ARBUTHNOT BANKING GROUP PLC

28 March 2024

ARBUTHNOT BANKING GROUP ("Arbuthnot", "the Group" or "ABG")
Audited Final Results for the year to 31 December 2023

Strategic plan progress delivers strong, profitable growth

Arbuthnot Banking Group today announces its audited results for the year ended 31 December 2023.

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

FINANCIAL HIGHLIGHTS

- Profit Before Tax of £47.1m (2022: £20.0m), an increase of 135%
- Operating income increased to £178.9m (2022: £137.4m)
- Average net margin of 5.7% (2022: 5.1%)
- Earnings per share increased by 103% to 222.8p (2022: 109.6p)
- Final dividend declared increased by 2p to 27p (2022: 25p)
- Total dividend per share for the year of 46p (2022: 42p), an increase of 10%
- Net assets of £252.4m (2022: £212.0m)
- Year-end net assets per share of 1547p (2022: 1411p)
- CET1 ratio of 13.0% (2022: 11.6%) and total capital ratio of 15.2% (2022: 14.0%), well above the Group's minimum requirements
- Substantial surplus liquidity at the year-end of £962m above the regulatory minimum (2022: £535m)

OPERATIONAL HIGHLIGHTS

- Customer deposits increased 21% to £3.8bn (2022: £3.1bn) driven by the success of the Group's relationship-based approach across both Private & Commercial Banking
- Customer loans increased 6% to £2.3bn (2022: £2.2bn)* as the Group tightened its credit appetite during the year
- Funds under management and administration increased 29% to £1.71bn (2022: £1.33bn)
- Successful £12m placing completed in May 2023
- Tier 2 debt instrument renewed and increased from £25m to £26m at more favourable rates and is due to draw down in June 2024
- Secured a new office located at 20 Finsbury Circus with space for growth

Commenting on the results, Sir Henry Angest, Chairman and Chief Executive of Arbuthnot, said: "Arbuthnot delivered an exceptional performance in 2023, enabled by the continued delivery of the Group's "Future State 2" strategic plan, focused on diversification, first-rate client service and helped by rising interest rates. We are confident that the continued delivery of our strategic plan will enable Arbuthnot to prosper through the softening monetary environment we anticipate in the year ahead."

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

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

ENQUIRIES:

Arbuthnot Banking Group Sir Henry Angest, Chairman and Chief Executive Andrew Salmon, Group Chief Operating Officer James Cobb, Group Finance Director	0207 012 2400
Grant Thornton UK LLP (Nominated Adviser and AQSE Corporate Adviser) Colin Aaronson Samantha Harrison Ciara Donnelly	0207 383 5100
Shore Capital (Broker) Daniel Bush David Coaten Tom Knibbs	0207 408 4090
H/Advisors (Financial PR) Sam Cartwright	0207 379 5151

The 2023 Annual Report and Notice of Meeting will be available on the Arbuthnot Banking Group website http://www.arbuthnotgroup.com on or before 16 April 2024. 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	2023 £000	2022 £000
		Year ended 31 December	
Income from banking activities			
Interest income	8	231,836	120,013
Interest expense		(95,217)	(20,932)
Net interest income		**136,619**	**99,081**
Fee and commission income	9	23,170	21,586
Fee and commission expense		(768)	(537)
Net fee and commission income		**22,402**	**21,049**
Operating income from banking activities		**159,021**	**120,130**
Income from leasing activities			
Revenue	10	100,952	99,367
Cost of goods sold	10	(81,074)	(82,109)
Gross profit from leasing activities	10	**19,878**	**17,258**
Total group operating income		**178,899**	**137,388**
Net impairment loss on financial assets	11	(3,191)	(5,503)
Loss on sale of commercial property held as inventory		-	(4,590)
Other income	12	2,522	1,627
Operating expenses	13	(131,113)	(108,913)
Profit before tax		**47,117**	**20,009**
Income tax expense	14	(11,738)	(3,551)
Profit after tax		**35,379**	**16,458**
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		412	627
Tax on other comprehensive income		(91)	(128)
Other comprehensive income for the period, net of tax		**321**	**499**
Total comprehensive income for the period		**35,700**	**16,957**
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	16	**222.8**	**109.6**
Diluted earnings per share	16	**222.8**	**109.6**

Consolidated statement of financial position

	Note	At 31 December 2023 £000	2022 £000
ASSETS			
Cash and balances at central banks	17	826,559	732,729
Loans and advances to banks	18	79,381	115,787
Debt securities at amortised cost	19	942,437	439,753
Assets classified as held for sale	20	3,281	3,279
Derivative financial instruments	21	4,214	6,322
Loans and advances to customers	23	2,064,217	2,036,077
Other assets	25	57,150	52,185
Financial investments	26	3,942	3,404
Deferred tax asset	27	-	2,425
Intangible assets	28	29,587	32,549
Property, plant and equipment	29	274,306	175,273
Right-of-use assets	30	52,816	7,714
Investment property	31	5,950	6,550
Total assets		**4,343,840**	**3,614,047**
EQUITY AND LIABILITIES			
Equity attributable to owners of the parent			
Share capital	38	167	154
Share premium	38	11,606	-
Retained earnings	39	240,606	212,037
Other reserves	39	61	(213)
Total equity		**252,440**	**211,978**
LIABILITIES			
Deposits from banks	32	193,410	236,027
Derivative financial instruments	21	1,032	135
Deposits from customers	33	3,759,567	3,092,549
Current tax liability		294	1,748
Other liabilities	34	40,700	26,144
Deferred tax liability	27	4,910	-
Lease liabilities	35	53,761	7,872
Debt securities in issue	36	37,726	37,594
Total liabilities		**4,091,400**	**3,402,069**
Total equity and liabilities		**4,343,840**	**3,614,047**

Chairman's statement

Arbuthnot Banking Group ("ABG" or "The Group") is pleased to report a profit before tax of £47.1m. This represents a continued trend of improved financial performance compared to the prior years and an increase of 135% over 2022 which was £20.0m.

While the Group has been developing its business in accordance with the "Future State 2" strategic plan, the financial results have also benefited from the continued upward movement in the Bank of England ("BOE") base rate which increased from 3.5% to 5.25% in 2023. The impact of this has been two-fold.

Firstly, the significant surplus liquidity balances that the Bank holds at the BOE have earned more income in line with the higher rates. Secondly, the lending balances that are linked to the base rate have repriced immediately, while the cost of deposits has naturally lagged behind, despite the Bank quickly adjusting its rates in favour of depositors. This is due to the fact that fixed rate deposits have to reach their maturity in order to be able to take advantage of the higher rates. Typically, it takes 12 months for the lag to completely catch up with current pricing levels. Clearly, the reverse will be the case in a falling rate environment.

We have begun a strategy of locking in higher rates by offering more fixed rate lending products and also switching some of our surplus liquidity into high quality fixed income assets such as Gilts with a short maturity date. This, we hope, will soften the impact of any rate reductions in the near future.

Highlights

My long-held belief that has been borne out in the strategy of the Group over the years is that of diversification and I was pleased to see this evidenced during the year.

The Bank continued its strong growth, especially in its ability to attract new deposits. This has been particularly apparent within the Commercial Banking division, where the fact that customers enjoy private banking levels of service seems to resonate well in this market, where the larger banks have left companies underserved.

Deposit balances ended the year at £3.8bn, an increase of 21%. During the year we opened up relationships in new sectors such as the construction and computer gaming industries. This gave us the ability to allow non-relationship deposits to mature, without us needing to compete on price to retain the balances.

Elsewhere in the Group, our asset finance business, Renaissance Asset Finance ("RAF"), delivered a strong increase in its customer balances which grew from £134m to close the year at £199m, an increase of 49% with both of its business sectors, "flow" and "block discounting", seeing good levels of new loan originations. Continuing the theme of diversification RAF has added "wholesale financing" to its product set and this will come online in 2024.

Asset Alliance, our vehicle leasing business, also delivered outstanding growth with its assets available for lease growing to £327m from £189m in the prior year, an increase of 73%. This growth was enabled not only by the improvements in the supply chain for new trucks, but also the fact that it now has access to the Group's funding resources. This allowed it to complete the purchase of a £50m portfolio of buses used in the Transport for London network. Asset Alliance now has an 8% market share of buses used in London.

Finally, I would like to highlight the performance of our Wealth Management division that grew its Funds Under Management and Administration by 29% to close at £1.7bn, exhibiting strong investment performance against peers, despite uncertain markets across the globe.

20 Finsbury Circus

As previously announced, we are all looking forward to the next phase of the Group's future; in 2023 we celebrated our 190th anniversary given that Arbuthnot Latham was founded in 1833. Our confidence in the future is demonstrated by the fact that we have secured an impressive new head office located at 20 Finsbury Circus, situated in the heart of the city not far from our current location.

The new building offers us 45% more space to grow and will allow us to bring our London operations together under one roof. This should provide more collaboration and allow the next generation of Arbuthnot Bankers to develop and perhaps even set an example for more workers in the City to return to working more frequently in such a vibrant global financial centre, that is the City of London.

Capital Raise

The continuing theme for regulators of the increasing requirement for banks to hold more capital, coupled with the current market opportunities that are presenting themselves to the Group, led us to decide to push ahead with a capital raise via a conditional placing.

