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

FINANCIAL HIGHLIGHTS

- (Loss)/Profit Before Tax (£1.1m) (2019: £7.0m) – excluding acquisition costs, the business broke even in 2020*
- Operating income steady at £72.5m (2019: £72.5m)
- Earnings per share negative 8.9p (2019: 41.2p)
- No dividend declared for 2020**
- Net assets £194m (2019: £208m)
- Net assets per share 1270p (2019: 1364p)
- Total capital ratio 18.7% (2019: 17.3%)

OPERATIONAL HIGHLIGHTS

Arbuthnot Latham

- Profit before tax and group recharges of £8.3m (2019: £16.2m), a decrease of 49%
- Average net margin at 4.1% (2019: 4.5%)
- Customer loans decreased 1% to £1,588m (2019: £1,599m)
- Customer deposits increased 13% to £2,365m (2019: £2,085m)
- Assets under management increased 4% to £1,147m (2019: £1,107m) driven by both strong net inflows and investment performance
- Arbuthnot Commercial Asset Based Lending profit has paid back start-up losses incurred; a strong year of progress saw it grow customers by 60%, drawn balances by 50% and facility limits by 82% in 2020
- All employees successfully worked remotely as the Bank operated well during the pandemic
- Installed new CRM system, linked to upgraded website in support of digital marketing initiatives
- Agreed acquisition of commercial truck leasing business, Asset Alliance, which incurred £1m of transaction costs accounted for in 2020***

During First Quarter 2021

- Completed sale of £55m residential mortgage portfolio generating a gain of £2.2m
- Took the decision to close Dubai representative office. Relationships will be managed from London
- Declared special dividend of 21p, paid on 19 March 2021, in respect of the withdrawn 2019 final dividend

Commenting on the results, Sir Henry Angest, Chairman and Chief Executive of Arbuthnot, said: “In a year in which the pandemic and associated lockdowns impacted businesses, Arbuthnot delivered a resilient performance and continued to make good operational progress. After a positive start to 2020, growth in lending balances and profits paused from the onset of the lockdown, as historically low base rates and a prudent reduction in the Bank’s credit appetite took their toll. It was however pleasing to see that whilst our growth may have paused, the bank did not. Our technology enabled us to serve clients remotely, whilst we also relaunched our website linked to a newly-developed CRM system, and delivered a well-received evolution of the Arbuthnot Latham brand.

We also had considerable success in growing our client base, with the Bank opening a significant number of new accounts in 2020, which in turn contributed to the good growth in deposits. This progress, together with growing demand for lending and the increased diversity of our business following the acquisition of Asset Alliance, leaves us well placed to resume our growth.”

Note: * The results include £1m of transaction costs related to acquisition of Asset Alliance.

** 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 Regulators.

*** Clearance was received from the FCA on 2 March 2021 and the acquisition is expected to complete on 31 March 2021.

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 Seamus Fricker	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 2020 Annual Report and Notice of Meeting will be available on the Arbuthnot Banking Group website http://www.arbuthnotgroup.com on or before 16 April 2021. 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	2020	2019
		Year ended 31 December	
		£000	£000
Interest income	8	75,082	76,870
Interest expense		(17,024)	(18,233)
Net interest income		**58,058**	**58,637**
Fee and commission income	9	14,735	13,935
Fee and commission expense		(293)	(107)
Net fee and commission income		**14,442**	**13,828**
Operating income		**72,500**	**72,465**
Net impairment loss on financial assets	10	(2,849)	(867)
Other income	11	678	5,599
Operating expenses	12	(71,419)	(70,186)
(Loss) / profit before tax		**(1,090)**	**7,011**
Income tax expense	13	(242)	(835)
(Loss) / profit after tax		**(1,332)**	**6,176**
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		(12,826)	10,707
Tax on other comprehensive income		(69)	(77)
Other comprehensive (loss) / income for the period, net of tax		**(12,895)**	**10,630**
Total comprehensive (loss) / income for the period		**(14,227)**	**16,806**
Earnings per share for profit attributable to the equity holders of the Company during the year (expressed in pence per share):			
Basic earnings per share	15	**(8.9)**	**41.2**
Diluted earnings per share	15	**(8.9)**	**41.2**

Consolidated statement of financial position

	Note	At 31 December 2020 £000	2019 £000
ASSETS			
Cash and balances at central banks	16	636,799	325,908
Loans and advances to banks	17	110,267	46,258
Debt securities at amortised cost	18	344,692	442,960
Assets classified as held for sale	19	3,285	7,617
Derivative financial instruments	20	1,843	1,804
Loans and advances to customers	21	1,587,849	1,599,053
Current tax asset		205	-
Other assets	23	96,288	86,443
Financial investments	24	18,495	30,919
Deferred tax asset	25	1,009	1,815
Intangible assets	26	23,646	20,082
Property, plant and equipment	27	4,905	5,813
Right-of-use assets	28	17,703	19,944
Investment property	29	6,550	6,763
Total assets		**2,853,536**	**2,595,379**
EQUITY AND LIABILITIES			
Equity attributable to owners of the parent			
Share capital	36	154	154
Retained earnings	37	207,839	209,171
Other reserves	37	(13,970)	(990)
Total equity		**194,023**	**208,335**
LIABILITIES			
Deposits from banks	30	230,090	230,421
Derivative financial instruments	20	649	319
Deposits from customers	31	2,365,207	2,084,903
Current tax liability		-	633
Other liabilities	32	7,606	13,500
Lease liabilities	33	18,305	20,431
Debt securities in issue	34	37,656	36,837
Total liabilities		**2,659,513**	**2,387,044**
Total equity and liabilities		**2,853,536**	**2,595,379**

Chairman's statement

Arbuthnot Banking Group ("ABG" or "The Group") has reported a loss before tax of £1.1m in a year that has been like no other in living memory. The Group had started the year on the front foot, with businesses enjoying the "Boris Bounce" after his emphatic General Election victory in late 2019. Lending balances increased by £62m from the prior year end - and then the pandemic struck.

The base rate reduction on its own caused a decline in revenues of £10.3m and further growth opportunities were lost as the Group tightened its lending criteria. This was both a precautionary measure, to limit the risks of the pandemic and to conserve capital for opportunities that we believed might arise. This caused customer loan balances to fall over the remainder of the year, to end at approximately the same level as the prior year. Thus, the Group has in fact missed a year of growth and its associated increased revenue. The pandemic's immediate impact on revenue has been in part offset by not awarding bonus payments to employees.

In my Chairman's report of 2019, I noted that the Group was well placed in terms of capital and liquidity to take advantage of any opportunities that the turmoil would present. I said this after noting that the Group prospered significantly following the financial crisis at the end of the previous decade. The Group was at that time able to successfully complete several acquisitions, at values that reflected the dislocation in the market, caused by the withdrawal of liquidity by the major banks to the non-bank lending market. Most notable of these was the acquisition of Everyday Loans that the Group purchased for £1 and subsequently sold for a gain of £117m three and a half years later. Therefore, I was pleased that we were able to exchange contracts in December of 2020, to acquire the entire share capital of Asset Alliance Group Holdings Limited ("Asset Alliance"). I expect this acquisition to complete on 31 March 2021 as we have recently received approval from the regulatory bodies regarding our change of control application.

I am delighted that Willie Patterson, the CEO of Asset Alliance, and his Senior Management team will join the Group soon and I look forward to working with them to grow the business, now that it will no longer be constrained by its previous funding limits.

Asset Alliance is a market leading provider of leasing solutions mainly in the commercial truck sector. This acquisition will continue our strategy of diversification of Arbuthnot Latham & Co., Limited ("Arbuthnot Latham" or "the Bank"), while remaining true to our core values that are embedded in our Private Bank.

Asset Alliance provides us another niche within the specialist Commercial Banking markets that we have been developing to complement the Commercial Bank, Renaissance Asset Finance, Arbuthnot Commercial Asset Based Lending and Arbuthnot Specialist Finance. These all combine to bring together the "Future State" vision that we are working towards, led by the core bank which will maintain access to low-cost retail deposits that can be deployed through our higher yielding lending businesses.

Highlights

Despite the decline in profitability caused by the pandemic, I would like to note a number of highlights and also the continued progress made by the Group during the year.

From the moment that the lockdown was declared the entire bank moved to remote working without missing a beat. Clients continued to receive their bespoke personal service, payments continued to be transacted and investment decisions remained clear and decisive. Meanwhile, fraud protection and second line monitoring maintained the safety and soundness of the operations of the Group. Throughout the whole of this time the Group has played its role within society, not taking advantage of any of the Government's schemes and paying all of its liabilities, including all tax related items, on time. The Group was quickly accredited to the Government sponsored lending schemes and extended £21m of Coronavirus Business Interruption Loans ("CBILs") and £12m Bounce Back Loans ("BBLs") to our clients to help them navigate their way through the cash flow issues that lockdowns bring. We also assisted our clients with payment holidays. We have supported employees and avoided using any of the furlough schemes. Their morale and dedication to servicing our clients has remained at the highest level, despite the long days working remotely and alone.

The fact that all our employees were working remotely was not an impediment that was going to prevent our IT and change teams from continuing to deliver on our ambitious programme of enhancing the Bank's infrastructure and service propositions. In August, we moved over to the newly implemented CRM systems provided by SalesForce. This Bank-wide effort now gives our services teams the ability to view all our clients' balances in one single place.

Finally, in December we switched our faster payment provider from Lloyds to NatWest, while at the same time extending our proposition to allow clients to instruct and make payments at any hour of any day that they so choose. This was the last significant enhancement needed to make our transactional banking capabilities equivalent of other market leading brands.

From the onset of the pandemic the business focused on maintaining its growth of deposits. While the recession was largely in the real economy, we feared that it might quickly spread to the financial sector and create a liquidity squeeze. I have often commented that the strength of a bank should not only be judged on its capital or quality of its loan book but by the solidity and diversity of its deposit base. Thus, I have noted the creditable performance of the Bank in gathering deposits during the 2020. The end of the year deposit balance showed growth of 13%, while at the same time the average cost of these deposits fell from 66bps to 54bps, which shows the

Bank has not chased deposits at any cost. This strength and diversification of the deposit base will enable us to continue our growth trajectory once activity levels return.

Given the turmoil in the investment markets and uncertainty in the real economy I feel that the performance of our Investment Management division should also be noted. The FTSE 100 index fell by 14% during 2020, however, our balance of Assets Under Management increased by 4% suggesting that the investment performance outperformed the market even when excluding the net flow of funds.

Brexit and Regulation

In my Chairman's report for 2019 I noted that business activity had been reduced in the lead up to the General Election and the implications that had for the conditions of the UK's withdrawal from the European Union. It has always been clear to me that businesses are mainly weighed down by a lack of clarity of the future when making investment decisions. The political situation had created much uncertainty in the UK and across Europe. So I am now pleased that this uncertainty has been removed and it appears that the UK has struck a good trade deal.

However, Brexit will only be successful if the Government is bold and takes full advantage of the freedoms gained. For a start, it must substantially reduce the stifling bureaucracy and plethora of regulation that the UK has been forced to adopt over the years.

The Civil Service must also play their part in bringing about such transformation, a once in a lifetime opportunity. Out must go the bad habit of gold plating every rule and every new regulation must be tested against a rigorous impact assessment and should have a sunset clause. Furthermore, we should introduce a "one in, one out" principle to contain this proliferation of rules.

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 only being able to meet virtually.

As always, and especially this year, the progress of the Group reflects the hard work and commitment of all the members of staff. I believe that all our employees have responded particularly well in these difficult circumstances in continuing to provide high quality client service and in ensuring that their colleagues' wellbeing was prioritised. On behalf of the Board I extend our thanks to all of them for their dedicated efforts in 2020.

Dividend

The Board announced on 18 February 2021 that it intended to pay a special dividend of 21p in-lieu of the dividend relating to 2019 that was cancelled following strong guidance from the PRA. This dividend has already been paid and you should all be in receipt of the monies.

Given the impact the pandemic has had on the Group's earnings, the Board is not recommending a final dividend for the year of 2020, but will assess the dividend strategy of the Group, as profitability is restored, in 2021.

Outlook

The macro economic outlook is currently uncertain, the rollout of the vaccine in the UK appears to be powering ahead like a "speedboat" and soon all adults should have been offered the opportunity to protect themselves from the virus. The Government recently published a roadmap out of the lockdown, but the emergence of new variants could change the data and put this at risk.

Any further delay will push back the recovery, which appears to be poised for a potentially strong rebound. However, in the meantime, the Government appears committed to supporting the economy and, so far, the valuations and demand in our sectors of business have held up.

The acquisition of Asset Alliance, a growing demand in our lending pipelines and the diversity of the Group places us in a good position to deliver strong growth and results once the restrictions on the economy are lifted.

Strategic Report

Business Review

Arbuthnot Latham & Co., Ltd

	2020	2019
Operating income	£75.1m	£74.2m
Other income	£1.5m	£5.0m
Operating expenses	£65.5m	£62.2m
Profit before tax (before Group recharges)	£8.3m	£16.2m
Customer loans	£1,587.8m	£1,599.1m
Customer deposits	£2,365.2m	£2,084.9m
Total assets	£2,855.0m	£2,584.7m
Assets under management	£1,147.5m	£1,107.3m
Average net margin	4.1%	4.5%
Loan to deposit ratio	67.1%	76.7%

Arbuthnot Latham

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

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

Other Income reduced by £3m from the prior year. In 2020 the Group started a significant refurbishment programme on one of its properties carried as inventory, King Street, which is expected to complete in the middle of 2021. This resulted in reduced rental income of £1.5m compared to the prior year. The prior year also included £1.5m for the adjustment of the RAF management earn out liability.

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

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

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

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

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

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

Banking

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

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

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

The Commercial Bank loan book increased by 6% to £557m. This was against the backdrop of the pandemic and strategically moving the emphasis away from commercial real estate towards professional buy to let landlords. At the outset of the pandemic the immediate focus of the relationship teams was to support existing clients with payment deferrals or additional finance, to support them during short-term difficulties. As part of its accreditation to the Government's Coronavirus Business Support Schemes the business issued 278 BBL loans totalling £12.3m.

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

Wealth Management

Assets under Management ("AUM") increased by 4% during 2020 in part due to record gross inflows nearly 10% higher than the prior year and representing 14% of AUM at the start of the year.

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

Wealth planning fees were £0.8m supporting £54m of gross AUM inflows. The business completed its first full year providing event based financial planning with clients paying for each piece of specific advice on a transactional basis with no ongoing advice fees attached.

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

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

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

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

Dubai

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

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

Mortgage Portfolios

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

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

Renaissance Asset Finance ("RAF")

Renaissance Asset finance reported a profit of £2.1m (2019: £1.9m). The combined effects of a decline in vehicle and capital equipment demand from the SME sector, together with a tightened approach to risk resulted in customer loan balances falling to £91.9m (2019: £102.2m) as amortisation of the existing loans exceeded new lending. It is expected that the decline will stabilise and then reverse as increased levels of new business activity return and as business sectors such as those involved in food distribution, internet delivery, the essential services and IT sectors experience an increased demand for asset finance facilities.

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

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

Arbuthnot Commercial Asset Based Lending ("ACABL")

ACABL continued to generate monthly profits throughout 2020 and during the year recovered all start-up costs incurred since its establishment in 2019.

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

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

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

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

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

Arbuthnot Specialist Finance Limited ("ASFL")

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

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

Operations & Technology

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

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

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

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

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

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 and Specialist 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 assets under management. The Group also earns rental income on its properties and receives dividends from financial investments.

Highlights

Summarised Income Statement	2020 £000	2019 £000
Net interest income	58,058	58,637
Net fee and commission income	14,442	13,828
Operating income	72,500	72,465
Other income	678	5,599
Operating expenses	(71,419)	(70,186)
Impairment losses - loans and advances to customers	(2,849)	(867)
(Loss) / profit before tax	(1,090)	7,011
Income tax expense	(242)	(835)
(Loss) / profit after tax	**(1,332)**	**6,176**
Basic earnings per share (pence)	**(8.9)**	**41.2**

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)
Loss of STB dividend	168	1,360	1,528
Cost of establishing new ventures	1,012	-	1,012
Loss of rental income during refurbishment work	1,494	-	1,494
Costs relating to the acquisition of Asset Alliance	991	-	991
Underlying profit	**17,818**	**(9,657)**	**8,161**
Underlying basic earnings per share (pence)			**57.2**

Underlying profit reconciliation 31 December 2019	Arbuthnot Latham & Co. £000	Group Centre £000	Arbuthnot Banking Group £000
Profit before tax and group recharges	16,156	(9,145)	7,011
Cost of establishing new ventures	1,208	-	1,208
RAF deferred consideration adjustment	(1,495)	-	(1,495)
Subordinated debt charge as if applicable from 1 January 2019*	-	(924)	(924)
Underlying profit	**15,869**	**(10,069)**	**5,800**
Underlying basic earnings per share (pence)			**32.8**

* - Subordinated debt charge accounted for as if from 1 January, rather than 3 June (date of issue).