Initially we intended to raise £10m but we were pleasantly surprised to find that demand for the publicly available allocation was heavily oversubscribed, so the issue was increased to £12m to satisfy some of this excess demand. This capital raise was completed on 5 May.

Later in the year we were also pleased to agree the early refinancing of the Tier 2 debt instrument that we had previously issued to P Capital Partners, a Swedish debt fund, in 2019. We appreciate their confidence in both our business and management team, which resulted in the extension of this loan for another 10 years at a lower margin than before. We hope this relationship can continue into the future beyond even this new issue.

Regulation

As we have become accustomed in recent years, the pace of regulatory change has not slowed and there are a number of significant issues in consultation for which we need to be prepared.

Basel 3.1 is likely to become applicable to the Group in 2026. This is later than the generally applicable date as we will be a late adopter, given that we have applied to become part of the new Small Domestic Deposit Takers ("SDDT") regime which is the evolution of "Strong and Simple".

We are waiting for the capital rules for such to be revealed in the second quarter of this year. While many of the rules have been sign-posted, we continue to hold out hope that the capital buffer regime will be altered to address the unintended consequences of the counter cyclical buffer. It is clear from evidence during COVID that no bank will utilise this buffer in its current form in down turns for fear of the speed at which it is brought back. This means about 20% of the industry's capital has been sterilised and is unproductive. A change in status of this buffer could provide economic growth without creating undue risk in the banking sector.

I never doubted the need for strong regulation to promote safety and soundness of the banking industry and I believe confidence in the sector continues to grow. It is my hope that this confidence will empower regulators to permit the development of a diverse set of banks with different business models, which is likely to create less inherent risk in the industry.

Board Changes and Personnel

During the year I was pleased to welcome Jayne Almond, Angela Knight, and Lord Sassoon to the Board. We are delighted to attract such notable directors to our company. They bring with them a wealth of knowledge and experience gained through their respective careers. I look forward to receiving their advice and counsel on how we can further develop the Group.

As always, the continued success of the Group reflects the hard work and commitment of our members of staff, who are our greatest asset. On behalf of the Board, I extend our thanks to all of them for their contribution in 2023. Finally, I would like to thank my fellow directors on both Boards for their help and advice during the year.

Dividend

In 2022 we increased the trajectory of growth in the dividend, and given the continued positive outlook for the Group, this is maintained.

The Board therefore are recommending a final dividend of 27p per share. This is an increase of 2p compared to the final dividend of 2022. The final dividend, if approved at the 2024 AGM, will be paid on 31 May 2024 to shareholders on the register at the close of business on 19 April 2024.

Together with the interim dividend of 19p per share, this gives a total dividend for the year of 46p per share, which compares to the total dividend of 42p per share paid in 2022.

Outlook

The interest rate environment appears to have reached the top of the current cycle and many analysts are now predicting reductions in the future. Whilst this will have an impact on the profitability of the Group; in the long run, the opportunities for Arbuthnot to grow and prosper continue to be undiminished. Therefore, we remain focused on delivering on our strategic plan.

Strategic Report - Business Review

Group Key Metrics	2023	2022
Operating income	£178.9m	£137.4m
Other income	£2.5m	£1.6m
Operating expenses	£131.1m	£108.9m
Profit before tax	£47.1m	£20.0m
Customer loans[1]	£2.3bn	£2.2bn
Customer deposits	£3.8bn	£3.1bn
Total assets	£4.3bn	£3.6bn
Key Performance Indicators		
Funds under management and administration	£1.7bn	£1.3bn
Average net margin [2]	5.7%	5.1%
Loan to deposit ratio [3]	62.0%	71.4%

[1] *This balance includes both customer loans and assets available for lease.*
[2] *Average net margin: Gross interest income yield less average interest rate on customer deposits*
[3] *Loan to deposit ratio: Customer loans divided by customer deposits (prior year restated to include assets available for lease)*

The Bank of England Base Rate (BBR) continued to rise throughout 2023 starting the year at 3.50% and finishing at a 15-year high of 5.25% with a rise of 1.75% in the year. Although it seems that inflation has stabilised and in response the Bank of England has steadied its base rate, the effect of the higher interest rate environment and the rate of increase has significantly contributed to the Group's income. As a consequence of the rate rises the Bank has passed on the increases to its depositors, however two factors have reduced the cost to the Bank. Firstly, the rate of the Bank's fixed term deposits lag behind the base rate rises, with balances placed at lower rates in previous periods yet to mature. Secondly, high levels of call balances were held for much of the year. However, towards the end of the year, the Bank saw increased activity of depositors switching balances to higher yielding term products, based on the expectation that interest rates have peaked. These factors will increase the cost of deposits going forward, while the rate of increase in BBR compared to that of deposit pricing has contributed significantly to an increased net interest income for 2023.

As signalled in the prior year's Annual Report, the current economic environment has resulted in economy-wide headwinds for borrowers. However, the non-performing loan book has reduced to its lowest level in over three years with credit metrics showing no signs of material stress. The average loan to value ("LTV") against the loan book remains low at 47.8% (2022: 52.5%), giving significant levels of security to withstand and minimise the effect of any potential falls in the property markets.

Despite higher inflation and interest rates, the prospect of further increases in interest rates and inflation has receded. Consequently, the outlook for economic conditions has improved over the last twelve months, notably with the outlook for residential property values expected to fall 6.4% compared to 11.6% the prior year and commercial property values expected to fall 4.9% compared to 21.2% the prior year. These factors have resulted in a release of £0.2m from the expected credit loss provision.

Counteracting the benefit from the base rate increases, inflation has produced upward pressure on the cost base. Notably salary costs have increased due to not only growth in headcount but also increases in annual pay awards, as the cost-of-living crisis started to interact with full employment and the competition for talent intensified.

The Bank finished the year with total deposits of £3.8bn compared to £3.1bn for the prior year and continued to pursue its strategy of funding the specialist lending divisions with cheaper yet sticky balances from relationship driven deposit account clients. Whilst the Bank experienced upward pressure on rates, it did not compete for deposits on the non-relationship aggregator platforms.

Lending balances (including lease assets) finished the year at £2.3bn, compared to £2.2bn in the previous year. However, as mentioned in the previous year's Annual Report and Accounts, the Bank tightened its credit appetite and reduced LTVs for new lending below its historic guidance of 60% which has reduced lending volumes. However, the increased levels of profitability, mean the Bank is well positioned to retain financial resources for future opportunities that are expected to arise given the market dislocation.

In April 2023, the Group carried out a successful capital raise of £12m with demand heavily oversubscribed against the original target of £10m. The capital raise has allowed the Group to maintain growth momentum, whilst continuing to pursue its strategic objectives.

Included on the balance sheet is the Right of Use Asset for the Group's new London Office at 20 Finsbury Circus. The building is approximately 75,000 square feet, which equates to an increase of 45% compared to the current office space. Given the robust position in which the Group finds itself and its predicted future growth prospects, it has secured a new long-term solution for its office premises.

The planned fit-out, due to be completed in the third quarter of 2024, will provide both high specification working space and also new client meeting and entertainment suites, which will help to deepen the relationship banking offering that is proving successful in both our Private and Commercial banking businesses. The increased footprint and depreciation of the fit-out costs will increase the annual expenditure on premises by approximately £5.0m on a steady state basis. During 2024 the Group will also incur the additional cost of running both premises until the lease on our current office ends in October 2024.

As in prior years, the Group's profit excludes the profit on the sale of trucks generated by Asset Alliance of £4.3m (2022: £6.5m), following the acquisition accounting in 2021. At the year end the uplift on the portfolio of assets from the acquisition has been fully realised through sales, meaning any gains or losses for future disposals will be recognised in the income statement as and when they are sold.

Banking

The Banking business continued to deliver growth in client acquisition, for both lending and deposit products, leveraging off the underlying relationship management franchise whilst supporting the strategic aims of the wider group. The Bank continued to focus on existing segments across Private & Commercial Banking, as well as entering new emerging segments with long term growth opportunities such as Technology and E-games where the Bank's capability and relationship management focus fits well with the needs of the market.

Deposits finished the year at £3.8bn, equating to growth in excess of 23% compared to £3.1bn the previous year end, generating liquidity to be deployed across the Group. This was despite a number of non-relationship deposits that were exited during the year.

Given the higher interest rate environment, there was a trend with clients being more proactive in managing deposits transferring to time from current and call products for improved returns. Despite this, strong client acquisition in the year continued to contribute to growth in current balances. It is expected that the competitive environment for low-cost deposits will increase, however, the Bank's client service led model is well placed against potential headwinds albeit at a lower growth rate than the current year.

The cost of deposits has increased steadily throughout the year, as the effect of increases in interest rates lag behind as fixed rate deposits are repriced when they mature, ultimately narrowing the Bank's net interest margin. Deposit pricing stabilised towards the latter part of the year, however, the full year effect of the increased pricing will cause downward pressure on the 2024 financial result. The Bank's relationship banking model combined with competitive pricing supports the strategy to grow relationship deposits rather than rely on more expensive best buy table deposit rates. Over the long term, this will provide material value to the Group in a normalised interest rate environment.

The loan book was £1.4bn at the year-end (2022: £1.5bn). Despite the inherent credit risk in the current environment, the book continued to perform robustly, supported by the Bank's conservative credit appetite, which was tightened over a year ago in the wake of economic uncertainty. The pressure of a higher interest rate environment on clients has resulted in reduced debt levels that businesses can raise and sustain, however there has been a trend of clients opting to pay down debt from surplus liquidity in order to mitigate the effect of higher interest rates. The Bank will continue to operate its long held principle of operating a conservative credit appetite, and deploying capital only where disciplined risk and return hurdles are met.

Wealth Management

Funds Under Management and Administration increased by 29% during 2023, to £1.7bn (2022: £1.3bn), with gross inflows of £437m, representing 33% of balances at the start of the year. The year's backdrop of rising interest rates negatively impacted outflows as clients elected to pay down debt secured against investments and accelerate gifts to children when acquiring property to mitigate the need to take out more costly mortgages, resulting in gross outflows of £165m for the period.

Wealth Planning issued advice on £151m of new assets, a similar value compared with 2022, representing approximately 64% of discretionary asset inflows. A total of 139 clients were onboarded during 2023, broadly consistent with the prior year.

The business made good progress against a key strategic objective, to stream-line the investment suitability process which is expected to improve client outcomes and generate internal process efficiencies.

Mortgage Portfolios

Balances for the Banks's acquired mortgage portfolio was £123.7m at the year-end (2022: £149.0m). The portfolio continues to perform in line with expectations.

Arbuthnot Commercial Asset Based Lending ("ACABL")

ACABL reported a profit of £8.5m (2022: £5.2m), an increase of 63% compared to the prior year which was largely generated through higher client volume generating increased interest charges and service fees.

ACABL completed 17 new transactions in 2023 (2022: 30) with £73.1m of facilities written.

Despite the increase in profitability, at the year-end, the business reported drawn balances of £239.8m with a further £115m available for drawdown (2022: £268.8m with further £91.8m available for drawdown) equating to a fall of 11% year on year. The fall was driven by a combination of lower origination due to the macro-economic environment, along with expected attrition, as the business entered its sixth year and some of the original client's facilities reached maturity. This was compounded by some clients holding higher levels of undrawn availability than historically seen.

Inflationary pressures, a higher interest rate environment and ongoing supply chain challenges resulted in a significant reduction in the number of event-driven transactions in the marketplace in addition to fewer Private Equity backed buy-outs, with the latter being traditionally the mainstay of new business. The business also wrote fewer refinancing deals given the market challenges and cautious risk appetite with extensions favouring existing lenders.

As expected in the context of the current macro-economic environment, the business observed a higher number of watchlist clients compared to previous periods. However, the business model of lending against high-quality realisable assets along with a low ratio of clients to client manager resulted in no incurred losses for the year. The expected credit loss rate on the book remains low at 9.8bps.

The average deal size increased from £5.1m to £5.8m with a total client base of 104 at year-end. (2022: 102). Facility limits of £536m (2022: £523m) remained relatively flat, with clients continuing to operate in a broad range of sectors, underlining the spread and diverse nature of the portfolio.

In line with the reported strong growth in profits, the business processed £2.3bn of invoices during the year, an increase of 15% on the prior year.

Renaissance Asset Finance ("RAF")

RAF reported a profit before tax of £1.6m (2022: £0.2m) with a loan book of £198.8m equating to an increase of 49% compared to the prior year end balance of £133.8m.

The average margin achieved on new business grew strongly in the higher interest rate environment along with the volume of new deals written being at the highest level seen in RAF since the business was acquired in 2017.

The new Block Discounting business launched in late 2021 began to mature with strong growth in the latter part of the year, delivering a positive contribution to the profitability of the business.

The increase in forbearance cases and problem accounts seen during the pandemic period has now been worked through, with a majority of positive outcomes and whilst the economic environment has caused some client strain, particularly in sectors such as construction, the loan book performance remains well within tolerance levels.

RAF does provide finance via brokers to enable our borrowers to purchase motor vehicles. However, the business does not have regulatory permissions to carry out regulated lending, so this is carried out on an unregulated basis.

Arbuthnot Specialist Finance ("ASFL")

The ASFL loan book reduced from £14.9m as at 31 December 2022 to £3.1m at the year end.

ASFL was closed for new business early in 2023, with the book being run-down for the remainder of 2023. Repayments are currently ahead of schedule.

Asset Alliance Group ("AAG")

AAG reported a loss before tax of £3.2m (2022: £2.1m loss). As at 31 December 2023 the business had assets available for lease and finance leases totalling £326.8m (2022: £189.1m), with strong growth in new lending equating to an increase of 73% over the year.

Strategic diversification into new lending channels particularly in the Bus & Coach sector, including a dedicated Bus Rental Division launched towards the end of 2023, contributed to the portfolio's growth.

During the year the supply of new commercial vehicles gradually returned to a degree of normality, albeit the cost per unit remains significantly higher than pre-COVID levels and is unlikely to reduce in the foreseeable future. New vehicle leases were subdued in the first half of the year, with a recovery in the latter part of the year.

The market for the disposal of previously leased vehicles was lower than historically seen, particularly in the second half of 2023. This was not entirely unexpected given the increased supply of used assets into the market the previous year and the increased supply of new assets in 2023. Whilst demand for used assets slowed, encouragingly margins remained in line with previous years.

During the year the remaining fair value adjustment of £6.8m at the start of the year, recognised at acquisition of the business, was fully realised following the sale of assets; along with the remaining residual value provision of £2.5m. Future gains or losses from asset disposals will be recognised in the income statement as and when they are sold.

Owned Properties

The Bank retains four assets in its property portfolio of which one is overseas.

As a result of higher interest rates, property investment yields have also risen. However, the effect of inflationary increases in rental income delayed until scheduled rent reviews, has resulted in property values being marked down. £2.6m of impairments have been charged to the income statement for the Group's property portfolio.

Operations

The Bank has continued to drive positive momentum in the acquisition of clients from its target markets. Net growth in new clients has been strong with over 1,200 new banking clients onboarded in 2023, of which 62% were non-personal clients. This growth has seen operational aspects of the business continue to increase, with over 1 million inbound and outbound payments processed in 2023, a growth of 12% on the previous year. 98% of outbound payments were originated online, underpinning the need for continued investment in the Bank's digital strategy.

During 2023, the Bank achieved a 97% increase in the volume of fixed term deposits as clients took advantage of the increase in interest rates to lock in a guaranteed low risk return on their money by moving from instant access accounts and placing their money into longer term fixed rate deposits.

Work continued on meeting the regulatory requirements under Statement (SS) 1/21: Impact Tolerances for Important Business Services, with a focus on further embedding continuity plans and enhancing technology resilience, as well as further investment in the Bank's Investment Management Operations, focusing on increasing automation and streamlining of processes which supported an increase in trading of 9% with the total value of trades up 38% to nearly £2bn.

In 2023, the Bank continued to invest in systems and infrastructure, initiating the final phase of its migration to the cloud along with developing a digital roadmap aimed at improving the customer experience and organisational efficiency over the coming years. Additionally, work commenced in 2023 on a significant transformation project to upgrade the Bank's online and mobile banking offering.

Sustainability

The business has made a commitment to reduce its environmental impact and to improve its environmental performance as an integral part of its business strategy.

Strategic Report - Financial Review

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

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

Highlights

Summarised Income Statement	2023 £000	2022 £000
Net interest income	136,619	99,081
Net fee and commission income	22,398	21,049
Operating income from banking activities	**159,017**	**120,130**
Revenue	100,952	99,367
Cost of goods sold	(81,074)	(82,109)
Operating income from leasing activities	**19,878**	**17,258**
Total group operating income	**178,895**	**137,388**
Other income	2,526	1,627
Loss on sale of commercial property held as inventory	-	(4,590)
Operating expenses	(131,113)	(108,913)
Impairment losses - loans and advances to customers	(3,191)	(5,503)
Profit before tax	**47,117**	**20,009**
Income tax expense	(11,738)	(3,551)
Profit after tax	**35,379**	**16,458**
Basic earnings per share (pence)	**222.8**	**109.6**

The Group has reported a profit before tax of £47.1m (2022: £20.0m). The underlying profit before tax was £51.4m (2022: £31.1m).

Total operating income earned by the Group was £178.9m compared to £137.4m for the prior year. The higher interest rate environment has significantly contributed to the Group's income. This was as a result of significant excess liquidity held at the BOE, together with lending linked to the BOE base rate that has repriced immediately, while fixed rate deposits naturally lag behind as these are only repriced on maturity. With the general consensus in the market that rates are expected to fall, the Group has shifted its focus to longer term fixed rate lending products and also started to invest some of the excess liquidity into high quality and short dated fixed income assets, such as gilts. This will hopefully soften the impact as interest rates start to come down in the near future. The average net margin on client lending was 5.7% (2022: 5.1%). Also included in operating income is revenue from AAG leased assets of £19.9m (2022: £17.3m).

The Group's operating expenses increased to £131.1m compared to £108.9m for the prior year. Higher staff costs (£8.2m), further investment in information technology (£6.7m higher than in 2022), a combined impairment of £2.6m on the remaining investment property, property held for sale and held as inventory, and the general expansion of all businesses contributed to the increase.