The Group has reported a loss before tax of £1.1m (2019: profit of £7.0m). The underlying profit before tax was £8.2m (2019: profit of £5.8m).

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

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

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

Lastly, following the PRA's statement in 2020, Secure Trust Bank did not pay a dividend in 2020, reducing income on our financial investment by £1.5m compared to 2019.

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

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

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

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

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

Finally, the prior year underlying profit reconciliation includes £1.5m relating to the adjustment of the RAF management earn out liability and also a £0.9m reduction in profit to reflect the full year impact of the interest payable on the subordinated debt issued on 3 June 2019.

The Group's Basic Earnings per share ("EPS") was negative 8.9p (2019: positive 41.2p) or on an underlying basis the EPS was 57.2p (2019: 32.8p).

Total operating income earned by the Group remained flat at £72.5m. The average net margin on lending was 4.1%, down from the 4.5% recorded in 2019. This was as a result of reduced yields on lending linked to the BoE base rate, partly offset by the cost of deposits falling from 0.66% to 0.54%. Fees and commissions increased by £0.6m to £14.4m, due to growth in ACABL. During the course of the year Assets Under Management ("AUM") increased £40m to £1.15bn (2019: £1.11bn).

The Group's operating expenses increased by £1.2m or 2% from 2019. This is largely as a result of the full year impact from 2019 employee hires and 2020 employee hires, together with the acquisition costs of £1m associated with Asset Alliance Group Holdings Limited.

Overall the return on equity for the Group was negative 0.6% (2019: positive 3.0%). The target return on equity remains in the mid-teen range when the surplus capital has been deployed, the cost income ratio is reduced as the benefits of scale are realised by the additional lending, and once the exceptional Base Rate cut is reversed.

Balance Sheet Strength

Summarised Balance Sheet	2020 £000	2019 £000
Assets		
Loans and advances to customers	1,587,849	1,599,053
Liquid assets	1,091,758	815,126
Other assets	173,929	181,200
Total assets	**2,853,536**	**2,595,379**
Liabilities		
Customer deposits	2,365,207	2,084,903
Other liabilities	294,306	302,141
Total liabilities	2,659,513	2,387,044
Equity	194,023	208,335
Total equity and liabilities	**2,853,536**	**2,595,379**

Total assets increased to £2.9bn (2019: £2.6bn), which was mainly as a result of the growth of customer deposits with the resultant excess funds placed on deposit at the Bank of England. The Group maintained its conservative funding policy of relying only on retail deposits and targeting a loan to deposit ratio of between 65-80%. Included in other assets is the Group's investment property, which is held at fair value of £6.6m (2019: £6.8m). Also included in other assets are £88m of properties classified as inventory (2019: £75.2m). These properties are being refurbished with a view to sell. Other assets and other liabilities also include £17.7m (2019: £19.4m) and £18.3m (2019: £19.8m) respectively relating to right-of-use assets and lease liabilities. This is as the result of the implementation of IFRS 16 (leases) in 2019.

The net assets of the Group now stand at £12.70 per share (2019: £13.64). The decrease is mainly attributable to the £13.2m fall in the value of the Secure Trust Bank ("STB") shares (held as a financial investment) recorded through Other Comprehensive Income.

Segmental Analysis

The segmental analysis is shown in more detail in Note 43. The Group is organised into seven operating segments as disclosed below:

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

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

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

Banking

Summarised Income Statement	2020 £000	2019 £000
Net interest income	42,039	45,258
Net fee and commission income	11,369	11,801
Operating income	53,408	57,059
Operating expenses - direct costs	(18,839)	(21,910)
Operating expenses - indirect costs	(30,668)	(24,775)
Impairment losses - loans and advances to customers	(1,576)	(165)
Profit before tax	**2,325**	**10,209**

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

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

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

The customer loan balances increased by £27m to £1,134m and customer deposits also increased to £1,904m (2019: £1,863m). The average loan to value was 53.4% (2019: 54%).

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

Mortgage Portfolios

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

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

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

RAF

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

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

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

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

Arbuthnot Commercial Asset Based Lending ("ACABL")

Summarised Income Statement	2020 £000	2019 £000
Net interest income	2,732	1,345
Net fee and commission income	2,403	1,377
Operating income	5,135	2,722
Operating expenses - direct costs	(3,130)	(2,708)
Impairment losses - loans and advances to customers	-	10
Profit / (loss) before tax	**2,005**	**24**

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

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

Arbuthnot Specialist Finance ("ASFL")

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

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

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

Other Divisions

Summarised Income Statement	2020 £000	2019 £000
Net interest income	3,389	3,738
Net fee and commission income	537	443
Operating income	3,926	4,181
Other income	1,445	4,955
Operating expenses - direct costs	(6,680)	(7,170)
(Loss) / Profit before tax	**(1,309)**	**1,966**

The aggregated loss before tax of other divisions was £1.3m (2019: profit of £2.0m).

Reported within the other divisions in other income was rental income on our Property portfolio of £0.5m (2019: £2.1m). £1.5m of the reduction in rental income from the prior year is due to the King Street property being vacant while extensive refurbishment works are carried out. In the prior year other income also included a £1.5m adjustment to the RAF management earn out liability.

Group Centre

Summarised Income Statement	2020 £000	2019 £000
Net interest income	(146)	(141)
Subordinated loan stock interest	(2,464)	(1,620)
Operating income	(2,610)	(1,761)
Other income	-	1,420
Operating expenses	(6,796)	(8,804)
Loss before tax	**(9,406)**	**(9,145)**

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

No dividends were received from STB during the year due to the ongoing pandemic, which reduced other income by £1.4m.

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

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 42.

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, deferred tax assets that do not arise from temporary differences, and, if in excess of the CRR thresholds, a portion of the Group's non-significant investment in a financial institution, Secure Trust Bank ("STB").
- 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	2020 £000	2019 £000
CET1 Capital Instruments*	195,979	219,627
Deductions	(15,393)	(41,983)
CET1 Capital after Deductions	180,586	177,644
Tier 2 Capital	37,656	36,837
Own Funds	**218,242**	**214,481**
CET1 Capital Ratio (CET1 Capital/Total Risk Exposure)	**15.4%**	**14.4%**
Total Capital Ratio (Own Funds/Total Risk Exposure)	**18.7%**	**17.3%**

* 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 1 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.

Coronavirus

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

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

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

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

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

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

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

a) Increased credit risk as borrowers are unable to continue to meet their interest obligations as they fall due. It is also currently unclear precisely how the withdrawal of the Government's announced package of measures will affect this clear risk.
b) The uncertainty in the economy could result in a significant fall in the collateral values of our security held against the loans. At the beginning of the pandemic the Royal Institute of Charter Surveyors ("RICS") issued a statement suggesting that any valuations they may produce in the current environment would be subject to a warning that the values vary significantly. However, property prices have held up and transaction volumes and other relevant evidence is starting to return to levels adequate to base valuation opinions on. Also, the average loan to value of our property backed lending book is 53.4%, so to have a material impact, this fall in collateral values would have to be severe and prolonged.
c) A prolonged reduction in business activity will affect our ability to generate new business opportunities, in which case repayments in our current lending portfolios will be greater than new originations, which will lead to an overall fall in the Group's customer lending balances and the associated revenue that this generates. At the start of the pandemic the Group significantly reduced its credit appetite due to uncertainty in the global economy, which resulted in the loan book remaining flat from the prior year. However, since re-instating credit appetite to pre-pandemic levels in the third quarter, the Group has generated a significant pipeline of business.
d) The economic shock could also lead to a fall in valuations in the Groups investment properties and those properties held in inventory. As mentioned under point (b) above, transaction volumes are starting to return and property prices have held up since the start of the pandemic more than a year ago.
e) As the revenues earned by the Group's Investment Management business are directly linked to the balances managed on behalf of our clients, any reduction in these values due to market movements will have a corresponding impact on these revenues. AUM initially reduced to close the first half 3% down from what was reported at 31 December 2019, however, despite market volatility, the Wealth Management team continued to attract criteria clients and AUMs closed the year 4% ahead of the prior year.

Brexit

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

Climate change

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

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

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

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

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

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

Credit risk
Credit risk is the risk that a counterparty (borrower) will be unable to pay amounts in full when due. This risk exists in Arbuthnot Latham, which currently has a loan book of £1,588m (2019: £1,599m). 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 £88m. Any changes in the market value of the property will be accounted for in the Income Statement for the Investment Property and could also impact the carrying value of inventory, which is at the lower of cost and net realisable value. As a result, it could have a significant impact on the profit or loss of the Group.

The Group has a 9.76% interest in Secure Trust Bank. This is currently recorded in the Group's balance sheet as a Financial Investment. The carrying value is adjusted to market value at each balance sheet date, according to the share price of Secure Trust Bank. Any gains or losses that arise are recorded in Other Comprehensive Income.

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

Operational risk
Operational risk is the risk that the Group may be exposed to financial losses from conducting its business. The Group's exposures to operational risk include 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.

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

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

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

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 the regulatory risk, it is not possible to predict how regulatory and legislative changes may alter and impact the business. Significant and unforeseen regulatory changes may reduce the Group's competitive situation and lower its profitability.

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

The Directors have acted in a way that they considered, in good faith, to be most likely to promote the success of the Company for the benefit of its members as a whole, and in doing so had regard, amongst other matters, to:
- the likely consequences of any decision in the long term;
- the interests of the Company's employees;
- the need to foster the Company's business relationships with suppliers, customers and others;
- the impact of the Company's operations on the community and the environment;
- the desirability of the Company maintaining a reputation for high standards of business conduct; and
- the need to act fairly as between members of the Company.

The stakeholders we consider in this regard are our shareholders, employees, customers, suppliers, regulators and the environment in which we operate.

The Arbuthnot Principles and Values set out on page 1 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 25 and in the Corporate Governance Report on page 32.

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

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

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

Interests of the Company's employees

The 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 explained in the section 172 (1) Statement of Arbuthnot Latham, the Company's operating subsidiary, one of that company's non-executive directors and its Whistleblowing Champion, has been designated by its board as the director to engage with the Group's workforce. Employees are able to raise concerns in confidence with the HR Team, with grievances followed up in line with a specified process which satisfies all legal requirements. 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 protect the business. There were regular communications during the year including two Employee Surveys undertaken in order to support employees, reassure them over job security and to seek their views on the eventual return to office working. Each survey showed high engagement and positive responses, reflecting the efforts made to reassure employees by communicating the decisions made to look after them during the period of remote working. In the first survey in April, 94% of employees responded with 90% satisfied. 89% per cent of employees agreed that they had been provided with the necessary IT support to work remotely, within a reasonable timeframe. From the comments received, there was a strong sense that communication had been clear, regular and consistent and had a strong focus on employee wellbeing. There were similarly good responses to the second survey in September which included questions on interest in remote working in future with 92% of employees proud to work for the Group, up from 83% in 2019.

Company's business relationships with suppliers, customers and others

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

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

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

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

Other stakeholders include the Company's Regulators, the PRA and the FCA, with whom open and regular dialogue is maintained including regular fortnightly calls by the Group Finance Director and Arbuthnot Latham's Chief Risk Officer with the PRA Supervisory team throughout the pandemic.

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

As a financial services company our impact on the environment is limited. Nevertheless, there is growing consensus that an orderly transition to a low-carbon economy will bring structural adjustments to the global economy which will have financial implications, bringing both risks and opportunities. Accordingly, in September, the Board of Arbuthnot Latham considered a report on the Strategic Review of Climate Change Opportunities Report produced, following consideration by its executive directors of the Group's strategic response to climate change as part of the annual strategy and budget process. This year, the Board has approved a new energy and carbon report meeting the requirements of the Streamlined Energy and Carbon Reporting standards, as set out on pages 26 and 27 of the Directors 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 1 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. During the year these Principles were encapsulated in five Group 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. In June, the Company made contact with five institutional shareholders in order to understand why they had voted against the resolution at the AGM authorising the making of political donations and incurring of political expenditure, as explained on page 32 of the Corporate Governance Report. The Board continues to believe that it is in the interests of shareholders that it has the flexibility to make political donations in light of prevailing political circumstances over the next few years. It was encouraged by the continued support of its major shareholders. It welcomes engagement with them and will continue to maintain communications via one-to-one meetings as appropriate.

Group Directors' Report

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

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 4 to 22.

Corporate Governance

The Corporate Governance report on pages 29 to 36 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 47 of the financial statements. The loss after tax for the year of £1.3m (2019: profit of £6.2m) is included in reserves. The Directors do not recommend the payment of a final dividend (2019: Nil). Since no interim dividend (2019: 16p) was paid in the year, this makes a total dividend per share for the year of Nil (2019: 16p). The second interim dividend of 21p declared by the Directors in last year's Annual Report was withdrawn on 2 April 2020, prior to the finalisation of the resolutions in last year's Notice of Meeting, following the publication by the Prudential Regulation Authority ("PRA") of a statement on deposit takers' approach to dividends. This dividend of 21p per share was paid as a special interim dividend on 19 March, 2021, following the PRA statement in December 2020, advising that it is for bank boards to determine the appropriate level of distributions and removing its request not to make shareholder distributions.

Directors

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

Mr. J.R. Cobb and Mr. I.A. Dewar being eligible, offer themselves for re-election under Article 78 of the Articles of Association. Mr. Cobb has a service agreement terminable on twelve months' notice. Mr. Dewar, an independent non-executive director, has a letter of appointment terminable on three months' notice.

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 2023. 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 10 to 22;
- the Group's key principles – please see Corporate Philosophy on page 1; 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 ongoing 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 resolution renewing this authority are included in the Notice of Meeting on page ##NOAGM. During the year the Company purchased 7,730 Ordinary Non-

Voting shares to be held in Treasury. 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 2020	31 December 2020	24 March 2021	%
Sir Henry Angest	8,351,401	8,351,401	8,351,401	56.1
N.P.G. Boardman	-	7,270	11,348	0.1
J.R. Cobb	6,000	6,000	6,000	-
A.A. Salmon	51,699	51,699	51,699	0.3

Beneficial Interests - Ordinary Non-Voting shares	1 January 2020	31 December 2020	24 March 2021	%
Sir Henry Angest	83,513	83,513	86,674	64.9
J.R. Cobb	60	60	60	-
A.A. Salmon	516	516	516	0.4

Substantial Shareholders

The Company was aware at 8 March 2021 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	1,464,851	9.8
Slater Investments	585,638	3.9
Mr. R Paston	529,130	3.6
Unicorn Asset Management	484,522	3.3
M&G Investment Management	482,010	3.2

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 2020, one Director had a loan from Arbuthnot Latham & Co., Limited amounting to £501k (2019: £503k) and four directors had deposits with Arbuthnot Latham amounting to £3,928k (2019: £3,065k), all on normal commercial terms as disclosed in Note 41 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 page 21.

Engagement with Suppliers, Customers and Others

Information on engagement with suppliers, customers and other stakeholders is given in the Strategic Report on pages 21 and 22 under the S. 172 statement.

Streamlined Energy & Carbon Reporting

From 2020 large unquoted companies that have consumed more than certain amounts of energy in the reporting period are required to include energy and carbon information. This requirement is due to the Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018. 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.

The Company has worked with a specialist energy management consultancy, Carbon Decoded, to gather the information to be reported:

- All energy in line with Greenhouse Gas Reporting (GHG): Scope One – gas and owned transport, Scope Two - electricity and Scope Three – non-owned transport used for business.
- An intensity metric to enable year on year improvements to be tracked.
- A brief methodology explaining information sources and calculations used.
- The energy saving actions taken in the year to help the Group reduce its environmental impact.

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 2020 Government conversion factors for company reporting were used for all calculations of carbon emissions.
- Data was estimated where landlords do not provide separate energy data. This was based on floor areas and industry benchmarks.

The baseline year for comparison purposes to show improvements in emissions has been chosen as 2019 due to COVID-19 disruptions to the business in 2020.

	2020			Baseline 2019		
Scope One	kWh	Carbon Tonnes tCO2e	Intensity Ratio	kWh	Carbon Tonnes tCO2e	Intensity Ratio
Gas - Intensity Ratio kWh/m2	355,415	65	61.5	359,672	66	62.2
Company Vehicles	27,314	7	1.0	88,810	22	1.0
Total	**382,729**	**72**		**448,482**	**88**	
Scope Two						
Electricity kWh/m2	1,027,760	240	134.8	1,443,054	369	189.3
Total	**1,027,760**	**240**		**1,443,054**	**369**	
Scope Three						
Grey Fleet Vehicles	59,196	14	1.4	168,093	41	1.3
Total	**59,196**	**14**		**168,093**	**41**	

Notes:

The reported 2020 figures are not representative of normal business energy use and the reductions compared to the 2019 figures do not reflect actual energy savings, but are as a result of suspending work in office buildings to protect employees during the COVID-19 pandemic and the further decarbonisation of the UK electricity grid.