There are a number of specific items which are included in the result for the year that should be noted. These are detailed and compared to the equivalent adjusted amount for the prior year in the tables below.

Underlying profit/(loss) reconciliation 31 December 2023	Arbuthnot Latham & Co. £000	Group Centre £000	Arbuthnot Banking Group £000
Profit before tax and group recharges	62,688	(15,573)	47,115
Profits realised on sale of trucks previously included in bargain purchase	4,267	-	4,267
Underlying profit	**66,955**	**(15,573)**	**51,382**
Underlying basic earnings per share (pence)			**244.6**

Underlying profit reconciliation 31 December 2022	Arbuthnot Latham & Co. £000	Group Centre £000	Arbuthnot Banking Group £000
Profit before tax and group recharges	32,865	(12,856)	20,009
Profits realised on sale of trucks previously included in bargain purchase	6,479	-	6,479
Loss on sale of King Street Property	4,590	-	4,590
Underlying profit	**43,934**	**(12,856)**	**31,078**
Underlying basic earnings per share (pence)			**169.2**

In 2021, the Group acquired Asset Alliance Group Holdings Limited. The business was acquired at a discount to its fair value resulting in a bargain purchase of £8.6m. Included in the fair value adjustments at acquisition was an uplift to the valuation of lease assets, together with a residual value provision. The remaining fair value uplift of £6.8m at the beginning of the year, has been realised through sales of vehicles in the year (2022: £6.9m realised). Similarly, the remaining residual value provision at the beginning of the year of £2.5m was released (2022: £0.4m released). In future years, no adjustment will therefore be required.

Balance Sheet Strength

Summarised Balance Sheet	2023 £000	2022 £000
Assets		
Loans and advances to customers	2,064,217	2,036,077
Assets available for lease	267,591	171,738
Liquid assets	1,848,377	1,288,269
Other assets	163,655	117,963
Total assets	**4,343,840**	**3,614,047**
Liabilities		
Customer deposits	3,759,567	3,092,549
Other liabilities	331,833	309,520
Total liabilities	4,091,400	3,402,069
Equity	252,440	211,978
Total equity and liabilities	**4,343,840**	**3,614,047**

Total assets increased by £0.7bn to £4.3bn (2022: £3.6bn). Loans and advances to customers together with assets available for lease increased by 6% from the prior year. Customer deposits increased by 22% in the year and contributed to the 44% increase in liquid assets.

The net assets of the Group now stand at £15.47 per share (2022: £14.11).

Capital Raise

An intended £10m capital raise through a conditional placing was significantly oversubscribed and resulted in £12m (£11.6m after costs) of extra capital. The capital raise was completed on 5 May.

Later in the year the Tier 2 debt instrument from P Capital Partners was refinanced early and extended for a further 10 years at a lower margin than before. The facility was also increased from £25m to £26m and is due to draw down in 2024.

Segmental Analysis

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

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

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	2023 £000	2022 £000
Net interest income	114,131	64,565
Net fee and commission income	2,613	2,803
Operating income	116,744	67,368
Operating expenses - direct costs	(15,318)	(14,795)
Operating expenses - indirect costs	(36,755)	(31,888)
Impairment losses - loans and advances to customers	(1,227)	(1,547)
Profit before tax	**63,444**	**19,138**

Banking reported a profit before tax of £63.4m (2022: £19.1m). This equated to a more than threefold increase from the prior year. Net interest income grew by 77%, while lending remained flat and deposit balances increased by 21%. The significantly higher net interest income is the result of successive increases in the BOE Base Rate, with the Bank earning higher income from both customer loans and excess deposits held mainly at the Bank of England reserve account. This was partly offset by higher interest paid on deposit balances.

There was a net impairment charge of £1.2m compared to £1.5m for the prior year. The lower charge in the year was as a result of revised economic scenarios applied in the expected credit loss models due to a more positive future outlook, most notably a reduction in the expected fall in property values (both residential and commercial).

Indirectly allocated operating costs increased by £4.9m, mainly as a result of increased staff costs in support departments and further investment in information technology.

Customer loan balances reduced by £13m to remain flat from the prior year at £1.4bn and customer deposits increased to £3.8bn (2022: £3.1bn). The average loan to value was 47.8% (2022: 52.5%).

Wealth Management

Summarised Income Statement	2023 £000	2022 £000
Net fee and commission income	11,328	10,689
Operating income	11,328	10,689
Operating expenses - direct costs	(10,097)	(9,237)
Operating expenses - indirect costs	(5,487)	(5,553)
Loss before tax	**(4,256)**	**(4,101)**

Wealth Management reported a loss of £4.3m (2022: loss of £4.1m). Fee and commission income increased by £0.6m and was more than offset by a £0.8m increase in costs. Funds Under Management and Administration increased by £0.4bn to £1.7bn, with most of the increase in the latter part of the final quarter.

Mortgage Portfolios

Summarised Income Statement	2023 £000	2022 £000
Net interest income	4,245	5,110
Operating income	4,245	5,110
Operating expenses - direct costs	(833)	(935)
Impairment losses - loans and advances to customers	(821)	(415)
Profit before tax	**2,591**	**3,760**

The Mortgage Portfolios reported a profit of £2.6m (2022: £3.8m). Net interest income reduced by £0.9m, as the loan book went down by £24.8m in the year.

The Santiago mortgage portfolio performed as expected and the year-end balance was £123.7m (2022: £148.5m).

RAF

Summarised Income Statement	2023 £000	2022 £000
Net interest income	8,044	5,545
Net fee and commission income	34	32
Operating income	8,078	5,577
Other income	170	82
Operating expenses - direct costs	(5,634)	(4,697)
Impairment losses - loans and advances	(982)	(768)
Profit before tax	**1,632**	**194**

Renaissance Asset Finance returned a profit of £1.6m (2022: £0.2m). Interest income increased by £3.7m from higher balances and higher rates, which was partly offset by higher funding costs of £1.2m. Operating expenses were £0.9m higher than in 2022 due to higher staff costs and general expansion of the business.

Customer loan balances increased by 49% to £198.8m (2022: £133.8m). The average yield for 2023 was 8.2% (2022: 8.1%).

ACABL

Summarised Income Statement	2023 £000	2022 £000
Net interest income	8,642	6,762
Net fee and commission income	6,911	5,976
Operating income	15,553	12,738
Operating expenses - direct costs	(6,777)	(5,463)
Impairment losses - loans and advances to customers	(234)	(2,082)
Profit before tax	**8,542**	**5,193**

ACABL recorded a profit before tax of £8.5m (2022: £5.2m).

Client loan balances were £239.8m at the end of the year (2022: £268.8m), with issued facilities increasing to £536m (2022: £523m). Despite a 11% reduction in loan balances, operating income increased by £2.8m. Higher interest income of £8.6m was partially offset by higher internal funding costs of £6.7m, while fee and commission income also increased by £0.9m. Operating expenses increased by £1.3m, mainly due to an increase in staff costs.

The prior year impairment charge included £2m relating to one client that was placed into administration.

ASFL

Summarised Income Statement	2023 £000	2022 £000
Net interest income	751	713
Net fee and commission income	13	10
Operating income	764	723
Operating expenses - direct costs	(1,507)	(1,489)
Impairment losses - loans and advances to customers	46	(179)
Loss before tax	**(697)**	**(945)**

ASFL recorded a loss before tax of £0.7m (2022: loss of £0.9m).

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

Customer loan balances closed the year at £3.1m (2022: £15.0m).

AAG

Summarised Income Statement	2023 £000	2022 £000
Net interest expense	(7,864)	(4,456)
Net fee and commission income	(12)	-
Revenue	100,952	99,367
Cost of goods sold	(81,074)	(82,109)
Operating income	12,002	12,802
Operating expenses - direct costs	(15,093)	(14,507)
Impairment losses - loans and advances to customers	(98)	(369)
Loss before tax	**(3,189)**	**(2,074)**

The business generated a loss before tax of £3.2m (2022: loss of £2.1m for the period).

As part of the bargain purchase at acquisition, the carrying value of the truck and trailer fleet was adjusted by an overall average increase of 15.95% resulting in an uplift totalling £19.5m. At the same point a provision of £2.9m was booked relating to residual values, also forming part of the bargain purchase recognised in 2021. The remaining fair value uplift of £6.8m at the beginning of the year, has been realised through sales in the year (2022: £6.9m). Similarly, the remaining residual value provision at the beginning of the year of £2.5m was released (2022: £0.4m released). In future years, no adjustment will therefore be required.

It should be noted that the current year includes £10.2m internal funding costs compared to £4.9m in the prior year. While the increasing interest rate environment in 2023 resulted in higher funding costs, the adjustment to income earned on lending and assets available for lease will lag behind, as contracts are only re-priced at the end of their fixed term.

The supply of new commercial vehicles gradually returned to a degree of normality, although the cost per unit remains significantly higher than pre-COVID and is not expected to reduce in the foreseeable future. New vehicle leases were subdued but started to recover in the second half of the year.

The market for the disposal of second-hand vehicles was lower than historically seen, especially towards the end of the year. This was expected due to the increased supply of used assets into the market, as new assets became more readily available.

In May 2023, AAG acquired a portfolio of circa 400 buses for £41.3m. All these assets are on contract to operators within the Transport for London network, and the portfolio has a range of asset specifications including electric, hybrid and diesel buses. Following the transaction, AAG are now one of the main funders of buses within the TfL network, which leaves them well placed to capitalise on future opportunities, including the on-going transition to electric.

Operating expenses increased by £0.6m from the prior year.

Credit provisions were £0.1m (2022: £0.4m).

As at 31 December 2023 the business had a total of £326.8m (2022: £189.1m) of assets available for lease and finance leases, which is a 73% increase on the prior year.

Other Divisions

Summarised Income Statement	2023 £000	2022 £000
Net interest income	13,371	23,993
Net fee and commission income	1,511	1,539
Operating income	14,882	25,532
Other income	3,191	2,385
Operating expenses - direct costs	(23,577)	(16,074)
Impairment losses - loans and advances to customers	125	(143)
(Loss) / profit before tax	**(5,379)**	**11,700**

The aggregated loss before tax of other divisions was £5.4m (2022: profit of £11.7m).

Operating income reduced by £10.7m to £14.9m (2022: £25.5m), as a result of higher internal funding costs.

Reported within the other divisions in other income was rental income on our property portfolio of £0.7m (2022: £0.5m).

Operating expenses increased mainly due to higher staff costs, further investment in information technology and the £2.6m impairment of owned properties (investment property, property held for sale and held as inventory).

Group Centre

Summarised Income Statement	2023 £000	2022 £000
Net interest income	(220)	(363)
Subordinated loan stock interest	(4,481)	(2,788)
Operating income	(4,701)	(3,151)
Operating expenses	(10,877)	(9,705)
Loss before tax	**(15,578)**	**(12,856)**

The Group costs increased to £15.6m (2022: £12.9m). Subordinated loan interest increased by £1.7m due to the rising interest rate environment.

The increase in operating expenses of £1.2m is mainly due to higher staff costs.

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 pm 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 is 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 PRA regulated entity is also the principal trading subsidiary as detailed in Note 44.

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

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

Capital ratios	2023 £000	2022 £000
CET1 Capital Instruments*	252,705	212,501
Deductions	(30,414)	(37,126)
CET1 Capital after Deductions	222,291	175,375
Tier 2 Capital	37,726	37,594
Own Funds	**260,017**	**212,969**
CET1 Capital Ratio (CET1 Capital/Total Risk Exposure)	**13.0%**	**11.6%**
Total Capital Ratio (Own Funds/Total Risk Exposure)	**15.2%**	**14.0%**

* 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, climate change, strategic, credit, market, liquidity, operational, cyber, residual value, 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 its businesses act consistently with the seven corporate principles as laid out on page 3 of the Annual Report and Accounts. This is achieved through a central Risk Management framework and supporting policies, the application of a three-lines of defence model across the Group and oversight by various committees. Employees are supported in training, studies and other ways and encouraged to live out the cultural values within the Group of integrity, energy and drive, respect, collaboration and empowerment. In applying the seven corporate principles, the risk of reputational damage is minimised as the Group serves its shareholders, customers and employees with integrity and high ethical standards.

Macroeconomic and competitive environment

The Group is exposed to risks that may arise from the macroeconomic and competitive environment.

In recent years there have been a number of global and domestic events which have had significant implications on the Group's operating environment, namely: Russia's war in the Ukraine, the Israel-Hamas war in Gaza, Coronavirus and Brexit. The culmination of these events has led to significant turmoil in both global and domestic markets. The most significant economic effect from these events includes record inflation driven by high fuel costs, leading to sharp and significant increases in the cost of borrowing. Indicators suggest that conditions may have stabilised, however geo-political volatility and uncertainty remains high with the potential to adversely affect the UK economy, as well as the Group's customers and assets.

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

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

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

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

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

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

Credit risk
Credit risk is the risk that a counterparty (borrower) will be unable to pay amounts in full when due. This risk exists in Arbuthnot Latham, which currently has a loan book of £2.1bn (2022: £2.0bn). 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.

Interest rate and currency risk
The Group's treasury function operates mainly to provide a service to clients and does not take significant unmatched positions in any market for its own account. As a result, the Group's exposure to adverse movements in interest rates and currencies is limited to interest earnings on its free cash and interest rate re-pricing mismatches. The Group actively monitors its exposure to future changes in interest rates. However, at the current time the Group does not hedge the earnings from the free cash which currently totals £827m. The cost of hedging is prohibitive. Cash is held at the BOE and with the general consensus in the market that rates are expected to fall, the Group has shifted its focus to longer term fixed rate lending products and also started to invest some of the excess liquidity into high quality short dated fixed income assets, such as gilts.

Property and equity market risk
The Group is exposed to changes in the market value of its properties. The current carrying value of Investment Property is £6.0m, properties held for sale £3.3m, and properties classified as inventory £14.7m. 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 is

also exposed to changes in the value of equity investments. The current carrying value of financial investments is £3.9m. Any changes in the value of financial investments will be accounted for 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, together with drawings from the Bank of England Term Funding Scheme and capital fund the Bank. The loan to deposit ratio is maintained at a prudent level, and consequently the Group maintains a high level of liquidity. The Arbuthnot Latham Board annually approves the Internal Liquidity Adequacy Assessment Process ("ILAAP"). The Directors model various stress scenarios and assess the resultant cash flows in order to evaluate the Group's potential liquidity requirements. The Directors firmly believe that sufficient liquid assets are held to enable the Group to meet its liabilities in a stressed environment.

Operational risk

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

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

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.

Residual value risk

Residual value risk equals the difference in the residual value of a leased asset set at lease inception and the lower salvage value realised upon its disposal or re-lease at the end of the lease term. The Group is exposed to residual value risk in its AAG business. Normal residual value risk is managed through the process set out below, and it should be noted that the transition to greener technology may further impact residual values in two ways. Firstly, residual values could decrease due to assets becoming obsolete; climate related regulations might change, which could result in legal restrictions on the use of assets or technological advances could lead to preferred environmental technologies. Secondly, the lack of historical information on green vehicles could lead to inaccurate measurement of residual values at inception of leases.

The AAG business manage Residual Value setting through its Residual Value Committee that comprises representatives from its Asset Management, Procurement, Sales and Leasing divisions and is chaired by the Residual Value Manager. Assets are valued using either an approved Residual Value matrix or individually, dependent upon the nature of the asset and current market conditions. The strategy for Residual Value setting and oversight of the Residual Value Committee is conducted by the AAG Residual Risk Committee, which in turn reports into Asset Alliance Group Holdings Limited board. The Residual Risk Committee, chaired by the AAG Group Risk Director, includes AAG CEO, AL Group Risk Director, AAG Managing Director, AAG Finance Director and heads of Asset Management, Sales and Leasing divisions in AAG.

Conduct risk

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

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

Financial Crime

The Group is exposed to risk due to financial crime including money laundering, sanctions evasion, bribery and corruption, market abuse, tax evasion and fraud. The Group operates policies and controls which are designed to ensure that financial crime risks are identified, appropriately mitigated and managed.

Regulatory and capital risk

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

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

Strategic Report - Non-Financial and Sustainability Statement

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

Reporting Requirement	Policies and Standards	Information Necessary to Understand Impact of Activities and Outcome of Policies
Environmental Matters	• Credit Policy • Managing Financial Risks of Climate Change Framework • Environmental Management Policy	• Financial Review, page 19 • Stakeholder Engagement and S. 172 (1) Statement, pages 22 and 23 • Sustainability Report, pages 25 to 38 • Corporate Governance Report page 49
Employees	• Agile Working Policy • Board Diversity Policy • Dignity at Work Policy • Equality, Diversity and Inclusion Policy • Flexible Working Policy • Health and Safety Policy • Long Service Awards Policy • Parental Leave Policy • Personal Appearance Policy • Remuneration Policy • Training & Development Policy • Whistleblowing Policy	• Stakeholder Engagement and S. 172 (1), pages 22 and 23 • Sustainability Report, pages 25 to 31 • Directors Report, page 43 • Corporate Governance Report, page 47
Social Matters	• Complaints Handling Policy • Fraud Policy • Tax Strategy • Vulnerable Clients Policy	• Arbuthnot Principles, page 3 • Stakeholder Engagement and S. 172 (1) Statement, pages 22 and 23 • Sustainability Report, pages 25, 26 and 29
Respect for Human Rights	• Anti-Modern Slavery Policy • Dignity at Work Policy • Equality, Diversity and Inclusion Policy • Personal Data Protection Policy	• Stakeholder Engagement and s.172 (1) Statement, pages 23 and 24 • Sustainability Report, pages 25 to 29
Anti-Corruption and Anti-Bribery	• Anti-Bribery and Corruption Policy • Anti-Money Laundering Policy • Client Acceptance policy • Cyber Strategy • Group Market Abuse and Insider Dealing Policy • Physical Security Policy	• Sustainability Report, pages 25 and 29
Description of Principal Risks and Impact of Business Activity		• Strategic Report, pages 18 to 20
Description of the Business Model		• Business Overview
Non-Financial Key Performance Indicators		• Sustainability Report, pages 25 and 26

Strategic Report - Stakeholder Engagement and s.172 Report

Stakeholder Engagement and S. 172 (1) Statement

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

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

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

The Arbuthnot Principles and Values set out on page 3 explain the Board's approach to its stakeholders. Details of how the Directors had regard to the interests of its key stakeholders during the year are set out below, in the Group Directors Report on page 44 and in the Corporate Governance Report on page 49.