The figures reported have been calculated and independently verified by Carbon Decoded a specialist energy management consultancy.

Intensity Ratio

The standard for office energy use is kilowatt-hour per square metre (kWh/m²). These results were compared to Action Energy's Energy Consumption Guide Benchmarks. Transport has been set at kilowatt-hour per mile (kWh/mile).

Energy Efficiency Actions

Progress was made in 2020 to understand where energy is specifically used and to increase the number of LED lights, though assessing energy use has proved challenging, given that employees have been working remotely since March 2020. The Head Office in Wilson Street contributes 70% electricity emissions or 167 tonnes of carbon and this is the area that will be the focus in 2021.

Political Donations

The Company made political donations of £10,000 to the Conservative Party during the year (2019: £77,000).

Branches outside of the UK

During the year Arbuthnot Latham & Co., Limited operated a branch in Dubai which is regulated by the Dubai Financial Services Authority. This office is closing on 31 May 2021.

Events after the Balance Sheet Date

In addition to the special interim dividend payment set out above, details of other material post balance sheet events are given in Note 46.

Annual General Meeting ("AGM")

The Company's AGM will be held on Wednesday 26 May 2021 at which Ordinary Shareholders will be asked to vote on a number of resolutions. Given the continuing restrictions due to the COVID-19 pandemic, the Board is proposing to hold the Meeting with the minimum attendance required to form a quorum and with the format of the meeting being purely functional. It is assumed that it will not be possible for shareholders to attend in person. Shareholders are requested therefore to submit their votes in respect of the business to be discussed via proxy, appointing the Chairman of the meeting as their proxy. The resolutions, together with explanatory notes about voting arrangements, are set out on pages 139 to 142.

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 Financial Reporting Standards ("IFRSs") 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.

By order of the Board

N D Jennings
Secretary
24 March 2021

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 Regulatory Authority (the "PRA") and regulated by the Financial Conduct Authority ("FCA") and by the PRA and its Dubai Branch is regulated by the Dubai Financial Services Authority. One of its subsidiaries, Renaissance Asset Finance Limited, is 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.

The Company is led by the Board which comprises seven members: the executive Chairman, two other executive directors, Andrew Salmon and James Cobb, and four independent non-executive directors who thereby constitute at least half of the Board in line with the Code. 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.

Since 2016, when an independent Board Effectiveness Review was carried out by an external consultant, the annual Board Effectiveness Review has been conducted internally. The 2020 evaluation took the form of a confidential questionnaire which assessed the performance of the Board and its Committees. The questions were set to explore the themes developed over recent years, including Board effectiveness, Board composition, Board dynamics, alignment of the Board and 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 2020 and proposed actions arising were considered in February 2021. The responses were positive, confirming that the Board was of the view that it receives the correct level of insight into and oversight of the Company, both directly to it and in terms of management information and oral updates provided during meetings. Directors also agreed that the Arbuthnot culture set out in the Arbuthnot Principles and Values manifests itself at Board level and in the external view of the Group as a whole.

Leadership and Purpose

The Board has for many years led a company which focuses on sustainability and growth over the longer-term with a culture to match. Investment in resources has been strong and has continued where and as appropriate (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 were embedded during the year through a brand values document linking the Arbuthnot Principles to the Group's culture as a way of communicating culture across the business. This followed a formal rebranding process whereby these cultural Principles are now encapsulated in five Group values, themselves embedded into day-to-day activities. These are integrity, respect, empowerment, energy and drive, and collaboration.

The Board

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 since March 2020 via video conference. It held six scheduled meetings as well as three ad-hoc meetings respectively to withdraw the second interim dividend, to approve the Notice of AGM and jointly with the Board of Arbuthnot Latham to approve the acquisition of Asset Alliance Group Holdings Limited. It decided not to hold a separate off-site strategy meeting because of its impracticability during the pandemic. 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 regular Board meetings of Arbuthnot Latham as attendees.

The Board was kept fully informed of the arrangements made by management to run the business during the pandemic. In March 2020 the executive directors considered interim support and succession arrangements relating to Arbuthnot Latham directors and designated holders of PRA/FCA approved Senior Management Functions during the COVID-19 outbreak, in anticipation of the likelihood that travel would be restricted and that the Group would need to be managed and run remotely for an unspecified period of time. It was determined to continue with the overall succession plan and at the peak of the first lockdown Arbuthnot Latham's executive directors held a daily call so that all would be fully appraised of the matters under consideration by the others within the executive team. This was to ensure that had there been individual illness all relevant work could continue, calling on the services of other key staff within the business. The Chairman and Chief Executive continued to be kept fully informed of all material matters through regular discussions with senior management during the continuing period of remote working.

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 firm of lawyers. 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.

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 21, 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.

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 2020 AGM are James Cobb and Ian Dewar, who have served on the Board for 12 years and 5½ years respectively. The contribution of Mr. Cobb as the Group Financial Director has been invaluable in managing the capital and liquidity requirements of the Group. He has also played a pivotal role in sourcing and delivering the acquisitions that have shaped the strategy of the Group. Mr. Dewar, with a wealth of experience as a partner in a major accounting firm, has successfully chaired the Audit Committee. 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 indefinitely, 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 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. In November 2020, the Board received a report from the Arbuthnot Latham Chief Risk Officer enabling it 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 a new risk board dashboard.

Significant risks identified in connection with the development of new activities are subject to consideration by the Board. There are well-established budgeting procedures in place and reports are presented regularly to the Board detailing the results, in relation to Arbuthnot Latham, of each principal business unit, variances against budget and prior year, and other performance data. The Board receives regular reports on any risk matters that need to be brought to its attention, enabling it to assess the Group's emerging and principal risks.

Shareholder Communications

The 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.

In accordance with the FRC Code, the Company made contact with five institutional shareholders in order to understand why they voted against the resolution at the AGM held in June 2020 authorising the making of political donations and incurring of political expenditure. The total votes received in favour of this resolution were 74.6% and the five institutional shareholders comprised almost all of the significant minority of votes of those which it identified as not supporting the resolution. This resolution provided that, in the four years beginning on 17 June 2020, the individual and aggregate amount donated or expended would not exceed £250,000. In 2019, the Company made political donations of £77,000 to the Conservative Party in view of the significant adverse impact that a Labour government would have had on the Group's clients and business.

Two institutional shareholders did not take up the offer of a meeting with the Directors, one of which explained that their policy on corporate governance is not to support resolutions in respect of political donations. Of the three shareholders with which the Company engaged successfully, each of the respective fund managers expressed their support for the Company, but explained that they generally follow the advice of their proxy voting advisers in respect of corporate governance matters and which, on this occasion, recommended that they voted against the resolution. One institution, whilst understanding of the reasoning behind the proposal of the resolution, indicated their own reluctance to support it due to their generally not liking companies in which they invest to make political donations. Another suggested that, if given more of an explanation as to why the resolution was being proposed, they believed that a proxy voting adviser might recommend support in which case they would likely vote in favour. In summary the response to the consultation with the Company's major institutional shareholders was that, given their commitment to follow "best practice" in relation to corporate governance, they are reluctant unless there are special circumstances to go against their corporate governance/proxy voting adviser's recommendation as to how they vote. This was announced to the wider market in accordance with the FRC Code.

The Board continues to believe that it is in the interests of shareholders that it has the flexibility to make political donations in accordance with the Companies Act 2016, in light of prevailing political circumstances over the next few years. Going forward it will seek to provide a more detailed explanation in relation to specific shareholder resolutions which corporate governance advisers are likely to regard as non-conforming or outside best practice. The Board was encouraged by the continued support of its major shareholders. It welcomes engagement with them and will continue to maintain communications via one-to-one meetings as appropriate.

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.

Audit Committee

Membership and meetings

Membership of the Audit Committee is restricted to non-executive Directors and comprises Ian Dewar (as Chairman), Sir Christopher Meyer and Sir Alan Yarrow. 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 Committee met four times during the year.

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 Audit Committee also reviews whistleblowing arrangements for employees to raise concerns in confidence.

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 2020

Internal Audit

On behalf of the Board, the Audit Committee monitors the effectiveness of systems and controls. To this end, Internal Audit provides the Audit Committee and the Board with detailed independent and objective assurance on the effectiveness of governance, risk management and internal controls. Since Arbuthnot Latham, the Company's operating subsidiary, has its own Audit Committee, the role of the Group Audit Committee is mainly supervisory in relation to internal audit matters, though it receives items of material note deriving from Arbuthnot Latham's internal audits, including an assessment of culture which forms part of every internal audit.

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 provides reports on the outcomes of Internal Audit work directly to the Committee and the Committee monitors progress against actions identified in these reports.

The Committee received a self-assessment report on Internal Audit from the Head of Internal Audit in September 2020 and it is satisfied with Internal Audit arrangements during 2020.

Integrity of Financial Statements and oversight of external audit

The Committee:

- Received and agreed the Audit Plan prepared by the external auditors;
- Considered and formed a conclusion on the critical judgements underpinning the Financial Statements, as presented in papers prepared by management. In respect of all of these critical judgements, the Committee concluded that the treatment in the Financial Statements was appropriate.
- Received reports from the external auditors on the matters arising from their work, the key issues and conclusions they had reached;
- Monitored arrangements put in place to ensure all the necessary work on the Financial Statements could be undertaken remotely in light of the Government guidance to work from home;
- In addition the Committee reviewed closely the detailed work carried out by management in respect of Going Concern and Viability in light of the impact on the business of the continued pandemic.

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 loans and advances to customers

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

The charge for impaired loans and advances totalled £2.8m for the year ended 31 December 2020. The disclosures relating to impairment provisions are set out in Note 4.1(a) to the financial statements.

Property Portfolio

The Group owns three commercial office properties and four repossessed properties, two of which were taken on in the year. Of these properties, five are held as inventory, one is held for sale and one as an investment property. The properties held as inventory and for sale are held at the lower of cost and net realisable value on the basis of internal discounted cash flow models. The investment property is held at fair value on the basis of an internal 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 2020, Arbuthnot Latham's total property portfolio totalled £94.6m. 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), 19, 23 and 29 to the financial statements.

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

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

The disclosures relating to EIR are set out in Note 4.1(b) 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
In November 2020, Committee members contributed to the review of the Committee's effectiveness as part of its evaluation by the Board. There were no issues or concerns raised by them in regard to discharging their responsibilities.

On behalf of the Board, the Committee reviewed the financial statements as a whole in order to assess whether they were fair, balanced and understandable. The Committee discussed and challenged the balance and fairness of the overall report with the 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. 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 succession planning, taking into account the skills and expertise that will be needed on and beneficial to the Board in the future.

Activity in 2020
The Committee met once during the year when it was involved in the identification, assessment and appointment of an additional independent non-executive director of Arbuthnot Latham to serve as Chairman of its Audit Committee.

The Committee 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 to the Board has been a real benefit 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. The Executive had performed notably well in the context of COVID-19 and, as noted, in the responses to the Board Effectiveness Questionnaire, Non-Executives had provided appropriate challenge and guidance.

In terms of the performance of the Company's Board generally, the Committee noted that it takes into account the provisions of the Board Diversity Policy and the Board Suitability Policy. It reviewed the summary of training carried out by each Director during 2020 and noted that, notwithstanding COVID-19, Directors had been able to carry out sufficient training.

In November 2020, the Committee confirmed that the Board's 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 37. 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 Prudential Regulation Authority's Remuneration Code applicable to the Company. The Remuneration Report on pages 37 and 38 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 2020

The 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. It further agreed, in the context of the AGM voting and the subsequent shareholder consultation thereon, that it would be appropriate to hold a review of the Committee's constitution and effectiveness on an annual basis.

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. It normally meets four times a year. 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.

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. 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 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 2020
The Remuneration Committee met once during the year, undertaking its regular activities including reviewing the operation of the Remuneration Policy, having regard to the performance of the Company during the year.

In relation to executive directors' pay reviews, the Committee approved a proposal that variable remuneration would not be awarded to them in 2020, due to the decision to protect profitability during the pandemic, in line with the approach for all staff. As regards their salaries, these were unchanged in 2020, following consideration of comparable market rates and the low rate of increase in annual inflation. No decision was taken by the Committee on salary increases for 2021, but any pay rises for all staff in the current year will only be awarded where an individual's pay is out of line with the market rate for the role or due to career promotion to new and more responsible jobs.

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 2019 and in respect of the remaining 50% on or after 15 June 2021 when a cash payment would be made equal to any increase in market value.

Under this Scheme, Mr. Salmon and Mr. Cobb were granted a phantom option to acquire 200,000 and 100,000 ordinary 1p shares respectively in the Company. The fair value of these options at the grant date was £1m. The second tranche of the share options will remain unvested as the performance conditions have not been met, due to the non payment of dividends. The first tranche of share options remained outstanding at 31 December 2020. The fair value of the options as at 31 December 2020 was £0.1m (2019: £0.3m).

Directors' Emoluments

	2020 £000	2019 £000
Fees (including benefits in kind)	265	240
Salary payments (including benefits in kind)	3,172	4,334
Pension contributions	70	70
	3,507	**4,644**

	Salary £000	Bonus £000	Benefits £000	Pension £000	Fees £000	Total 2020 £000	Total 2019 £000
Sir Henry Angest	1,200	-	81	-	-	1,281	1,293
NPG Boardman	-	-	-	-	60	60	35
JR Cobb	650	-	17	35	-	702	1,252
IA Dewar	-	-	-	-	75	75	75
Sir Christopher Meyer	-	-	-	-	60	60	60
AA Salmon	1,200	-	24	35	-	1,259	1,859
Sir Alan Yarrow	-	-	-	-	70	70	70
	3,050	**-**	**122**	**70**	**265**	**3,507**	**4,644**

Details of any shares or options held by directors are presented on page 37 and 127.

The emoluments of the Chairman were £1,281,000 (2019: £1,293,000). The emoluments of the highest paid director were £1,281,000 (2019: £1,859,000) including pension contributions of £nil (2019: £35,000).

Retirement benefits are accruing under money purchase schemes for two directors who served during 2020 (2019: 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 31st December 2020 which comprise: Consolidated Statement of Comprehensive Income; Consolidated Statement of Financial Position; Company Statement of Financial Position; Consolidated Statement of Changes in Equity; Company Statement of Changes in Equity; Consolidated Statement of Cash Flows; Company Statement of Cash Flows; and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and international accounting standards in conformity with the requirements of the Companies Act 2006.

In our opinion, the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and:

- give a true and fair view of the state of the Group’s and of the Parent Company’s affairs as at 31 December 2020 and of the Group’s loss for the year then ended; and
- have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and, as regards the Parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor’s responsibilities for the audit of the financial statements section of our report. We are independent of the 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 FRC’s 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 future financial performance;
- Evaluating management's Going Concern assessment of the Group and Parent Company;
- Evaluating stress tests applied to the main subsidiary’s liquidity and regulatory capital;
- Evaluating the Group’s Recovery and Resolution Plan which includes possible cost saving measures that could be taken in the event circumstances prevent forecast results from being achieved;
- Assessing and challenging key assumptions and mitigating actions put in place in response to COVID-19;
- Considering the consistency of the directors’ forecasts with other areas of the Financial Statements and our audit; and
- Evaluating the appropriateness of the directors’ disclosures in the Financial Statements on going concern.

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

In relation to the Group’s and the Parent Company’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.

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

Key audit matters

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

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

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

Loan Loss Provisions

Group - £4.6m; 2019: £4.8m (See note 22)

Risk

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

The most significant risk relates to loans and advances to customers where the bank is exposed to secured and unsecured lending to private and commercial customers.

As set out in note 3.4, ECL is measured based on a three-stage model. For loans with no signification deterioration in credit risk since origination (stage 1), ECL is determined through the use of a model.

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

For loans that have experienced a significant deterioration in credit risk since origination (stage 2) or have defaulted (stage 3) the ECL is determined based on probability of default ('PD') and the present value of future cash flows arising primarily from the sale or repossession of security which determines the loss given default ('LGD').

The most significant areas where we identified greater levels of management judgement and estimate are:

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

Our response

Planning

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

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

Controls testing

We have tested the design and operating effectiveness of the key controls operating across the Group in relation to credit processes (including underwriting, monitoring, collections and provisioning). This also included attendance at a Potential & Problem Debt Management Committee meeting, missed payments monitoring, credit reviews at origination and annual review, watch list movements through the year, and revaluation controls.

Test of detail

We have reviewed credit files in order to verify data used in the determination of PD and LGD assumptions. This was performed for all loans in Stage 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).

Expected credit loss models

We have assessed the models used by management to determine expected loss calculations. We have:

- considered the methodology used by management;
- tested the data inputs used in applying the methodology adopted and assessed for reasonableness;
- tested the completeness of the loan portfolio applied to the model;
- tested the process in place to allocate loans to the respective risk categories (staging);
- reviewed the key assumptions applied to determine probability of default and loss given default;
- we have included in-house credit risk specialists and economists in the assessment of model approach and assumptions, including macro-economic scenarios and the impact on house prices.

Disclosures

We evaluated whether the disclosures are a clear, true and fair reflection of managements approach to classification and measurement under IFRS 9 and key assumptions made.

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

Revenue recognition – effective interest rate

Group - £75.1m; 2019: £76.9m (See note 8)

Risk
The financial reporting fraud risk over revenue recognition specifically relates to income recognised on an effect interest method (EIR) on Loans and Advances to Customers including originated and acquired loan portfolios.

The EIR takes into account cash flows that are an integral part of the instrument's yield including: premiums, discounts and acquisition costs which are spread over the expected life of the loan.

Models used to calculate EIR are prepared manually and therefore have an increased risk of error or fraud.

Judgement is required to determine whether fees are recognised as EIR or recognised when a service has been performed.

The most significant areas where we identified greater levels of management estimation are:
- unwinding of the discount on acquired portfolios where estimations are made with respect to future cash flows;
- assumptions over the timing of cash flows used in revenue recognition of originated exposures.

Our response

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

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

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

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

Originated portfolios
We confirmed that the methodology applied in the EIR model was consistent with the prior year.

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

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

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

Property valuations and classification

Group:
Inventory: £84.7m (2019: £75.2m) (note 23)
Investment properties: £6.6m (2019: £6.8m) (note 29)
Assets classified as held for sale: £3.3m (2019: £7.6m) (note 19)

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

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

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

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

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

Our response

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

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

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

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

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

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

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

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

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

Overall materiality	Group: £547,000 (2019: £1,042,000) Parent: £273,500 (2019: £800,000)
How we determined it	Based on 0.5% of net assets. However, this has been capped at materiality levels applied to the main component to recognise its relative significance in the Group. Parent Company materiality has also been reduced to aggregate component materiality below permitted thresholds.
Rationale for benchmark applied	We have selected a net assets benchmark because the principal activity of the Group and Parent Company is the investment of Capital.
Performance materiality	Group: £328,000 Parent Company: £164,000
Reporting threshold	We agreed with the Directors that we would report to them misstatements identified during our audit above £16,000 (Group) and £8,000 (Parent Company) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

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

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

Other information

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

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

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken during the audit:

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

Matters on which we are required to report by exception

In light of the knowledge and understanding of the Group and the Parent Company and its environment obtained during the audit, we have not identified material misstatements in the Strategic Report or the Directors' Report.
We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

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

We are required 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 compliance with the provisions of the UK Corporate Governance Statement specified for our review.

Corporate Governance Statement

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 as set out on page 24;
- directors' explanation as to its assessment of the entity's prospects, the period this assessment covers and why they period is appropriate as set out on page 24.
- directors' statement on fair, balanced and understandable as set out on page 28;
- board's confirmation that it has carried out a robust assessment of the emerging and principal risks as set out on page 24;
- the section of the annual report that describes the review of effectiveness of risk management and internal control systems as set out on page 32; and;
- the section describing the work of the audit committee as set out on page 32.

Responsibilities of Directors

As explained more fully in the Directors' Responsibilities statement set out on page 27, 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.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

Based on our understanding of the Group and the Parent Company and its industry, we identified that the principal risks of non-compliance relate to regulations and supervisory requirements of the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA), laws and regulations, such as the Companies Act 2006, that have a direct impact on the preparation of the financial statements, and UK tax legislation.

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

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

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

- making enquiries of the Directors and management on whether they had knowledge of any actual, suspected or alleged fraud, including independent inspection of complaints logs;
- inspection of the Parent Company's and Group's regulatory and legal correspondence and review of minutes of Directors' meetings in the year;
- testing effectiveness of controls designed to prevent or detect fraudulent activity;
- comparing certain balances to external sources;
- being sceptical to the potential of management bias in key judgements and assumptions;
- introducing elements of unpredictability in to our audit testing; and
- addressing the risks of fraud through management override of controls by performing journal entry testing.

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

The risks of material misstatement that had the greatest effect on our audit, including fraud, are discussed under "key audit matters" within this report.
A further description of our responsibilities is available on the Financial Reporting Council's website at
www.frc.org.uk/auditorsresponsibilities

Other matters which we are required to address

Following the recommendation of the audit committee, we were appointed by the Board of Directors on 6 December 2019 to audit the financial statements for the year ending 31 December 2019 and subsequent financial periods. The period of total uninterrupted engagement is 2 years, covering the years ending 31 December 2019 to 31 December 2020.

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

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

Use of the audit report

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

Greg Simpson
(Senior Statutory Auditor) for and on behalf of Mazars LLP
Chartered Accountants and Statutory Auditor
Tower Bridge House, St Katharine's Way
London, E1W 1DD
24 March 2021

Company statement of financial position

	Note	At 31 December 2020 £000	2019 £000
ASSETS			
Loans and advances to banks	17	15,162	15,316
Debt securities at amortised cost	18	24,308	24,239
Financial investments	24	14,171	25,913
Current tax asset		438	-
Deferred tax asset	25	395	391
Intangible assets	26	4	5
Property, plant and equipment	27	161	184
Other assets	23	103	115
Interests in subsidiaries	42	133,904	134,004
Total assets		**188,646**	**200,167**
EQUITY AND LIABILITIES			
Equity			
Share capital	36	154	154
Other reserves	37	(13,444)	(1,618)
Retained earnings	37	160,721	161,556
Total equity		**147,431**	**160,092**
LIABILITIES			
Current tax liability		-	175
Other liabilities	32	3,559	3,063
Debt securities in issue	34	37,656	36,837
Total liabilities		**41,215**	**40,075**
Total equity and liabilities		**188,646**	**200,167**

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

	Share capital	Capital redemption reserve	Fair value reserve	Treasury shares	Retained earnings	Total
	Attributable to equity holders of the Group					
	£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 relate to movement in STB share price. There is currently no tax implications to the movement as the shareholding still qualifies for significant shareholding exemption.

	Share capital	Capital redemption reserve	Fair value reserve	Treasury shares	Retained earnings	Total
	Attributable to equity holders of the Group					
	£000	£000	£000	£000	£000	£000
Balance at 31 December 2018	**153**	**20**	**(12,169)**	**(1,131)**	**209,083**	**195,956**
Total comprehensive income for the period						
Profit for 2019	-	-	-	-	6,176	6,176
Other comprehensive income, net of tax						
Changes in fair value of equity investments at fair value through other comprehensive income*	-	-	10,707	-	-	10,707
Tax on other comprehensive income	-	-	(77)	-	-	(77)
Total other comprehensive income	**-**	**-**	**10,630**	**-**	**-**	**10,630**
Total comprehensive income for the period	**-**	**-**	**10,630**	**-**	**6,176**	**16,806**
Transactions with owners, recorded directly in equity						
Contributions by and distributions to owners						
Unwind Employee Trust	-	-	-	-	1,083	1,083
Sale of Secure Trust Bank shares	-	-	1,744	-	(1,744)	-
Issue non-voting shares	1	(1)	-	-	(44)	(44)
Purchase of own shares	-	-	-	(83)	-	(83)
Final dividend relating to 2018	-	-	-	-	(2,978)	(2,978)
Interim dividend relating to 2019	-	-	-	-	(2,405)	(2,405)
Total contributions by and distributions to owners	**1**	**(1)**	**1,744**	**(83)**	**(6,088)**	**(4,427)**
Balance at 31 December 2019	**154**	**19**	**205**	**(1,214)**	**209,171**	**208,335**

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

Company statement of changes in equity

	Share capital	Capital redemption reserve	Fair value reserve	Treasury shares	Retained earnings	Total
	Attributable to equity holders of the Company					
	£000	£000	£000	£000	£000	£000
Balance at 1 January 2019	**153**	**20**	**(7,022)**	**(1,131)**	**162,729**	**154,749**
Total comprehensive income for the period						
Profit for 2019	-	-	-	-	3,170	3,170
Other comprehensive income, net of income tax	-	-	-	-	-	-
Changes in fair value of equity investments at fair value through other comprehensive income*	-	-	6,599	-	-	6,599
Total other comprehensive income	-	-	**6,599**	-	-	**6,599**
Total comprehensive income for the period	-	-	**6,599**	-	**3,170**	**9,769**
Transactions with owners, recorded directly in equity						
Contributions by and distributions to owners						
Unwind Employee Trust	-	-	-	-	1,083	1,083
Issue of non-voting shares	1	(1)	-	-	(43)	(43)
Purchase of own shares	-	-	-	(83)	-	(83)
Final dividend relating to 2018	-	-	-	-	(2,978)	(2,978)
Interim dividend relating to 2019	-	-	-	-	(2,405)	(2,405)
Total contributions by and distributions to owners	**1**	**(1)**	-	**(83)**	**(4,343)**	**(4,426)**
Balance at 31 December 2019	**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**

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

Consolidated statement of cash flows

	Note	Year ended 31 December 2020 £000	Year ended 31 December 2019 £000
Cash flows from operating activities			
Interest received		99,308	63,500
Interest paid		(19,264)	(15,088)
Fees and commissions received		14,685	13,757
Other income		678	5,599
Cash payments to employees and suppliers		(88,564)	(63,887)
Taxation paid		(237)	(841)
Cash flows from operating profits before changes in operating assets and liabilities		6,606	3,040
Changes in operating assets and liabilities:			
- net decrease in derivative financial instruments		291	173
- net decrease/(increase) in loans and advances to customers		11,366	(372,612)
- net increase in other assets		(5,513)	(10,123)
- net increase in amounts due to customers		280,304	370,617
- net decrease in other liabilities		(5,894)	(5,049)
Net cash inflow/(outflow) from operating activities		**287,160**	**(13,954)**
Cash flows from investing activities			
Acquisition of financial investments		(420)	(182)
Disposal of financial investments		-	15,330
Purchase of computer software	26	(6,392)	(5,552)
Purchase of property, plant and equipment	27	(683)	(1,950)
Proceeds from sale of property, plant and equipment	27	23	-
Purchase of investment property	29	-	(2,901)
Purchase of debt securities		(695,614)	(815,223)
Proceeds from redemption of debt securities		791,242	719,737
Net cash inflow/(outflow) from investing activities		**88,156**	**(90,741)**
Cash flows from financing activities			
Purchase of treasury shares		(85)	-
Issue subordinated debt		-	25,000
Decrease in borrowings		(331)	(2,254)
Dividends paid		-	(5,383)
Net cash (outflow)/inflow from financing activities		**(416)**	**17,363**
Net increase/(decrease) in cash and cash equivalents		374,900	(87,332)
Cash and cash equivalents at 1 January		372,166	459,498
Cash and cash equivalents at 31 December	40	**747,066**	**372,166**

Company statement of cash flows

	Note	Year ended 31 December 2020 £000	Year ended 31 December 2019 £000
Cash flows from operating activities			
Dividends received from subsidiaries		385	3,766
Interest received		51	65
Interest paid		(2,664)	(1,829)
Other income		9,537	10,605
Cash payments to employees and suppliers		(7,965)	(8,129)
Taxation paid		(21)	(370)
Cash flows from operating (loss)/profit before changes in operating assets and liabilities		(677)	4,108
Changes in operating assets and liabilities:			
- net decrease/(increase) in group company balances		2,087	(742)
- net decrease/(increase) in other assets		12	(73)
- net (decrease)/increase in other liabilities		(1,591)	481
Net cash (outflow)/inflow from operating activities		**(169)**	**3,774**
Cash flows from investing activities			
Receipt on dissolution of insurance cell	42	100	-
Issue of subordinated debt to Arbuthnot Latham		-	(25,000)
Net cash inflow from investing activities		**100**	**(25,000)**
Cash flows from financing activities			
Purchase of treasury shares		(85)	(83)
Issue subordinated debt		-	25,000
Dividends paid		-	(5,383)
Net cash used in financing activities		**(85)**	**19,534**
Net decrease in cash and cash equivalents		(154)	(1,692)
Cash and cash equivalents at 1 January		15,316	17,008
Cash and cash equivalents at 31 December	40	**15,162**	**15,316**

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 2020 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 24 March 2021.

(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 Group reported a loss before tax of £1.1m in 2020, however, this result included a number of short-term items as highlighted in the Strategic Report. The Directors expect that the Group will return to profitability in 2021, with strong pipeline business as a result of re-instating credit appetite and the acquisition of the Asset Alliance Group contributing towards future earnings. The Audit Committee reviewed management’s assessment, which incorporated analysis of the ICAAP and ILAAP approved by the Board of AL and of relevant metrics, focusing on liquidity, capital, and the stress scenarios in the light of the economic impact of the pandemic. It is satisfied that the going concern basis and assessment of the Group’s longer-term viability is appropriate. The financial statements are therefore prepared on the going concern basis.

(f) Accounting developments

The accounting policies adopted are consistent with those of the previous financial year, except for the following:

COVID-19 amendments on lease modifications – Amendments to IFRS 16 – Leases (IFRS 16)

The IASB published 'amendments to IFRS 16 covering COVID-19-Related Rent Concessions’. These provide lessees with an exemption from assessing whether a COVID-19 related rent concession is a lease modification. The amendment is effective for annual reporting periods beginning on or after 1 June 2020. The effect of the amendment on the Group’s financial statements is immaterial and will be adopted from 1 January 2021. There will be no adjustment to retained earnings as of 1 January 2020 since the amendments only apply to rent concessions granted in 2020.

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

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

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

There is a rebuttable presumption that all equity investments are 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 liabilities
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 with a period of good conduct 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.
COVID-19 has already had a significant impact on the forward-looking economic information used by the IFRS 9 models in calculating ECL. While the central scenario used previously implied the most significant macroeconomic factor related to property prices, the central scenarios assumed now forecast deterioration in conditions on a magnitude typically observed for severe stresses but with the deterioration and subsequent recovery compressed into a much shorter time frame than typical economic cycles.

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

The Group uses a bespoke macroeconomic models to determine the most significant factors which may influence the likelihood of an exposure defaulting in the future. At present, the most significant macroeconomic factor relates to property prices. The Group currently consider five probability weighted scenarios. The model adopts five probability weighted scenarios no change, severe decline, moderate decline, decline and growth. The Group has derived an approach for factoring probability weighted macroeconomic forecasts into ECL calculations, adjusting PD and LGD estimates.

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

Government guarantees
During March and April 2020, the UK government launched a series of temporary schemes designed to support businesses deal with the impact of COVID-19. The BBLs, CBILs and CLBILs lending products are originated by the Group but are covered by government guarantees. These are to be set against the outstanding balance of a defaulted facility after the proceeds of the business assets have

been applied. The government guarantee is 80% for CBILs and CLBILs and 100% for BBLs. Arbuthnot Latham recognises lower LGDs for these lending products as a result, with 0% applied to the government guaranteed part of the exposure.

3.5. Impairment of non-financial assets

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets, are 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 3.15(a).

3.6. Fiduciary activities

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

3.7. New standards and interpretations not yet adopted

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

4. Critical accounting estimates and judgements in applying accounting policies

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

4.1 Estimation uncertainty

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

The Group reviews its loan portfolios and debt security investments to assess impairment at least on a quarterly basis. The basis for evaluating impairment losses is described in note 10. The measurement of ECL required by IFRS 9, necessitates a number of significant judgements. Specifically judgements and estimation uncertainties relate to assessment of whether credit risk on the financial asset has increased significantly since initial recognition, incorporation of forward-looking information ("FLI") in the measurement of ECLs and key assumptions used in estimating recoverable cash flows. These estimates are driven by a number of factors that are subject to change which may result in different levels of ECL allowances.

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

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

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

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

If time to collect increased by six months across all client exposures, this would lead to a negative £0.7m (2019: negative £0.6m) impact through the Profit or Loss. A six month reduction in time to collect would lead to a £0.3m favourable (2019: £0.1m favourable) impact on Profit or Loss.

If the collateral valuations increased by 10% across client exposures, this would lead to a positive £1m (2019: positive £1.4m) impact through Profit or Loss. If the collateral valuations decreased by 10% across all client exposures, this would lead to a £1.8m adverse (2019: £2.1m adverse) impact on Profit or Loss.