The Board has regard to the interests of all its key stakeholders in its decision making since the Directors are conscious that their decisions and actions have an impact on them. The stakeholders we consider in this regard are our shareholders, employees, customers, suppliers, regulators and the environment in which we operate.

Likely consequences of any decision in the long term

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

In March 2023, the Board gave approval for management to agree terms for a lease on new office premises at 20 Finsbury Circus in the City of London. The decision was made, taking a long-term view, because the building offers a more flexible and modern working environment which should retain and attract talented staff, and enhance the client and staff experience. It would allow the Group to progress with its future growth plans in one location. It will assist the Group in achieving its ESG targets and all London staff will be housed in one location. The Board regarded its decision as a significant step forward, maintaining the Group's reputation with its customers and employees, and a statement of confidence in its future.

In July 2023, as part of its succession planning and of its consideration of diversity, the Board appointed Jayne Almond, Angela Knight and Lord Sassoon as non-executive directors with effect from 1 September 2023, subject to the approval of Grant Thornton as Nominated Adviser and Aquis Stock Exchange (AQSE) Corporate Adviser which was given towards the end of August.

Interests of the Company's employees

As explained above, the decision to move London offices was driven partly by the intention to enhance the staff experience. Executive Directors and senior management are fully engaged with the workforce, most of whom interact on a daily basis. Employees are also able to raise concerns in confidence with the HR Team, with grievances followed up in line with a specified process which satisfies all legal requirements. As explained in the section 172 (1) Statement of Arbuthnot Latham, the Company's banking subsidiary, one of its non-executive directors has been designated by its board as the director to engage with Arbuthnot Latham group's workforce whereas the Company itself has fewer than 20 employees, all of whom have direct access to Board members.

As set out in the Whistleblowing Policy, Ian Dewar, a non-executive director and chairman of the Audit Committee, is the Company's Whistleblowing Champion and is available at all times in this role. There is an anonymous whistleblowing service via an external provider. There is also protection for employees deriving from the Public Interest Disclosure Act 1998. Any material whistleblowing events are notified to the Board and to the applicable regulator.

The Board receives an update on human resource matters at each of its meetings. It is also kept informed of the results of employee surveys including one on Diversity & Inclusion, conducted in September 2023, which received a 73% response rate. It noted that on most measures the Group scored around 60 to 70 with the exception of the measure of Arbuthnot as an Employer, scoring 87. In November 2023 an engagement survey was launched to focus on other important topics that matter to employees, including their personal growth, wellbeing, communication from senior leaders, reward and recognition as well as the important measure of the Group's engagement score and the results will be considered by the Board in due course. The Board regards the maintenance of a high level of employee engagement as key to the Company's future success as an organisation on every level and the focus will continue to be to develop our working environment to achieve this aim.

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 ("AL") business and crucial for client retention. The decision to move offices was driven partly by the intention to enhance the client experience. As regards customers, the Board reviewed the continuing Consumer Duty project, which is overseen by the AL Risk Committee, from regular reports to it and updates from its Board Champion, Angela Knight.

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

Balancing stakeholder interests

An illustration of the balancing of the interests of our stakeholders in their long-term interest was the Board's decision in July 2023 to continue its progressive dividend policy, resolving to pay an interim dividend of 19p per share to shareholders. This was an increase of 2p per share from the interim dividend paid in 2022. Given the increased profits of the Group in 2023, the Board has decided to recommend a final dividend of 27p per share; this is an increase of 2p per share compared to the final dividend of 2022.

A further example of the balancing of stakeholders' interests was the decision in December 2023 to renew the private issue of the Company's subordinated loan issued on a bilateral basis to P Capital Partners, a Swedish Debt fund. The loan, which is being increased by £1 million to £26 million before fees and expenses, is expected to be drawn on 3 June 2024 which is the fifth anniversary of the initial loan. It is expected to be classified as Tier 2 for capital purposes which will maintain the current levels of capital to support the strategic plans of the Group.

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

As part of the management information reviewed at its regular meetings, the Board receives a Risk Management report, containing a report on Sustainability / Environmental, Social and Governance ("ESG") matters which includes a Climate Change Dashboard, monitoring climate change measures in place including Scope 1, 2 and 3 GHG emissions. This dashboard sets out climate-change measures and actions.

The Board is updated on the steps the Group is taking to become more sustainable, given its exposure to climate change transition risk as the UK evolves to a low carbon economy. It is also kept informed of the formal approach to ESG established to develop over time, which will underpin the Arbuthnot Principles and Values within the workplace under five 'pillars of sustainability' – governance, clients, employees, community and environment (ESG Pillars). The ESG actions taken are in recognition of the Group's responsibility to make a positive societal impact and the political, regulatory and legal pressure with clients and investors interested in the Group's ESG stance. The Board has again approved an energy and carbon report meeting the requirements of the Streamlined Energy and Carbon Reporting standards, as set out in the Sustainability Report on pages 37 to 39.

In September 2023 the Board approved the enterprise-wide climate change risk appetite, risk assessments, and stress test scenarios and results. It also considered climate change risk in major change decisions, including in the case of the planned 2024 London premises relocation initiated during 2023.

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

Acting fairly as between members of the Company

The majority shareholder, Sir Henry Angest, is the Company's Chairman and Chief Executive. There is continuing engagement with other major shareholders and the Directors make their decisions on behalf of all shareholders. The Board welcomes engagement with them and will continue to maintain communications via one-to-one meetings as appropriate. The Directors treat all shareholders equally, albeit that holders of non-voting shares do not have the right to vote in shareholder meetings. This need to treat all shareholders equally was an important consideration in limiting the amount of the fundraising in May 2023 to £12m, a rights issue to all shareholders not being practicable due to the additional complexity and associated high costs. As a consequence for practical reasons, in addition to the subscription by Sir Henry Angest, only institutional shareholders were approached in conjunction with the Company's stockbroker, Shore Capital, and invited to participate in the placing of shares. The newly subscribed and placed shares represented just over 8% of the Company's issued share capital which was approved by Ordinary shareholders at the General Meeting held on 4 May 2023.

Strategic Report - Sustainability Report

Introduction
The Group has continued to embed sustainable practices across the business and remains committed to ensuring its business activities have a positive impact not just for clients and shareholders but also for employees, society and the environment. Two of our key business principles, reciprocity and stability, rely on recognising our own responsibility to make a positive societal impact.

Climate change is an important topic for consumers and investors alike. In parallel, inclusive growth and the impact organisations have on society are increasingly a focus. More than ever before, organisations are being held accountable for their impact. We focus on how we can improve to build a future that delivers growth, sustainability and inclusion.

Our responsible business initiatives enable us to monitor and measure our social impact by considering the impact of our practices and outputs across five pillars: governance, clients, community, environment and employees as explained on pages 30 to 32 below.

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

Policies
The Group has adopted a wide range of policies that straddle the five pillars to ensure that employees and management are aware of their responsibilities towards our customers and comply with all regulatory requirements. Some of the key policies are set out below and in the Non-Financial and Sustainability Statement on page 22.

Human Rights commitments
The Group is committed to operating in an ethical manner, and ensuring the relationships we have with all our stakeholders adhere to high standards. These are reflected in both our Anti-Modern Slavery Policy and in our Supplier Code of Conduct.

The Group is committed to finding and reducing the risk of slavery or human trafficking in every part of our supply chain.

Clients
Relationships with our clients is at the heart of what we do. We take the time to understand what is important to our clients so that we can be confident that we are working in their best interests, for business, for family, for life. Being a relationship-led bank, every single one of our clients has a dedicated relationship manager to guide and support them. This is supported by our strong Net Promoter Score (NPS) (Non-financial Key Performance Indicator) which is reviewed every two years. Our most recent, 2022, NPS increased to 64%, up from 47% in 2020, a reflection of our clients' support.

Our bankers have been engaging pro-actively with clients, following the tightening of Credit appetite in order to help those struggling due to the impact of increasing interest rates, inflation and high cost of living.

Consumer Duty
Our approach to the Financial Conduct Authority's Consumer Duty means continuing to ensure that clients are at the heart of everything we do.

Over the past year, we have undertaken a large-scale assessment of the Consumer Duty outcomes by reviewing our products and services, pricing structure, communications and support infrastructure.

Client support
As a relationship-led bank, our purpose is to help our clients go further. This means ensuring that they receive a bespoke service, tailored to their needs, helping them achieve their financial goals. As part of our product reviews, we have assessed the level of support provided to clients and the channels available to access this support.

The review spanned the entire client base and we have concluded that the range of support channels provided to clients, including those with characteristics of vulnerability, enables them to pursue their financial goals and receive good outcomes.

Vulnerable clients
The term 'vulnerability' captures a range of circumstances our clients can face. To ensure we are treating vulnerable clients fairly, we have implemented vulnerable client guidance focused on identifying and supporting vulnerable clients and recording information about them. We have a Vulnerable Client Committee to ensure we continue to support our staff with treating vulnerable clients; this includes providing training resources.