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

The Group considered the impact of various assumptions on the calculation of ECL (changes in GDP, unemployment rates, inflation, exchange rates, equity prices, wages and collateral values/property prices) and concluded that only collateral values/property prices have a material impact on ECL.

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

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

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

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

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

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

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

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

	Arbuthnot Latham		Renaissance Asset Finance	
	Economic scenarios as at			
	2020	2019	2020	2019
	£000	£000	£000	£000
ECL Provision				
Stage 1	427	259	249	136
Stage 2	180	40	353	123
Stage 3	3,025	2,943	345	335
At 31 December 2020	3,632	3,242	947	594

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

	Arbuthnot Latham		Renaissance Asset Finance	
	2020	2019	2020	2019
	£m	£m	£m	£m
Impact of 100% scenario probability				
Severe Decline	(46.4)	(23.9)	(4.6)	(2.1)
Moderate Decline	(5.1)	(5.9)	(0.9)	(0.3)
Decline	0.3	-	0.1	(0.1)
No Change	0.4	0.3	0.4	(0.1)
Growth	0.5	0.5	0.4	0.1

(b) Effective Interest Rate
Acquired loan books are initially recognised at fair value. Subsequently, they are measured under the effective interest rate method. Management review the expected cash flows against actual cash flows to ensure future assumptions on customer behaviour and future cash flows remain valid. If the estimates of future cash flows are revised, the gross carrying value of the financial asset is recalculated as the present value of the estimated future contractual cash flows discounted at the original effective interest rate, or in the case of the acquired books the credit-adjusted effective interest rate. The adjustment to the carrying value of the loan book is recognised in the Statement of Comprehensive Income.

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

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

If customer loans repaid 6 months earlier than anticipated on the originated loan book, interest income would increase by £0.5m (2019: £0.4m), due to acceleration of fee income.

In 2020 the Group recognised £0.1m reversal of (2019: £0.4m additional) 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 to be reasonably possible.

If the acquired loan books were modelled to accelerate cash flows by 6 months, it would increase interest income in 2020 by £0.2m (2019: £0.3m) while a 10% increase in principal repayments will increase interest income in 2020 by £0.5m (2019: £0.8m) through a cash flow reset adjustment.

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

Following the uncertainty due to Brexit, which had the effect of reducing the activity in the property market in 2019, the impact of COVID-19 combined with the ongoing complexities of Brexit had the impact of further significantly reducing the activity in the property market, particularly during the first half of 2020. There were signs of the level of activity increasing in the second half of 2020, though well below the overall levels of 2019. This has in turn resulted in less market evidence being available for Management in making its judgement on the key assumptions of property yield and market rent. The Group currently owns one (2019: one) investment property, as outlined in note 29.

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

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

Crescent Office Park in Bath with value of £6.6m (2019: £6.8m)
In December 2017, the office building was acquired with the intention to be included within a new property fund initiative that the Group had planned to start-up. The property had tenants in situ with the Fund recognising rental income.

The property was initially recognised as held for sale under IFRS 5. In 2018 the launch of the property fund was placed on hold and as a result it was reclassified as an investment property as the property no longer met the IFRS 5 criteria. The property remained occupied as at 31 December 2020 with the Group receiving rental income.

In accordance with IAS 40, the property is recognised at fair value, with its carrying value at year end of £6.6m equal to its fair value. A fair value loss of £0.2m was recognised during the year.

The valuation of the property has the following key 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%	0.3	5.3%
- Yield 0.25% higher	6.75%	(0.3)	(3.9%)
Model Future Rent Increases (Every 5 Years)	**4.00%**		
- Positive +25%	5.00%	0.2	3.7%
- Negative -25%	3.00%	(0.2)	(2.4%)

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

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

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

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

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

Management have assessed that should the net realisable value less cost to sell of each of the combined property inventory reduce by 5% this would impact profit or loss by £1.75m (or 2.1% of cost) and a reduction of 10% would impact profit or loss by £6.1m (or 7.2% of cost).

5. Maturity analysis of assets and liabilities

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

At 31 December 2020	Due within one year £000	Due after more than one year £000	Total £000
ASSETS			
Cash and balances at central banks	636,799	-	636,799
Loans and advances to banks	110,267	-	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 Group as at 31 December 2019:

At 31 December 2019	Due within one year £000	Due after more than one year £000	Total £000
ASSETS			
Cash and balances at central banks	325,908	-	325,908
Loans and advances to banks	46,258	-	46,258
Debt securities at amortised cost	337,807	105,153	442,960
Assets classified as held for sale	7,617	-	7,617
Derivative financial instruments	105	1,699	1,804
Loans and advances to customers	659,176	939,877	1,599,053
Other assets	86,262	181	86,443
Financial investments	3,203	27,716	30,919
Deferred tax asset	-	1,815	1,815
Intangible assets	7,037	13,045	20,082
Property, plant and equipment	1,458	4,355	5,813
Right-of-use assets	2,757	17,187	19,944
Investment property	-	6,763	6,763
	1,477,588	**1,117,791**	**2,595,379**
LIABILITIES			
Deposits from banks	5,421	225,000	230,421
Derivative financial instruments	101	218	319
Deposits from customers	1,873,326	211,577	2,084,903
Current tax liability	633	-	633
Other liabilities	13,500	-	13,500
Lease Liabilities	63	20,368	20,431
Debt securities in issue	-	36,837	36,837
	1,893,044	**494,000**	**2,387,044**

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**

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

At 31 December 2019	Due within one year £000	Due after more than one year £000	Total £000
ASSETS			
Loans and advances to banks	6	-	6
Loans and advances to banks - due from subsidiary undertakings	15,310	-	15,310
Debt securities at amortised cost	-	24,239	24,239
Financial investments	-	25,913	25,913
Deferred tax asset	-	391	391
Intangible assets	-	5	5
Property, plant and equipment	25	159	184
Other assets	115	-	115
Interests in subsidiaries	-	134,004	134,004
	15,456	**184,711**	**200,167**
LIABILITIES			
Current tax liability	175	-	175
Other liabilities	3,063	-	3,063
Debt securities in issue	-	36,837	36,837
	3,238	**36,837**	**40,075**

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 10.

The Group's maximum exposure to credit risk (net of impairment) before collateral held or other credit enhancements is as follows:

	2020						
Group	Banking	Mortgage Portfolios	RAF	ABL	ASFL	All Other Divisions	Total
Credit risk exposures (all stage 1, unless otherwise stated)	£000	£000	£000	£000	£000	£000	£000
On-balance sheet:							
Cash and balances at central banks	-	-	-	-	-	636,631	636,631
Loans and advances to banks	-	-	-	-	-	110,267	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**

	2019						
Group	Banking	Mortgage Portfolios	RAF	ABL	ASFL	All Other Divisions	Total
Credit risk exposures (all stage 1, unless otherwise stated)	£000	£000	£000	£000	£000	£000	£000
On-balance sheet:							
Cash and balances at central banks	-	-	-	-	-	325,800	325,800
Loans and advances to banks	-	-	-	-	-	46,258	46,258
Debt securities at amortised cost	-	-	-	-	-	442,960	442,960
Derivative financial instruments	-	-	-	-	-	1,804	1,804
Loans and advances to customers (net of ECL)	1,095,387	306,044	102,888	75,871	7,352	11,511	1,599,053
Stage 1	1,003,738	306,044	100,981	75,871	7,352	11,511	1,505,497
Stage 2	65,570	-	755	-	-	-	66,325
Stage 3	26,079	-	1,152	-	-	-	27,231
Other assets	-	-	-	-	-	4,625	4,625
Financial investments	-	-	-	-	-	30,919	30,919
Off-balance sheet:							
Guarantees	6,401	-	-	-	-	-	6,401
Loan commitments and other credit related liabilities	135,598	-	-	53,494	972	-	190,064
At 31 December	**1,237,386**	**306,044**	**102,888**	**129,365**	**8,324**	**863,877**	**2,647,884**

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

	2020	2019
	£000	£000
Credit risk exposures relating to on-balance sheet assets are as follows:		
Loans and advances to banks	15,162	15,316
Debt securities at amortised cost	24,308	24,239
Financial investments	14,171	25,913
At 31 December	**53,641**	**65,468**

The above tables represent the maximum credit risk exposure (net of impairment) to the Group and Company at 31 December 2020 and 2019 without taking account of any collateral held or other credit enhancements attached. For financial assets, the balances are based on gross carrying amounts as reported in the Statement of Financial Position. For guarantees and loan commitments, the amounts in the table represent the amounts for which the group is contractually committed.

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 the loan to values of the exposures secured by property for the Group:

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

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

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

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

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

Renegotiated loans and forbearance

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

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

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

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

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

For financial assets modified as part of the Group's forbearance policy, the estimate of PD reflects whether the modification has improved or restored the Group's ability to collect interest and principal and the Group's previous experience of similar forbearance action. As part of this process, the Group evaluates the borrower's payment performance against the modified contractual terms and considers various behavioural indicators. Whilst the customer is under forbearance, the customer will be classified as Stage 2 and 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 period of good account conduct and the improvement to the client's situation to the extent the credit risk has receded sufficiently and full repayment of the loan, without recourse to the collateral, is likely.

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

As at 31 December 2020, loans for which forbearance measures were in place totalled 5.0% (2019: 3.1%) of total value of loans to customers for the Group. These are set out in the following table:

	2020							
	Stage 1		Stage 2		Stage 3		Total	
	Number	Loan Balance £000	Number	Loan Balance £000	Number	Loan Balance £000	Number	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**

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

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		Loan Commitments	
	2020	2019	2020	2019
	£000	£000	£000	£000
Concentration by product				
Asset based lending*	87,331	75,871	155,300	53,494
Asset finance	87,529	103,193	155	972
Cash collateralised	13,905	11,526	5,952	1,781
Commercial lending	255,891	269,590	17,484	3,941
Investment portfolio secured	29,051	40,127	781	2,984
Residential mortgages	1,056,022	1,035,395	110,938	93,749
Mixed collateral*	30,442	45,432	4,705	17,282
Unsecured**	27,678	17,919	13,112	15,861
At 31 December	**1,587,849**	**1,599,053**	**308,427**	**190,064**
Concentration by location				
East Anglia	44,304	39,997	2,925	10
London	573,188	554,183	89,796	77,960
Midlands	102,504	108,635	8,117	4,392
North East	37,499	53,294	1,170	641
North West	111,793	111,500	4,017	1,826
Northern Ireland	9,222	9,061	-	-
Scotland	25,611	28,197	50	1,064
South East	232,311	224,915	7,370	7,188
South West	171,581	169,343	14,130	4,513
Wales	17,403	18,493	848	98
Overseas	1,000	11,150	-	-
Non-property collateral	261,433	270,285	180,004	92,372
At 31 December	**1,587,849**	**1,599,053**	**308,427**	**190,064**

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

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

(b) Operational risk (unaudited)

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

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

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

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

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

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

(c) Macroeconomic and competitive environment

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

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

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

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

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

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

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

- Increased credit risk as borrowers are unable to continue to meet their interest obligations as they fall due. It is also currently unclear precisely how the withdrawal of the Government's announced package of measures will affect this clear risk.
- The uncertainty in the economy could result in a significant fall in the collateral values of our security held against the loans. Valuations are likely to vary significantly due to the inherent uncertainty. However the average loan to value of the property backed lending book is 53.4%, so to have any material impact; this fall in collateral would have to be severe and prolonged.
- A prolonged reduction in business activity will affect the Bank's ability to generate new business opportunities and it is likely that repayments in the lending portfolio will be greater than new originations, which could lead to an overall fall in the Group's lending balances and an associated fall in revenue.
- The economic shock could lead to a fall in valuations in the Group's investment properties and the properties held in inventory.
- As the revenues earned by the Group's Investment Management business are directly linked to the balances managed on behalf of our customers, any reduction in these values due to market movements will have a corresponding impact on these revenues.

Brexit

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

Climate change

Climate change presents financial and reputational risks for the banking industry. The Board consider Climate change a material risk as per the Board approved risk appetite framework which provides a structured approach to risk taking within agreed boundaries. The assessment is proportional at present but will develop over time as the Group generates further resources and industry consensus emerges. The assessment is maintained by the Chief Risk officer and has been informed by the ICAAP review and 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 24, a stress test scenario of a 10% (2019: 10%) decline in market prices, would result in a £14k (2019: £16k) decrease in the Group's income and a decrease of £1.8m (2019: £3.1m) 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 24, a stress test scenario of a 10% (2019: 10%) decline in market prices, would result in a £nil (2019: £nil) decrease in the Company's income and a decrease of £1.4m (2019: £2.6m) 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 2020. Included in the table below are the Group's assets and liabilities at carrying amounts, categorised by currency.

At 31 December 2020	GBP (£) £000	USD ($) £000	Euro (€) £000	Other £000	Total £000
ASSETS					
Cash and balances at central banks	636,688	41	64	6	636,799
Loans and advances to banks	46,152	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**

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

At 31 December 2019	GBP (£) £000	USD ($) £000	Euro (€) £000	Other £000	Total £000
ASSETS					
Cash and balances at central banks	325,844	20	41	3	325,908
Loans and advances to banks	5,364	10,028	18,892	11,974	46,258
Debt securities at amortised cost	336,079	106,881	-	-	442,960
Derivative financial instruments	1,713	1	3	87	1,804
Loans and advances to customers	1,563,536	7,957	27,574	(14)	1,599,053
Other assets	4,625	-	-	-	4,625
Financial investments	29,113	1,637	169	-	30,919
	2,266,274	**126,524**	**46,679**	**12,050**	**2,451,527**
LIABILITIES					
Deposits from banks	230,421	-	-	-	230,421
Derivative financial instruments	233	-	2	84	319
Deposits from customers	1,897,857	126,220	49,049	11,777	2,084,903
Other liabilities	2,023	-	-	-	2,023
Debt securities in issue	24,239	-	12,598	-	36,837
	2,154,773	**126,220**	**61,649**	**11,861**	**2,354,503**
Net on-balance sheet position	**111,501**	**304**	**(14,970)**	**189**	**97,024**
Credit commitments	**190,064**	**-**	**-**	**-**	**190,064**

Derivative financial instruments (see note 20) are in place to mitigate foreign currency risk on net exposures for each currency. A 10% strengthening of the pound against the US dollar would lead to a £11k increase (2019: £30k decrease) 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 £3.3m of properties classified as assets held for sale (2019: £7.6m) and £12.3m classified as inventory (2019: £7.6m). These properties are located in the EU and relate to Euro denominated loans where the properties were repossessed and are either being held for sale or being developed with a view to sell. Including these Euro assets, the net Euro exposure is positive £125k (2019: £431k).

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 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**

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

At 31 December 2019	GBP (£) £000	Euro (€) £000	Total £000
ASSETS			
Loans and advances to banks	2,414	12,902	15,316
Financial investments	24,239	-	24,239
Other assets	25,913	-	25,913
	52,566	**12,902**	**65,468**
LIABILITIES			
Other liabilities	1,113	-	1,113
Debt securities in issue	24,239	12,598	36,837
	25,352	**12,598**	**37,950**
Net on-balance sheet position	**27,214**	**304**	**27,518**

A 10% strengthening of the pound against the Euro would lead to £31k (2019: £11k) decrease in the Company profits and equity, conversely a 10% weakening of the pound against the Euro would lead to a £37k (2019: £13k) 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 capped at negative 0.1%. The current position of the balance sheet is such that it results in a favourable impact on the economic value of equity of £2.4m (2019: £3.1m) for a positive 200bps shift and an adverse impact of £0.1m (2019: £1.2m) for a negative 200bps movement capped at negative 0.1%. The Company has no fixed rate exposures, but an upward change of 50bps on variable rates would increase pre-tax profits and equity by £8k (2019: increase pre-tax profits and equity by £13k), while a downward change of 50bps (capped at 10bps) would 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 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.

Group As at 31 December 2019	Within 3 months £000	More than 3 months but less than 6 months £000	More than 6 months but less than 1 year £000	More than 1 year but less than 5 years £000	More than 5 years £000	Non interest bearing £000	Total £000
ASSETS							
Cash and balances at central banks	325,908	-	-	-	-	-	325,908
Loans and advances to banks	45,836	188	234	-	-	-	46,258
Debt securities held-to-maturity	287,608	151,555	3,797	-	-	-	442,960
Derivative financial instruments	105	-	-	1,699	-	-	1,804
Loans and advances to customers	1,351,549	11,101	25,963	209,811	629	-	1,599,053
Other assets	-	-	-	-	-	148,477	148,477
Financial investments	-	-	-	-	-	30,919	30,919
	2,011,006	**162,844**	**29,994**	**211,510**	**629**	**179,396**	**2,595,379**
LIABILITIES							
Deposits from banks	230,421	-	-	-	-	-	230,421
Derivative financial instruments	319	-	-	-	-	-	319
Deposits from customers	1,403,728	233,716	211,956	235,503	-	-	2,084,903
Other liabilities	-	-	-	-	-	34,564	34,564
Debt securities in issue	36,837	-	-	-	-	-	36,837
Equity	-	-	-	-	-	208,335	208,335
	1,671,305	**233,716**	**211,956**	**235,503**	**-**	**242,899**	**2,595,379**
Impact of derivative instruments	25,531	-	-	(25,531)	-	-	
Interest rate sensitivity gap	**365,232**	**(70,872)**	**(181,962)**	**(49,524)**	**629**	**(63,503)**	
Cumulative gap	**365,232**	**294,360**	**112,398**	**62,874**	**63,503**	**-**	

* 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							
Debt securities at amortised cost	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**	**-**	

* 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 2019	Within 3 months £000	More than 3 months but less than 6 months £000	More than 6 months but less than 1 year £000	More than 1 year but less than 5 years £000	More than 5 years £000	Non interest bearing £000	Total £000
ASSETS							
Derivative financial instruments	24,239	-	-	-	-	-	24,239
Loans and advances to banks	15,296	-	-	-	-	20	15,316
Other assets*	-	-	-	-	-	134,699	134,699
Financial investments	-	-	-	-	-	25,913	25,913
	39,535	**-**	**-**	**-**	**-**	**160,632**	**200,167**
LIABILITIES							
Other liabilities**	-	-	-	-	-	3,238	3,238
Debt securities in issue	36,837	-	-	-	-	-	36,837
Equity	-	-	-	-	-	160,092	160,092
	36,837	**-**	**-**	**-**	**-**	**163,330**	**200,167**
Interest rate sensitivity gap	**2,698**	**-**	**-**	**-**	**-**	**(2,698)**	
Cumulative gap	**2,698**	**2,698**	**2,698**	**2,698**	**2,698**	**-**	

* 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.

(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 13%, which has accordingly improved the Bank's liquidity.

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

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

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

At 31 December 2020	Carrying amount £000	Gross nominal inflow/ (outflow) £000	Not more than 3 months £000	More than 3 months but less than 1 year £000	More than 1 year but less than 5 years £000	More than 5 years £000
Financial liability by type						
Non-derivative liabilities						
Deposits from banks	230,090	(230,090)	(230,090)	-	-	-
Deposits from customers	2,365,207	(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 nominal inflow/ (outflow) £000	Not more than 3 months £000	More than 3 months but less than 1 year £000	More than 1 year but less than 5 years £000	More than 5 years £000
Financial asset by type						
Non-derivative assets						
Cash and balances at central banks	636,799	636,799	636,799	-	-	-
Loans and advances to banks	110,267	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 tables below show the undiscounted contractual cash flows of the Group's financial liabilities and assets as at 31 December 2019:

At 31 December 2019	Carrying amount £000	Gross nominal inflow/ (outflow) £000	Not more than 3 months £000	More than 3 months but less than 1 year £000	More than 1 year but less than 5 years £000	More than 5 years £000
Financial liability by type						
Non-derivative liabilities						
Deposits from banks	230,421	(230,421)	(230,421)	-	-	-
Deposits from customers	2,084,903	(2,105,676)	(1,243,332)	(550,128)	(312,216)	-
Other liabilities	2,023	(2,023)	(2,023)	-	-	-
Debt securities in issue	36,837	(63,292)	(626)	(1,893)	(12,325)	(48,448)
Issued financial guarantee contracts	-	(6,401)	(6,401)	-	-	-
Unrecognised loan commitments	-	(190,064)	(190,064)	-	-	-
	2,354,184	**(2,597,877)**	**(1,672,867)**	**(552,021)**	**(324,541)**	**(48,448)**
Derivative liabilities						
Risk management:	319					
- Outflows	-	(319)	(319)	-	-	-
	319	**(319)**	**(319)**	**-**	**-**	**-**

At 31 December 2019	Carrying amount £000	Gross nominal inflow/ (outflow) £000	Not more than 3 months £000	More than 3 months but less than 1 year £000	More than 1 year but less than 5 years £000	More than 5 years £000
Financial asset by type						
Non-derivative assets						
Cash and balances at central banks	325,908	325,908	325,908	-	-	-
Loans and advances to banks	46,258	46,270	45,844	426	-	-
Debt securities held-to-maturity	442,960	447,424	141,897	197,811	107,716	-
Loans and advances to customers	1,599,053	1,764,491	337,215	168,224	1,117,246	141,807
Other assets	4,624	4,624	4,624	-	-	-
Financial investments	30,919	30,919	5,007	-	25,912	-
	2,449,722	**2,619,637**	**860,495**	**366,461**	**1,250,874**	**141,807**
Derivative assets						
Risk management:	1,804					
- Inflows	-	1,804	-	-	-	1,804
	1,804	**1,804**	**-**	**-**	**-**	**1,804**

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

	31 December 2020		31 December 2019	
	Amount	Fair value	Amount	Fair value
Liquidity reserves	£000	£000	£000	£000
Cash and balances at central banks	636,799	636,799	325,908	325,908
Loans and advances to banks	110,267	110,267	46,258	46,258
Debt securities at amortised cost	344,692	346,660	442,960	442,926
	1,091,758	**1,093,726**	**815,126**	**815,092**

Assets pledged as collateral or encumbered

The total financial assets recognised in the statement of financial position that had been pledged as collateral for liabilities at 31 December 2020 were £288m (2019: £259m). Assets are encumbered due to the Term Funding Scheme (note 30).

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 2020:

At 31 December 2020	Carrying amount £000	Gross nominal inflow/ (outflow) £000	Not more than 3 months £000	More than 3 months but less than 1 year £000	More than 1 year but less than 5 years £000	More than 5 years £000
Financial liability by type						
Non-derivative liabilities						
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 £000	Gross nominal inflow/ (outflow) £000	Not more than 3 months £000	More than 3 months but less than 1 year £000	More than 1 year but less than 5 years £000	More than 5 years £000
Financial asset by type						
Non-derivative assets						
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 table below analyses the contractual cash flows of the Company's financial liabilities and assets as at 31 December 2019:

At 31 December 2019	Carrying amount £000	Gross nominal inflow/ (outflow) £000	Not more than 3 months £000	More than 3 months but less than 1 year £000	More than 1 year but less than 5 years £000	More than 5 years £000
Financial liability by type						
Non-derivative liabilities						
Other liabilities	1,113	(1,113)	477	-	-	(1,590)
Debt securities in issue	36,837	(63,292)	(626)	(1,893)	(12,325)	(48,448)
	37,950	**(64,405)**	**(149)**	**(1,893)**	**(12,325)**	**(50,038)**

At 31 December 2019	Carrying amount £000	Gross nominal inflow/ (outflow) £000	Not more than 3 months £000	More than 3 months but less than 1 year £000	More than 1 year but less than 5 years £000	More than 5 years £000
Financial asset by type						
Non-derivative assets						
Loans and advances to banks	15,316	15,316	15,316	-	-	-
Debt securities at amortised cost	24,239	45,068	544	1,644	11,001	31,879
Financial investments	25,913	25,913	-	-	25,913	-
	65,468	**86,297**	**15,860**	**1,644**	**36,914**	**31,879**

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 £1,147m (2019: £1,107m). Additionally, the Group provides investment advisory services.

(f) Financial assets and liabilities

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

At 31 December 2020	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**

At 31 December 2019	FVPL £000	FVOCI £000	Amortised cost £000	Total carrying amount £000	Fair value £000
ASSETS					
Cash and balances at central banks	-	-	325,908	325,908	325,908
Loans and advances to banks	-	-	46,258	46,258	46,258
Debt securities at amortised cost	-	-	442,960	442,960	442,926
Derivative financial instruments	1,804	-	-	1,804	1,804
Loans and advances to customers	-	-	1,599,053	1,599,053	1,566,715
Other assets	-	-	4,625	4,625	4,625
Financial investments	165	30,754	-	30,919	30,919
	1,969	**30,754**	**2,418,804**	**2,451,527**	**2,419,155**
LIABILITIES					
Deposits from banks	-	-	230,421	230,421	230,421
Derivative financial instruments	319	-	-	319	319
Deposits from customers	-	-	2,084,903	2,084,903	2,084,903
Other liabilities	-	-	2,023	2,023	2,023
Debt securities in issue	-	-	36,837	36,837	36,837
	319	**-**	**2,354,184**	**2,354,503**	**2,354,503**

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

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

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

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

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:

At 31 December 2020	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
ASSETS				
Derivative financial instruments	-	1,843	-	1,843
Financial investments	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**

At 31 December 2019	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
ASSETS				
Derivative financial instruments	-	1,804	-	1,804
Financial investments	29,117	-	1,802	30,919
Investment property	-	-	6,763	6,763
	29,117	**1,804**	**8,565**	**39,486**
LIABILITIES				
Derivative financial instruments	-	319	-	319
	-	**319**	**-**	**319**

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

The following table reconciles the movement in level 3 financial instruments measured at fair value during the year:

Movement in level 3	2020 £000	2019 £000
At 1 January	8,565	68,209
Consideration received	419	3,083
Transfer to inventory	-	(63,219)
Movements recognised in Other Comprehensive Income	366	502
Movements recognised in the Income Statement	(19)	(10)
At 31 December	**9,331**	**8,565**

Secure Trust bank investment
The Group currently holds equity shares in Secure Trust Bank plc, valued at £15.9m (2019: £29.1m). The shares are recognised at fair value using quoted prices on the London Stock Exchange.

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

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

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

Investment in overseas property company
Arbuthnot Latham currently holds a debt and equity investment classified as 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 (2019: £8k) has been recognised in profit or loss during the year. The investment has been valued at £138k (2019: £156k) 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 USD $1.0m of the total closing fund capital of USD$55.0m. At 31 December 2020 the company had made capital contributions into the Fund of $933k (2019: $394k).

The investment is classified as FVOCI and is valued at fair value by Hetz Ventures, L.P. at £0.8m (2019: £0.5m). As at year end the fair value is deemed to be the Group's share of the fund based on what a third party would pay for the underlying investments.

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

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

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	-	1,300,824	287,025	1,587,849
Other assets	-	-	5,457	5,457
	-	**2,392,582**	**292,482**	**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**

Group **At 31 December 2019**	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
ASSETS				
Cash and balances at central banks	-	325,908	-	325,908
Loans and advances to banks	-	46,258	-	46,258
Debt securities at amortised cost	-	442,960	-	442,960
Loans and advances to customers	-	1,296,427	302,626	1,599,053
Other assets	-	-	4,625	4,625
	-	**2,111,553**	**307,251**	**2,418,804**
LIABILITIES				
Deposits from banks	-	230,421	-	230,421
Deposits from customers	-	2,084,903	-	2,084,903
Other liabilities	-	-	2,023	2,023
Debt securities in issue	-	-	36,837	36,837
	-	**2,315,324**	**38,860**	**2,354,184**

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 held-to-maturity	-	-	24,308	24,308
	-	**7**	**39,463**	**39,470**
LIABILITIES				
Other liabilities	-	-	3,132	3,132
Debt securities in issue	-	-	37,656	37,656
	-	**-**	**40,788**	**40,788**

Company **At 31 December 2019**	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
ASSETS				
Loans and advances to banks	-	6	15,310	15,316
Debt securities held-to-maturity	-	-	24,239	24,239
	-	**6**	**39,549**	**39,555**
LIABILITIES				
Other liabilities	-	-	1,113	1,113
Debt securities in issue	-	-	36,837	36,837
	-	**-**	**37,950**	**37,950**

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 8.71%.

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, deferred tax assets that do not arise from temporary differences, and, if in excess of the CRR thresholds, a portion of the Group’s non-significant investment in a financial institution, Secure Trust Bank (“STB”).
- Tier 2 comprises qualifying subordinated loans.

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

	2020 £000	2019 £000
CET1 Capital		
Share capital	154	154
Capital redemption reserve	19	19
Treasury shares	(1,299)	(1,214)
Retained earnings*	207,839	209,171
IFRS 9 - Transitional add back	1,956	1,109
Fair value reserve	(12,690)	205
Deduction for goodwill	(5,202)	(5,202)
Deduction for other intangibles	(8,745)	(14,880)
Deduction for deferred tax asset that do not arise from temporary differences	(1,425)	(1,502)
Deduction for non-significant investment	-	(10,183)
Deduction for Prudent valuation	(21)	(33)
CET1 capital resources	**180,586**	**177,644**
Tier 2 Capital		
Debt securities in issue	37,656	36,837
Total Tier 2 capital resources	**37,656**	**36,837**
Own Funds (sum of Tier 1 and Tier 2)	**218,242**	**214,481**
CET1 Capital Ratio (CET1 Capital/Total Risk Exposure)*	**15.4%**	**14.4%**
Total Capital Ratio (Own Funds/Total Risk Exposure)*	**18.7%**	**17.3%**

* Includes current year audited profit.

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.

	2020 £000	2019 £000
Cash and balances at central banks	807	3,112
Loans and advances to banks	(143)	418
Debt securities at amortised cost*	2,942	5,265
Loans and advances to customers	71,476	68,075
	75,082	**76,870**
Deposits from banks	(513)	(1,687)
Deposits from customers	(12,856)	(13,516)
Debt securities in issue	(2,775)	(2,054)
Interest on lease assets	(880)	(976)
Interest expense	**(17,024)**	**(18,233)**
Net interest income	**58,058**	**58,637**

* Decrease is due to the fluctuation of interest rates which has led to an increased cost on 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 2020	Private Banking £000	Commercial Banking £000	RAF £000	ABL £000	ASFL £000	All other divisions £000	Total £000
Banking commissions	729	871	131	2,443	4	5	4,183
Foreign exchange fees	508	295	-	-	-	526	1,329
Investment management fees	8,862	-	-	-	-	-	8,862
Wealth planning fees	355	-	-	-	-	6	361
Total fee and commission income	**10,454**	**1,166**	**131**	**2,443**	**4**	**537**	**14,735**

Group At 31 December 2019	Private Banking £000	Commercial Banking £000	RAF £000	ABL £000	ASFL £000	All other divisions £000	Total £000
Banking and services fees	716	820	219	1,380	1	-	3,136
Foreign exchange fees	494	342	-	-	-	444	1,280
Investment management fees	8,474	-	-	-	-	-	8,474
Wealth planning fees	1,043	-	-	-	-	2	1,045
Total fee and commission income	**10,727**	**1,162**	**219**	**1,380**	**1**	**446**	**13,935**

10. 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 16), loans and advances to banks (note 17) and debt securities at amortised cost (note 18). These assets are all considered investment grade.
- Financial assets which have not experienced a significant increase in credit risk since their initial recognition.

Impairment model

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

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

- Stage 2: When a financial asset experiences a SICR subsequent to origination, but is not in default, it is considered to be in Stage 2. This requires the computation of ECL based on the probability of all possible default events occurring over the remaining life of the financial asset. 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.

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

Presentation of allowance for ECL in the statement of financial position
For financial assets measured at amortised cost, these are presented as the gross carrying amount of the assets minus a deduction for the ECL.

Write-off
Loans and debt securities are written off (either partially or in full) when there is no realistic prospect of recovery. This is the case when the Group determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the outstanding amount due.

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

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

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

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

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

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

11. Other income

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

Other items reflected in other income include rental income from the investment properties (see Note 29) of £0.5m (2019: £2.1m), premises recharges of £nil (2019: £0.2m) to STB for office space occupied and dividends received on the shares held in STB of £nil (2019: £1.5m).

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

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.

12. Operating expenses

Operating expenses comprise:	2020 £000	2019 £000
Staff costs, including Directors:		
Wages, salaries and bonuses	36,228	39,169
Social security costs	4,010	4,313
Pension costs	2,251	1,980
Share based payment transactions (note 38)	142	249
Amortisation of intangibles (note 26)	2,828	2,008
Depreciation (note 27)	1,569	1,441
Financial Services Compensation Scheme Levy	309	228
Expenses relating to short-term leases	413	368
Other administrative expenses	23,669	20,430
Total operating expenses from continuing operations	**71,419**	**70,186**

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

Remuneration of the auditor and its associates, excluding VAT, was as follows:	2020 £000	2019 £000
Fees payable to the Company's auditor for the audit of the Company's annual accounts	110	105
Fees payable to the Company's auditor and its associates for other services:		
Audit of the accounts of subsidiaries	395	285
Audit related assurance services	103	100
Total fees payable	**608**	**490**

13. 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.