Employees
We continually focus on creating an outstanding culture and workplace for all our employees. Our high engagement scores are a testament to this. In the most recent employee engagement survey (Non-Financial Key Performance Indicator), conducted in November 2023, our overall engagement score maintained a very high-level of 83. Once again, benchmarking across the industry showcases our significant lead over competitors. 84% of employees would recommend Arbuthnot as a great place to work, up 5% from last year and 17% against the benchmark. This achievement is something we take pride in and solidifies our reputation as a high-performing organisation.

Wellbeing
Our work environment fosters and enhances the wellbeing of our employees. Aligned with our mission and core values - Integrity, Respect, Empowerment, Energy & Drive and Collaboration, our wellbeing strategy is designed to resonate with the recognition that our employees constitute our greatest asset. Our wellbeing strategy focuses on four pillars: mental, physical, social and financial. Through these pillars, we provide our employees with a range of resources and tools to support their wellbeing, including resources provided by BUPA, Headspace, Hargreaves Lansdown and our Employee Assistance Programme.

We work with external provider Activehub to encourage and incentivise our employees to get active, with 322 employees downloading the app in 2023 to keep active. In June we held a headline event with Activehub, rewarding employees activity with tree planting. Through Eden Reforestation Project we pledged to plant 7,696 trees.

Early Careers and Young Professionals
2023 saw the continuation of our Structured Graduate and Apprenticeship Programme, with a total of 16 participants, along with the third year of our Industrial Placement and Summer internship programmes.

The Group now offers five different Early Careers Programmes, including work experience, summer internships, one-year placements, graduate placements and apprenticeships. We also continued our Leadership Development Academy, with 13 new participants, 28 participants in total, and have more programmes scheduled for 2024 for existing and aspiring leaders.

We partner with Young Professionals, an organisation which works with schools across the UK from different socio-economic backgrounds to provide an insight and introduction to different industries, in order to grow the quality and diversity of our Early Careers talent pool.

In February 2023, we hosted an evening inviting female students interested in a career in banking, 40 Year 13 students from the Young Professionals network and 20 for female student referrals from employees. A further female student event was hosted in October, this time attended by 90 Year 13 student from the Young Professionals network and referrals from employees.

Employee development
As a rapidly growing business, we encourage career progression and seek to develop our people's skills to help them grow within the organisation.

Mentoring
We support our employees' continued developed through our internal mentoring programme between our employees. We partner with Pushfar, an internal mentoring platform to ensure mentees can find a suitable mentor to assist them in their careers.

Cost-of-living
To support our employees with the economic uncertainties over the last year and to help alleviate some of the burden of these increased costs on employees, we provided further cost-of-living payments of £750 in both April and September to those employees earning salaries of up to £50,000 pa. and who joined the Group before 1 January 2023.

Benefits
We offer our employees an array of benefits. The annual benefits window offers a benefits package which includes the opportunity for eligible employees to enhance at favourable rates their cover for certain benefits including life assurance.

Workplace pension scheme
The Group offers all eligible employees membership of a contributory defined contribution plan, which is operated by Hargreaves Lansdown who present six-monthly to the Pension Scheme Governance Committee. The matters discussed at this Committee's meetings are communicated to employees, continuing the focus on their financial wellbeing.

Employee networking forum: Connect
2023 marked the launch of our employee network, Connect. The purpose of Connect is to:
1. Promote a safe and supportive workplace for all to work, learn and thrive.
2. Understand the challenges faced in our workplace in order to effect change to increase diversity.
3. Attract and retain a diverse workforce.

Our Connect network hosted a range of events covering Diversity, Equity and Inclusion ("DEI") educational topics, including Eid al-Fitr, conscious inclusion, and invisible illnesses.

Diversity, Equity, and Inclusion
In September 2023 we conducted an employee survey to form a long-term DEI strategy. 73% of employees completed the survey and the responses have been used to form our strategy.

Our ambition is to create an environment which enables everyone to perform to the best of their potential.

We know that by leading a culture which reduces groupthink, draws on everyone's diverse mindsets, skills, backgrounds and perspectives we will develop the best leaders and teams. We also understand that this will support our product and service offering, tailoring these to reflect the differing needs of our client base and ensuring that we provide good customer outcomes. This will enable us to achieve our ambition to be the leading full-service, human-scale relationship bank powered by modern technology.

Therefore, we will continue to create a culture where everyone is committed and empowered to create a diverse and inclusive environment for all. An ambitious, high performing culture where we support, enable and inspire our people to be their best selves.

Together we will learn, collaborate and challenge each other to create an organisation where everyone can contribute towards our shared ambition and collectively operate with a professional attitude towards our colleagues and external stakeholders alike.

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

Our corporate responsibility strategy expanded in 2023 with the formation of a CSR Steering Committee to ensure our CSR activities are focused on the Bank's goals. In 2023, the strategy focused on both quality education and no poverty.

Volunteering and Philanthropy
We partnered with The Felix Project, a charity fighting hunger and food waste, and The Whitechapel Mission, a homeless shelter in East London. We also partnered with Surrey Docks Farm, a working city farm in the heart of London, providing opportunities for local communities to learn about farming and food production.

To assist with our skills-based volunteering and to ensure we support education and financial education, we partnered with The Switch, offering our employees the opportunity to volunteer in schools in Tower Hamlets. Sessions here included CV-writing workshops, Money Matter workshops and interview preparation.

At The Felix Project, our employees have volunteered in their warehouses and kitchens, preparing and packaging meals made from surplus food. We also had employees help sort clothes for homeless people in East London, supporting the Whitechapel Mission.

Supported by the Worshipful Company of Farmers, at Surrey Docks Farm, we have had large teams of employees help with the running of the farm, including cleaning out the goats, mucking out the sheep, hedge trimming, installing raised beds, creating dead hedges, clearing overgrown areas and more.

In 2024 we will work more closely at our impact in our regional offices and aligning their philanthropy and community impact with the Group's wider social impact goals.

Pound for Pound and Payroll giving
We provide pound for pound matching of up to £250 for UK registered charity fundraising events each year.

We also offer our employees the opportunity to donate regularly from their gross pay to charities of their choice.

Environment
We have made a commitment to reduce our environmental impact and to improve our environmental performance as an integral part of our business strategy. We are committed to achieving net-zero by 2050 and effective management of our carbon footprint is an important part of our strategy.

As a consequence, we have in place an Environmental Management policy which sets out our high-level approach to managing environmental issues and provides requirements to help the Bank to achieve its commitments. Enhancing transparency within our own supply chains is part of our mission to work closely with our third-party relationships. In doing so, working together will help us establish how we can better engage and be held accountable.

Due to the nature of the Group's business, we are primarily a consumer of services rather than goods and materials. However, we are still committed to reducing the impact of our supply chain. As a minimum, we expect our suppliers to provide evidence towards their environmental status, where relevant and appropriate.

Ahead of the relocation of our London headquarters in the summer of 2024, we have been presented with the opportunity to review and reduce our environmental impact. Scope 1 and 2 emissions will be managed through energy efficiency, renewable energy sourcing, and moving our company car fleet to be fully electric or hybrid by 2035. We are also reviewing our waste management; we currently send zero waste to landfill but need to reduce the waste we produce across the business. We will be managing paper use, printing, improving waste facilities and raising recycling awareness across the workplace.

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

20 Finsbury Circus
In 2024, we will be relocating our London offices to a new site at 20 Finsbury Circus. As well as creating a modern and collaborative workplace, sustainability and our environmental impact have been taken into consideration for the relocation.

20 Finsbury Circus is a BREEAM-excellent-rated building that has undergone a new CAT fit-out. The building itself is fitted with a modern building management system and heating and cooling technology. We will have access to a new lighting control system that will allow us to create our own lighting zones and determine when and how each zone operates on weekdays and weekends. Electricity consumption is recorded for every circuit in the building, allowing us to analyse consumption data to increase our efficiency.

While working on the fit-out design, we have made efforts to re-use existing fixtures where possible, such as lighting and ceilings in the staff working areas. For example, the tea point worktops that are being installed are made from 100% post-consumer plastic waste, the barista bar is made from 65% wood waste, the acoustic panels in meeting rooms are made from recycled plastic bottles, and the carpets are 71% recycled content and carbon neutral. We have endeavoured to reuse existing furniture where possible.

We have also reviewed our refuse management process, including the installation of a compactor, which will reduce the number of waste collections.

Over the next few years, the plan is to roll out initiatives in our regional locations as well.

Summary across our five pillars

We are taking steps, guided by our five pillars of governance, clients, community, environment and employees, to help us become more sustainable.

Governance	Current status
Ensure responsible and transparent corporate **governance** which aligns to business goals while making a positive societal impact.	We have embedding sustainability into our business practices by recording, monitoring, and publishing performance.
	We have policies in place, such as our: **Anti-Money Laundering Policy** **Board and Senior Management Diversity Policy** **Anti-Bribery and Corruption Policy** **Client Acceptance Policy** **Group Market Abuse and Insider Dealing Policy** **Whistleblowing Policy** **Anti-Modern Slavery Policy**
	We have a published Tax Strategy, which sets out the Group's commitment to compliance with tax law and practice in the UK, which includes paying the correct amount of tax at the right place and right time and having a transparent and constructive relationship with the tax authority.
	We have effective risk management which underpins our strong risk culture supporting the Group's vision.
	We have a Supplier Code of Conduct that promotes equal opportunities and diversity, acting with integrity, endorsement of sustainable procurement within the supply chain, safe working practices, and data, cyber and privacy protection.