United Kingdom corporation tax at 19% (2019: 19%)	2020 £000	2019 £000
Current taxation		
Corporation tax charge - current year	-	1,000
Corporation tax charge - adjustments in respect of prior years	179	148
	179	**1,148**
Deferred taxation		
Origination and reversal of temporary differences	89	(105)
Adjustments in respect of prior years	(26)	(208)
	63	**(313)**
Income tax expense	**242**	**835**
Tax reconciliation		
(Loss)/profit before tax	(1,090)	7,011
Tax at 19% (2019: 19%)	(207)	1,332
Other permanent differences	296	(437)
Prior period adjustments	153	(60)
Corporation tax charge for the year	**242**	**835**

The 2020 permanent difference mainly relate to professional fees of a capital nature, relating to the acquisition of the Asset Alliance Group. In 2019 permanent differences mainly relate to deferred consideration adjustments for RAF and dividends received from STB.

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

14. Average number of employees

	2020	2019
Banking	202	191
RAF	31	31
ACABL	18	14
ASFL	11	8
All Other Divisions	232	207
Group Centre	20	19
	514	**470**

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.

15. 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 15,024,514 (2019: 14,979,812) in issue during the year (this includes Ordinary shares and Ordinary Non-Voting shares). On 17 May 2019 the Company issued 152,621 Ordinary Non-Voting shares, of which 3,902 were allocated to treasury shares. On 10 September 2019 and 31 March 2020 the Company purchased another 7,408 and 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 (2019: nil).

Profit & dilutive profit attributable	2020 £000	2019 £000
(Loss) / profit after tax attributable to equity holders of the Company	(1,332)	6,176

Basic & Diluted Earnings per share	2020 p	2019 p
Basic Earnings per share	(8.9)	41.2

16. Cash and balances at central banks

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

ECL has been assessed to be insignificant.

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

17. Loans and advances to banks

Group	2020 £000	2019 £000
Placements with banks included in cash and cash equivalents (note 40)	**110,267**	**46,258**

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	2020 £000	2019 £000
Aa3	341	30,834
A1	100,748	306
A2	10	13,961
A3	3,956	20
Baa1	5,204	393
Baa2	-	736
Unrated	8	8
	110,267	**46,258**

None of the loans and advances to banks are past due (2019: nil). ECL has been assessed as insignificant.

Company	2020 £000	2019 £000
Placements with banks included in cash and cash equivalents (note 40)	**15,162**	**15,316**

Loans and advances to banks include bank balances of £15.2m (2019: £15.3m) with Arbuthnot Latham & Co., Ltd. ECL has been assessed as insignificant.

18. Debt securities at amortised cost

Debt securities represent certificates of deposit.

The movement in debt securities may be summarised as follows:

Group	2020 £000	2019 £000
At 1 January	442,960	342,691
Exchange difference	(2,640)	(27,372)
Additions	695,614	847,378
Redemptions	(791,242)	(719,737)
At 31 December	**344,692**	**442,960**

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

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

None of the debt securities are past due (2019: nil). ECL has been assessed as immaterial.

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

Company	2020 £000	2019 £000
At 1 January	24,239	-
Additions	-	25,000
Interest	2,111	1,264
Redemptions	(2,042)	(2,025)
At 31 December	**24,308**	**24,239**

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 (2019: £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.

19. Assets classified as held for sale

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

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

- Management is committed to a plan to sell
- The asset is available for immediate sale
- An active programme to locate a buyer is initiated
- The sale is highly probable, within 12 months of classification as held for sale
- The asset is being actively marketed for sale at a 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	
	2020	2019
	£000	£000
Repossessed property held for sale	3,285	7,617
	3,285	**7,617**

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

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

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

20. Derivative financial instruments

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

	2020			2019		
	Contract/ notional amount	Fair value assets	Fair value liabilities	Contract/ notional amount	Fair value assets	Fair value liabilities
Group	£000	£000	£000	£000	£000	£000
Currency swaps	17,338	202	188	8,671	105	101
Interest rate swaps	25,292	-	461	25,530	-	218
Structured notes	1,644	1,641	-	1,644	1,699	-
	44,274	**1,843**	**649**	**35,845**	**1,804**	**319**

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

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

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

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

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

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

21. Loans and advances to customers

Analyses of loans and advances to customers:

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 and repayments	4,941	(4,045)	(8,982)	(8,086)
Write-offs	-	-	(3,280)	(3,280)
Transfer to Stage 1	20,951	(20,951)	-	-
Transfer to Stage 2	(99,683)	99,683	-	-
Transfer to Stage 3	(8,901)	(14,712)	23,613	-
Gross loans and advances at 31 December 2020	**1,423,332**	**126,347**	**42,798**	**1,592,477**
Less allowances for ECLs (see Note 22)	(725)	(533)	(3,370)	(4,628)
Net loans and advances at 31 December 2020	**1,422,607**	**125,814**	**39,428**	**1,587,849**

Group	2019 Stage 1 £000	 Stage 2 £000	 Stage 3 £000	 Total £000
Gross loans and advances at 1 January 2019	**1,161,124**	**32,700**	**37,407**	**1,231,231**
Originations	147,411	(12,845)	(11,134)	123,432
Repayments and write-offs	(49)	-	(2,927)	(2,976)
Acquired portfolio	252,156	-	-	252,156
Transfer to Stage 1	3,659	(3,659)	-	-
Transfer to Stage 2	(50,489)	50,489	-	-
Transfer to Stage 3	(7,788)	(313)	8,101	-
Gross loans and advances at 31 December 2019	**1,506,024**	**66,372**	**31,447**	**1,603,843**
Less allowances for ECLs (see Note 22)	(526)	(47)	(4,217)	(4,790)
Net loans and advances at 31 December 2019	**1,505,498**	**66,325**	**27,230**	**1,599,053**

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	ABL £000	ASFL £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**

Group	Banking £000	Mortgage Portfolios £000	RAF £000	ABL £000	ASFL £000	All Other Divisions £000	Total £000
Stage 1	1,003,739	306,044	100,981	75,871	7,352	11,511	1,505,498
Stage 2	65,570	-	755	-	-	-	66,325
Stage 3	26,078	-	1,152	-	-	-	27,230
At 31 December 2019	**1,095,387**	**306,044**	**102,888**	**75,871**	**7,352**	**11,511**	**1,599,053**

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

	2020						
Group	Banking £000	Mortgage Portfolios £000	RAF £000	ABL £000	ASFL £000	All Other Divisions £000	Total £000
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	**85,256**	**19,454**	**3,773**	**-**	**-**	**-**	**108,483**

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

	2019						
	Banking	Mortgage Portfolios	RAF	ABL	ASFL	All Other Divisions	Total
Group	£000	£000	£000	£000	£000	£000	£000
Up to 30 days	32,783	5,196	1,608	-	-	-	39,587
Stage 1	29,389	5,196	1,395	-	-	-	35,980
Stage 2	3,394	-	1	-	-	-	3,395
Stage 3	-	-	212	-	-	-	212
30 - 60 days	1,934	2,404	526	-	-	-	4,864
Stage 1	35	2,404	151	-	-	-	2,590
Stage 2	1,899	-	203	-	-	-	2,102
Stage 3	-	-	172	-	-	-	172
60 - 90 days	70	1,688	342	-	-	-	2,100
Stage 1	-	1,688	110	-	-	-	1,798
Stage 2	70	-	128	-	-	-	198
Stage 3	-	-	104	-	-	-	104
Over 90 days	61,873	21,516	1,333	-	-	-	84,722
Stage 1	-	21,516	69	-	-	-	21,585
Stage 2	28,664	-	258	-	-	-	28,922
Stage 3	33,209	-	1,006	-	-	-	34,215
At 31 December	**96,660**	**30,804**	**3,809**	**-**	**-**	**-**	**131,273**

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

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

(b) Loans and advances renegotiated

Restructuring activities include external payment arrangements, modification and deferral of payments. Following restructuring, a previously overdue customer account is reset to a normal status and managed together with other similar accounts. Restructuring policies and practices are based on indicators or criteria which, in the judgement of management, indicate that payment will most likely continue. These policies are kept under continuous review. Renegotiated loans that would otherwise be past due or impaired totalled £nil (2019: £nil).

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

An 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 £60.6m (2019: £38.6m), against loans of £41.5m (2019: £29.9m). The weighted average loan-to-value of loans and advances in Stage 3 is 73% (2019: 75%).

22. Allowances for impairment of loans and advances

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**

The ECL requirement increased significantly, primarily in Stage 1 and Stage 2 exposures, in anticipation of credit deterioration, reflecting the severity of the economic impact arising from COVID-19. The impact of the COVID-19 scenarios and weighting adjustments has resulted in a £769k increase in ECL from the pre COVID-19 scenarios, primarily driven by forecasts for a prolonged period of UK unemployment.

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

An analysis of movements in the allowance for ECLs (2019):

Group	Stage 1 £000	Stage 2 £000	Stage 3 £000	Total £000
At 1 January 2019	**1,606**	**8**	**4,961**	**6,575**
Transfer to Stage 2	(2)	2	-	-
Transfer to Stage 3	(5)	(1)	5	(1)
Current year charge	281	42	903	1,226
Adjustment due to variation in expected future cash flows	-	-	134	134
Change in assumptions	(1,353)	-	223	(1,130)
Financial assets that have been derecognised	-	-	(853)	(853)
Repayments and write-offs	-	(4)	(1,157)	(1,161)
At 31 December 2019	**527**	**47**	**4,216**	**4,790**

23. Other assets

Group	2020 £000	2019 £000
Trade receivables	5,458	4,625
Inventory	84,722	75,221
Prepayments and accrued income	6,108	6,597
	96,288	**86,443**

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. The proceeds from the sale of these plots will be used to repay the outstanding loans.

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

In 2019 a property in Spain and in 2020 a property in France, held as collateral on 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 £17.5m (2019: £12.0m).

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

Company	2020 £000	2019 £000
Prepayments and accrued income	103	115
	103	**115**

24. Financial investments

Group	2020 £000	2019 £000
Designated at fair value through profit and loss		
- Debt securities	138	156
Designated at fair value through other comprehensive income		
- Listed securities	15,925	29,116
- Unlisted securities	2,432	1,647
Total financial investments	**18,495**	**30,919**

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 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. Since then the shareholding was reduced from 15.53% to 9.76%. The carrying value at year end is £15.9m (2019: £29.1m) and £nil (2019: £1.5m) of dividends were received in the year.

The shares were designated as FVOCI for strategic reasons. The shares are 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 (2019: £nil) was received and a loss of £14k (2019: loss of £9k) recognised in profit or loss during the year. The investment has been valued at £138k (2019: £156k). 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 the year, as part of the fourth anniversary of the closing of the Visa Europe transaction, an assessment was performed of the ongoing risk of liability to Visa. As part of the adjustment, Visa awarded the Group 59 preference shares with a carrying value of £920k. These can be automatically converted into freely tradeable Class A common stock.

Management have assessed the sum of the fair value of the Group's investment as £1.6m (2019: £1.2m). This valuation includes a 31% haircut on the original preference shares.

The Group has designated its investment in the security as FVOCI. Dividends received during the year amounted to £17k (2019: £7k).

A further investment in an unlisted investment vehicle was made in 2020. The carrying value at year end is £0.8m (2019: £0.5m) 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	2020 £000	2019 £000
Financial investments comprise:		
- Listed securities (at fair value through OCI)	14,171	25,913
Total financial investments	**14,171**	**25,913**

25. 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	2020 £000	2019 £000
Accelerated capital allowances and other short-term timing differences	(579)	(269)
Movement in fair value of financial investments FVOCI	(117)	(48)
Unutilised tax losses	1,425	1,740
IFRS 9 adjustment*	280	392
Deferred tax asset	**1,009**	**1,815**
At 1 January	1,815	1,490
Other Comprehensive Income - FVOCI	(69)	18
Profit and loss account - accelerated capital allowances and other short-term timing differences	(310)	(202)
Profit and loss account - tax losses	(315)	729
IFRS 9 adjustment*	(112)	(220)
Deferred tax asset at 31 December	**1,009**	**1,815**

* This relates to the timing difference on the adoption of IFRS 9.

Company	2020 £000	2019 £000
Accelerated capital allowances and other short-term timing differences	5	1
Movement in faie value of financial investments	112	112
Unutilised tax losses	278	278
Deferred tax asset	**395**	**391**
At 1 January	391	113
Profit and loss account - accelerated capital allowances and other short-term timing differences	4	111
Profit and loss account - tax losses	-	167
Deferred tax asset at 31 December	**395**	**391**

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.

26. 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 2019	5,202	13,442	2,562	21,206
Additions	-	5,552	-	5,552
At 31 December 2019	**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**
Accumulated amortisation				
At 1 January 2019	-	(4,045)	(623)	(4,668)
Amortisation charge	-	(1,761)	(247)	(2,008)
At 31 December 2019	**-**	**(5,806)**	**(870)**	**(6,676)**
Amortisation charge	-	(2,582)	(246)	(2,828)
At 31 December 2020	**-**	**(8,388)**	**(1,116)**	**(9,504)**
Net book amount				
At 31 December 2019	5,202	13,188	1,692	20,082
At 31 December 2020	5,202	16,998	1,446	23,646

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 (2019: 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 (2019: 3 years with a terminal value). The 3 year discounted cash flows with a terminal value are considered to be appropriate as the goodwill relates to an ongoing well established business and not underlying assets with finite lives. The terminal value is calculated by applying a discounted perpetual growth model to the profit expected in 2023 as per the approved 3 year plan. A growth rate of 6.2% (2019: 8.1%) was used for income and 7.1% (2019: 10.8%) for expenditure from 2021 to 2023 (these rates were the best estimate of future forecasted performance), while a 3% (2019: 3%) 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 2023 as per the approved budget. A growth rate of 3% (2019: 3%) was used (this rate was the best estimate of future forecasted performance).

The growth rates used are conservative and below the forecast UK growth rate of 5%. The uncertainty of the COVID-19 pandemic has significantly reduced economic growth in 2020. However, the country's general return to economic stability should ensure that the Bank's current growth strategy supported by capital available at parent level will allow the Group to achieve reasonable economic growth.

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

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

Company	Computer software £000
Cost	
At 1 January 2019	7
At 31 December 2019	**7**
At 31 December 2020	**7**
Accumulated amortisation	
At 1 January 2019	(1)
Amortisation charge	(1)
At 31 December 2019	(2)
Amortisation charge	(1)
At 31 December 2020	(3)
Net book amount	
At 31 December 2019	**5**
At 31 December 2020	**4**

27. 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
Office equipment	3 to 10 years
Computer equipment	3 to 5 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	Computer and other equipment £000	Motor Vehicles	Total £000
Cost or valuation				
At 1 January 2019	6,779	3,668	91	10,538
Additions	609	1,341	-	1,950
At 31 December 2019	**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**
At 1 January 2019	(3,000)	(2,219)	(15)	(5,234)
Depreciation charge	(778)	(640)	(23)	(1,441)
At 31 December 2019	**(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)**
Net book amount				
At 31 December 2019	**3,610**	**2,150**	**53**	**5,813**
At 31 December 2020	**2,971**	**1,903**	**31**	**4,905**

Company	Computer and other equipment £000	Motor Vehicles £000	Total £000
Cost or valuation			
At 1 January 2019	217	91	308
At 31 December 2019	**217**	**91**	**308**
At 31 December 2020	**217**	**91**	**308**
Accumulated depreciation			
At 1 January 2019	(85)	(15)	(100)
Depreciation charge	(1)	(23)	(24)
At 31 December 2019	**(86)**	**(38)**	**(124)**
Depreciation charge	(1)	(22)	(23)
At 31 December 2020	**(87)**	**(60)**	**(147)**
Net book amount			
At 31 December 2019	**131**	**53**	**184**
At 31 December 2020	**130**	**31**	**161**

28. 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 2019	8,108	14,036	-	22,144
Additions	-	-	543	543
Amortisation	-	(2,654)	(89)	(2,743)
Transfers*	(8,108)	8,108	-	-
At 31 December 2019	**-**	**19,490**	**454**	**19,944**
Additions	-	346	-	346
Amortisation	-	(2,406)	(181)	(2,587)
At 31 December 2020	**-**	**17,430**	**273**	**17,703**

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

In the year, the Group received £0.5m (2019: £2.1m) of rental income from subleasing right-of-use assets through operating leases.

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

29. Investment property

Investment property is initially measured at cost. Transaction costs are included in the initial measurement. Subsequently, investment property is measured at fair value, with any change therein recognised in profit and loss within other income.

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

In 2019 two properties were reclassified from investment property to inventory due to being under development with a view to sell. At 31 December 2019 they were valued at cost of £63.2m. £2.9m of additions in 2019 related to development costs of the St Philips Place property, which was one of the properties reclassified to inventory.

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.

The Group recognised £0.4m (2019: £0.5m) rental income during the year. The property remained tenanted during 2020.

30. Deposits from banks

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

The Term Funding Scheme (“TFS”) was announced by the Bank of England on 4 August 2016 and became effective from 19 September 2016. The scheme is now closed. The TFS allows participants to borrow central bank reserves in exchange for eligible collateral. Deposits from banks include £225m (2019: £225m) obtained through TFS. For a maturity profile of deposits from banks, refer to Note 6.

31. Deposits from customers

Group	2020 £000	2019 £000
Current/demand accounts	1,496,483	1,134,021
Notice accounts	157,934	102,567
Term deposits	710,790	848,315
	2,365,207	**2,084,903**

Included in customer accounts are deposits of £16.4m (2019: £33.2m) held as collateral for loans and advances. The fair value of these deposits approximates their carrying value.

For a maturity profile of deposits from customers, refer to Note 6.

32. Other liabilities

Group	2020 £000	2019 £000
Trade payables	1,949	2,023
Accruals and deferred income	5,657	11,477
	7,606	**13,500**

Company	2020 £000	2019 £000
Trade payables	221	289
Due to subsidiary undertakings	2,911	824
Accruals and deferred income	427	1,950
	3,559	**3,063**

33. 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 2019	22,732	-	22,732
Additions	-	539	539
Interest expense	965	11	976
Lease payments	(3,677)	(139)	(3,816)
At 31 December 2019	**20,020**	**411**	**20,431**
Additions	508	-	508
Interest expense	864	17	881
Lease payments	(3,322)	(193)	(3,515)
At 31 December 2020	**18,070**	**235**	**18,305**

Maturity analysis

Group	2020 £000	2019 £000
Less than one year	3,551	3,571
One to five years	8,830	12,617
More than five years	58,317	58,806
Total undiscounted lease liabilities at 31 December	**70,698**	**74,994**
Lease liabilities included in the statement of financial position at 31 December	**18,305**	**20,431**
Current	2,766	2,610
Non-current	15,539	17,821

34. Issued debt securities

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, to exchange financial instruments on terms that are potentially unfavourable.

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 8.

Group and Company	2020 £000	2019 £000
Subordinated loan notes	**37,656**	**36,837**

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 2020 was €15,000,000 (2019: €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.

Given the fact that the Group has never been subject to a published credit rating by any of the relevant agencies and the notes in issue are not quoted, it is not considered possible to estimate a fair value for these notes.

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 2020 was £25m (2019: £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.

The contractual undiscounted amount that will be required to be paid at maturity of the above debt securities is £25m.

Given the fact that the Group has never been subject to a published credit rating by any of the relevant agencies and the notes in issue are not quoted, it is not considered possible to estimate a fair value for these notes.

35. 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 2020, the Group had capital commitments of £50k (2019: £460k) in respect of a contribution in an equity investment.

Credit commitments

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

Group	2020 £000	2019 £000
Guarantees and other contingent liabilities	6,248	6,401
Commitments to extend credit:		
- Original term to maturity of one year or less	308,427	190,064
	314,675	**196,465**

36. Share capital

Ordinary share capital

Group and Company	Number of shares	Share Capital £000	Share premium £000
At 1 January 2019	15,279,322	153	-
At 31 December 2019 & 2020	**15,279,322**	**153**	**-**

Ordinary non-voting share capital

Group and Company	Number of shares	Share Capital £000	Share premium £000
At 1 January 2019	-	-	-
Issue of shares	152,621	1	-
At 31 December 2019 & 2020	**152,621**	**1**	**-**

Total share capital

Group and Company	Number of shares	Share Capital £000	Share premium £000
At 1 January 2019	15,279,322	153	-
Issue of shares	152,621	1	-
At 31 December 2019 & 2020	**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 (2019: 1p per share). At 31 December 2020 the Company held 409,314 shares (2019: 401,584) in treasury. This includes 390,274 (2019: 390,274) Ordinary shares and 19,040 (2019: 11,310) Ordinary Non-Voting shares.

37. Reserves and retained earnings

Group	2020 £000	2019 £000
Capital redemption reserve	19	19
Fair value reserve	(12,690)	205
Treasury shares	(1,299)	(1,214)
Retained earnings	207,839	209,171
Total reserves at 31 December	**193,869**	**208,181**

The capital redemption reserve represents a reserve created after the Company purchased its own shares which resulted in a reduction of share capital.

Company	2020 £000	2019 £000
Capital redemption reserve	19	19
Fair value reserve	(12,164)	3,179
Treasury shares	(1,299)	(1,214)
Retained earnings	160,721	157,954
Total reserves as 31 December	**147,277**	**159,938**

38. Share-based payment options

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

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

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

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

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

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

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

The probability of 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. The attrition rate will increase by 3% per year until the vesting date. ABG had a £0.1m write back in relation to share based payments during 2020 (2019: £0.2m expense), as disclosed in Note 12.

Measurement inputs and assumptions used in the Black-Scholes model are as follows:

	2020	2019
Expected Stock Price Volatility	42.7%	21.8%
Expected Dividend Yield	0.0%	2.9%
Risk Free Interest Rate	0.0%	0.7%
Average Expected Life (in years)	-	1.46

39. Dividends per share

The Directors do not recommend the payment of a final dividend (2019: Nil). Since no interim dividend (2019: 16p) was paid in the year, this makes a total dividend per share for the year of Nil (2019: 16p). The second interim dividend of 21p declared by the Directors in last year's Annual Report was withdrawn on 2 April 2020, prior to the finalisation of the resolutions in last year's Notice of Meeting, following the publication by the Prudential Regulation Authority ("PRA") of a statement on deposit takers' approach to dividends. This dividend of 21p per share was paid as a special interim dividend on 19 March, 2021, following the PRA statement in December 2020, advising that it is for bank boards to determine the appropriate level of distributions and removing its request not to make shareholder distributions.

40. 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.

Group	2020 £000	2019 £000
Cash and balances at central banks (Note 16)	636,799	325,908
Loans and advances to banks (Note 17)	110,267	46,258
	747,066	**372,166**

Company	2020 £000	2019 £000
Loans and advances to banks	**15,162**	**15,316**

41. 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	2020 £000	2019 £000
Loans		
Loans outstanding at 1 January	503	515
Loans advanced during the year	51	137
Loan repayments during the year	-	(144)
Transfer to deposits during the year	(52)	(5)
Loans outstanding at 31 December	**502**	**503**
Interest income earned	**15**	**17**

The loans to directors are mainly secured on property, shares or cash and bear interest at rates linked to base rate. No provisions have been recognised in respect of loans given to related parties (2019: £nil).

Group - Directors	2020 £000	2019 £000
Deposits		
Deposits at 1 January	3,065	1,884
Deposits placed during the year	2,676	4,529
Deposits repaid during the year	(1,761)	(3,342)
Transfer to loans during the year	(52)	(6)
Deposits at 31 December	**3,928**	**3,065**
Interest expense on deposits	**5**	**6**

Details of directors' remuneration are given in the Remuneration Report on pages 37 and 38. 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 42. Transactions and balances with subsidiaries are shown below:

	2020		2019	
	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	15,319	15,155	16,094	15,310
Due from subsidiary undertakings - Debt securities at amortised cost	24,785	24,308	24,741	24,239
Shares in subsidiary undertakings	134,004	133,904	134,614	134,004
	174,108	**173,367**	**175,449**	**173,553**
LIABILITIES				
Due to subsidiary undertakings	2,911	2,911	1,039	824
	2,911	**2,911**	**1,039**	**824**

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:

	2020 £000	2019 £000
Arbuthnot Latham & Co., Ltd - Recharge of property and IT costs	930	930
Arbuthnot Latham & Co., Ltd - Recharge for costs paid on the Company's behalf	3,668	1,890
Arbuthnot Latham & Co., Ltd - Recharge of costs paid on behalf of Arbuthnot Latham & Co., Ltd	(3,820)	(1,226)
Arbuthnot Latham & Co., Ltd - Group recharges for shared services	(4,633)	(5,219)
Arbuthnot Latham & Co., Ltd - Group recharges for liquidity	(4,904)	(5,326)
Total	**(8,759)**	**(8,951)**

42. Interests in subsidiaries

Company	Investment at cost £000	Impairment provisions £000	Net £000
At 1 January 2019	137,178	(2,564)	134,614
Receipt on dissolution of West Yorkshire Insurance Company Limited	(3,174)	2,564	(610)
At 31 December 2019	**134,004**	**-**	**134,004**
Receipt on dissolution of Windward Insurance Company PCC Limited	(100)	-	(100)
At 31 December 2020	**133,904**	**-**	**133,904**

Company	2020 £000	2019 £000
Subsidiary undertakings:		
Bank	132,314	132,314
Other	1,590	1,690
Total	**133,904**	**134,004**

(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 Holdco Limited	100.0%	Jersey	Property Investment
Arbuthnot Latham Real Estate Holdings Limited	100.0%	UK	Property Investment
Arbuthnot Latham Real Estate PropCo Limited	100.0%	Jersey	Property Investment
Arbuthnot Real Estate Capital Limited	100.0%	Jersey	Property Investment
Arbuthnot Real Estate Capital GP 1 Limited	100.0%	Jersey	Property Investment
Arbuthnot Real Estate Capital Fund 1 Limited	100.0%	Jersey	Property Investment
Arbuthnot Securities Limited	100.0%	UK	Dormant
Arbuthnot Specialist Finance Limited	100.0%	UK	Specialist Finance
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

All the subsidiary and related undertakings above are unlisted and none are banking institutions. All entities are included in the consolidated financial statements and have an accounting reference date of 31 December. On 16 January 2018, Artillery Nominees Limited was dissolved.

All Jersey entities have their registered office as 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 2020 or 2019.

(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 £2,855m and £2,672m respectively (2019: £2,584m and £2,400m respectively).

(d) Risks associated with interests
During the year Arbuthnot Banking Group PLC made £nil (2019: £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.

43. Operating segments

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

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

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

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 2020	Banking £000	Mortgage Portfolios £000	RAF £000	ABL £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	11,620	-	131	2,443	4	537	-	**14,735**
Revenue from external customers	**56,457**	**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	53,408	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	(49,507)	(1,624)	(2,975)	(3,130)	(1,547)	(6,680)	(5,956)	**(71,419)**
Segment profit / (loss) before tax	2,325	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	**2,325**	**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	-	-	-	-	-	(4,372)	(24)	**(4,396)**

The "Group Centre" segment above includes the parent entity and all intercompany eliminations.

Year ended 31 December 2019	Banking £000	Mortgage Portfolios £000	RAF £000	ABL £000	ASFL £000	All Other Divisions £000	Group Centre £000	**Total £000**
Interest revenue	50,325	6,647	8,659	2,703	102	8,434	68	**76,938**
Inter-segment revenue	-	-	-	-	-	-	(68)	**(68)**
Interest revenue from external customers	50,325	6,647	8,659	2,703	102	8,434	-	**76,870**
Fee and commission income	11,892	-	219	1,380	1	443	-	**13,935**
Revenue from external customers	**62,217**	**6,647**	**8,878**	**4,083**	**103**	**8,877**	**-**	**90,805**
Interest expense	(5,067)	(2,534)	(2,786)	(1,358)	(31)	(4,696)	(209)	**(16,681)**
Add back inter-segment revenue	-	-	-	-	-	-	68	**68**
Subordinated loan note interest	-	-	-	-	-	-	(1,620)	**(1,620)**
Fee and commission expense	(91)	-	(12)	(3)	(1)	-	-	**(107)**
Segment operating income	57,059	4,113	6,080	2,722	71	4,181	(1,761)	**72,465**
Impairment losses	(165)	-	(708)	10	(4)	-	-	**(867)**
Other income	-	-	64	-	-	4,955	580	**5,599**
Operating expenses	(46,685)	(807)	(3,577)	(2,708)	(1,275)	(7,170)	(7,964)	**(70,186)**
Segment profit / (loss) before tax	10,209	3,306	1,859	24	(1,208)	1,966	(9,145)	**7,011**
Income tax (expense) / income	-	-	(371)	-	-	133	(597)	**(835)**
Segment profit / (loss) after tax	**10,209**	**3,306**	**1,488**	**24**	**(1,208)**	**2,099**	**(9,742)**	**6,176**
Loans and advances to customers	1,106,887	306,044	102,888	75,871	7,352	11,511	(11,500)	**1,599,053**
Other assets	-	-	-	-	-	974,241	22,085	**996,326**
Segment total assets	**1,106,887**	**306,044**	**102,888**	**75,871**	**7,352**	**985,752**	**10,585**	**2,595,379**
Customer deposits	1,863,232	-	-	-	-	248,965	(27,294)	**2,084,903**
Other liabilities	-	-	-	-	-	288,790	13,351	**302,141**
Segment total liabilities	**1,863,232**	**-**	**-**	**-**	**-**	**537,755**	**(13,943)**	**2,387,044**
Other segment items:								
Capital expenditure	-	-	-	-	-	(7,503)	-	**(7,503)**
Depreciation and amortisation	-	-	-	-	-	(3,424)	(25)	**(3,449)**

Segment profit is shown prior to any intra-group eliminations.

Prior year numbers have been represented (combining Private Banking and Commercial Banking) according to the 2019 operating segments reported to management. The UK private bank has a branch in Dubai, which generated £4.1m (2019: £4.5m) of income and had direct operating costs of £2.5m (2019: £2.8m). All Dubai branch income is 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.

44. Country by Country Reporting

Article 89 of the EU Directive 2013/36/EU otherwise known as the Capital Requirements Directive IV ('CRD IV') was implemented into UK domestic legislation through statutory instrument 2013 No. 3118, the Capital Requirements (Country-by-Country Reporting) Regulations 2013 (the Regulations), which were laid before the UK Parliament on 10 December 2013 and which came into force on 1 January 2014.

Article 89 requires credit institutions and investment firms in the EU to disclose annually, specifying, by Member State and by third country in which it has an establishment, the following information on a consolidated basis for the financial year: name, nature of activities, geographical location, turnover, number of employees, profit or loss before tax, tax on profit or loss and public subsidies received.

31 December 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)	-

31 December 2019 Location	Turnover £m	FTE employees Number	Profit/(loss) before tax £m	Tax paid £m
UK	72.5	487	9.8	0.8
Dubai	-	13	(2.8)	-

The Dubai branch income is booked through the UK, hence the turnover is nil in the above analysis. Offsetting this income against Dubai branch costs would result in a £1.7m profit (2019: £1.6m). After indirect cost allocation it results in a loss of £0.6m (2019: loss of £0.3m). No public subsidies were received during 2020 or 2019.

Following a strategic review of the Group's operations, the Dubai branch will close on 31 May 2021.

45. 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 41 of the consolidated financial statements includes related party transactions with Sir Henry Angest.

46. Non-adjusting events after the balance sheet date

Asset Alliance Group Holdings Limited

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

Asset Alliance provides vehicle finance and related services, predominantly in the truck & trailer and bus & coach markets. Operating from five locations, it is the UK's leading independent end-to-end specialist in commercial vehicle financing and has over 4000 vehicles under management. As at 31 August 2020 Asset Alliance had assets for lease with a net book value of approximately £150m.

The consideration is based on an agreed discount to the tangible net assets of Asset Alliance at completion, after adjusting for the fair value of the assets available for lease. The consideration is expected to be approximately £4.1m. The Bank has received all necessary regulatory approvals and the acquisition is expected to complete on 31 March 2021.

Tay loan portfolio

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

Dubai branch

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

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

Dividend

The second interim dividend of 21p declared by the Directors in last year's Annual Report was withdrawn on 2 April 2020, prior to the finalisation of the resolutions in last year's Notice of Meeting, following the publication by the Prudential Regulation Authority ("PRA") of a statement on deposit takers' approach to dividends. This dividend of 21p per share was paid as a special interim dividend on 19 March, 2021, following the PRA statement in December 2020, advising that it is for bank boards to determine the appropriate level of distributions and removing its request not to make shareholder distributions.

Five Year Summary

	2016	2017	2018	2019	2020
	£000	£000	£000	£000	£000
Profit / (loss) for the year after tax	227,569	6,523	(20,033)	6,176	**(1,332)**
(Loss) / profit before tax from continuing operations*	(1,966)	2,534	6,780	7,011	**(1,090)**
Total Earnings per share					
Basic (p)	1,127.2	43.9	(134.5)	41.2	**(8.9)**
Earnings per share from continuing operations*					
Basic (p)	(18.2)	14.0	38.0	41.2	**(8.9)**
Dividends per share (p) - ordinary	31.0	33.0	35.0	37.0	**-**
- special	325.0	-	-	-	**-**

Other KPI:

	2016	2017	2018	2019	2020
	£000	£000	£000	£000	£000
Net asset value per share (p)	1,533.8	1,547.0	1,282.5	1,363.5	**1,269.8**

* - Prior year numbers have been restated for continuing operations.