Clients	Current status
Ensuring best outcomes for our **clients**.	We seek regular feedback from our clients to reinforce our proposition and service.
	As reported last year, we conducted an in-depth review of our client value proposition in 2022 which included a client survey and deep-dive individual client interviews.
	We also have a robust complaints process and take dissatisfaction seriously, remediating issues promptly.
	We take the protection of our client data seriously and have robust measures in place to protect client data in line with our legal and regulatory requirements.
	We make regular anti-fraud communications to clients, alerting them to the different techniques used by criminals to seek to steal people's data and money.
	We have continued to invest in the Bank's core banking system, demonstrating that operational resilience and the ability to make services available to our clients is of the utmost importance.
	We continue to invest in our risk management capabilities across Credit, Compliance, Operational Risk and Financial Crime with a view to ensuring good client outcomes through the continuing stability of the Bank.
	We implemented the FCA's Consumer Duty requirements for all relevant products and services from 31 July 2023. We continue to consider ways that we can improve outcomes for our customers.
	We have initiated a Digital Transformation Project to further enhance the Bank's services to clients.
	We have policies in place, such as our: **Complaints Handling Policy** **Fraud Policy** **Personal Data Protection Policy** **Physical Security Policy** **Vulnerable Clients Policy**
	We provide all our employees access to our extensive Learning and Development Programme. We also have a Leadership Development Academy and Early Careers Programme.
	We have a Pension Governance Committee to manage and communicate our workplace pension scheme.

Community	Current status
Having a positive impact on the **community** in which we operate.	We support philanthropy through matching charity donations, payroll giving, and volunteer days. In 2023 we supported The Felix Project, The Whitechapel Mission, The Switch and Surrey Docks Farm.
	We will continue to encourage skills-based and team-based volunteering, increasing our focus on education and financial literacy.
	We continue to encourage employees fundraising and challenges.
	We have established a CSR Steering Committee that ensures the Bank's community impact is aligned with the Bank's goals and objectives.
	We aim to secure new accreditations and signatories that align with our CSR activities and values.

Environment	Current status
Ensuring that our business practices have a positive impact on the **environment.**	We will set goals and progress against these with a view to reaching net-zero carbon emissions as a business by 2050.
	We have reported this year in line with the requirements of the Companies (Strategic Report) (Climate-related Financial Disclosure) Regulations 2022.
	We assess both direct and indirect climate-related risks and opportunities.
	We incorporate annual sustainability reporting into our annual reports and accounts.
	We have an **Environmental Management Policy** to help us achieve our commitments.
	We have established a Sustainable investment Service (SPS).
	Energy and Waste With the relocation of our London headquarters we will be reviewing our energy consumption and emissions across Scope 1, 2, and 3. We are actively reviewing our premises strategy with specific reference to environmental factors and agile working.
	We have updated our Supplier Management Framework to reflect the AL Environmental Management Policy.
	We ensure the responsible disposal of computer equipment and have a waste recycling programme in place.
	Transport Our benefits include a cycle to work scheme and season ticket loan. We continue to finance electric vehicles through our RAF subsidiary while AAG strives to finance the most environmentally friendly trucks in the UK which we seek to keep as up to date as possible. AAG is actively considering how the market in renewable energy develops.
	We provided ESG training to relationship managers and credit managers.

Employees	Current status
Creating a supportive and diverse workplace in which **employees** can thrive.	We promote a working environment that seeks to develop employee skills, and ensures employees are treated fairly and supports their wellbeing. Policies to support this include: **Agile Working Policy** **Flexible Working Policy** **Health and Safety Policy** **Parental Leave Policy** **Remuneration Policy** **Training & Development Policy** **Dignity at Work Policy** **Equality and Diversity Policy**
	We have invested in new offices and working environments in Bristol and in our London headquarters.

We operate an internal recognition scheme: Arbuthnot Achievers.
We conduct annual employee surveys (conducted anonymously).
We have adopted agile and flexible working policies.
We pay all employees a living wage and have market aligned job families.
All eligible employees may receive a bonus, in addition to pension contribution, absence pay and other core and flex benefits. We also offered eligible employees the opportunity to enhance at favourable rates their cover for life assurance and related cover.
We publish details of our gender pay gap annually.
We will launch a Group-wide DEI strategy in 2024. And in 2023 we launched our internal staff networking forum: Connect.
We have an internal colleague wellbeing programme and wellbeing support resources.
We provide all our staff access to our extensive Learning and Development Programme. We also have a Leadership Development Academy and Early Careers Programme.
We have a colleague Pension Governance Committee to manage and communicate our workplace pension scheme.

Metrics

Disclosures around metrics are given in the section on Climate-related Financial Disclosures above.

Climate-related Financial Disclosures

This section of the Strategic Report describes how the Directors have implemented the requirements of the Companies (Strategic Report) (Climate-related Financial Disclosure) Regulations 2022 which amended the Companies Act 2006 to introduce Task Force on Climate-related Financial Disclosures' ("TCFD") aligned disclosure requirements into the existing non-financial information requirements.

These regulations apply to the Group from its financial year ended 31 December 2023 and are broadly in line with the recommendations of the global TCFD, information on which was given voluntarily in last year's Report.

This report covers how climate related risks and opportunities are managed; and on the performance measures and targets applied in managing these issues. The TCFD encourages consistent, reliable and clear measurement and reporting of climate-related financial risks. Its recommendations provide a framework for understanding and analysing how climate change affects our customers, our own operations and our strategy. The recommendations are to assess disclosures around governance, strategy, risk management and metrics and targets.

As stated in the section on Risks and Uncertainties on page 19 above, we have assessed the Group against the TCFD recommended disclosures and we set out below our assessments.

Requirement	Our Response
Governance Describe the board's oversight of climate-related risks and opportunities. Describe management's role in assessing and managing climate-related risks and opportunities.	The Board annually review and approve the enterprise-wide climate change • Risk appetite, • Risk assessments, and • Stress test scenarios and results. The Board review the ESG dashboard (that includes Climate Change) at each meeting. This dashboard details climate-change measures and actions. The tolerances are partly based on the climate change stress test scenarios outputs. Climate change risk is considered as falling within two categories: Physical Risk: Arising from longer-term changes in the climate and weather-related events, rising average temperatures, heatwaves, droughts, floods, storms, sea-level rise, coastal erosion and subsidence. Transition Risk: Arising from the adjustment towards a low-carbon economy and could lead to changes in risk appetite, strategy, policy, technology and sentiment. The Board also consider climate change risk in major change decisions, most recently in the case of the planned 2024 London premises relocation initiated this year. The Senior Management Function ("SMF") accountability for the financial risks of climate change sits with Stephen Kelly, the AL CRO. Climate change is managed within the Group's governance and risk management frameworks which includes the consideration of both current and emerging risks.

Strategy Describe the climate-related risks and opportunities the organisation has identified over the short, medium, and long term. Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning. Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.	The Board considers the Group's business model to be resilient to the financial risks from climate-related risks based on the risk assessments and stress test scenario results. The existing income streams are not materially impacted by either transitional or physical risks. The business strategy is also positioned to capture opportunities and support the transition to a low carbon economy. The key risks and opportunities are: Short and medium term (0-5 years) • Growing investor, client, and employee preference to work with, or for companies promoting a low-carbon economy • AL Core transition risk and opportunity on the rising EPC expectations for buy to let residential property • RAF transition risk and opportunity from the demise of combustion engines and switch to electric engines. • AAG transition risk and opportunity from the demise of combustion engines and switch to alternatives. Long term (5-30 years) • AL Core physical risk (flood risk) on residential property. These risks are mitigated as follows: • Residential property loan risks are mitigated by the loan durations (typically less than 5 years) and strong loan to values. • RAF combustion engine risks are mitigated by the short loan durations (typically less than five years). • AAG heavy goods vehicles combustion engine risks are mitigated by the short leasing durations (typically less than five years), lack of viable alternate technologies and by the strategic objective to keep the fleet focused on latest Euro 6 models and as young as possible. Asset residual values and lifespans are monitored considering possible technology changes. • The Group exposure to the Energy or Utility sectors is less than 1% of the portfolio. The Group is positively minded toward supporting the transition to a low carbon economy and seeks to capitalise on opportunities as follows: • AL looks more positively on lending applications with property collateral that is C or better. The business is also piloting a green lending product aimed at attracting higher EPC portfolios and funding EPC improvements. • RAF is supporting clients by financing leases on electric and hybrid vehicles. It has had success in financing hybrid London taxis and smaller electric vehicles. • AAG finances electric buses and is working with the industry on transition pathways to cleaner technology alternatives for heavy goods vehicles. • AL has offered clients the option to invest funds in a Sustainable Investment Service since 2021. This service seeks to incorporate environmental, social and governance ("ESG") factors to achieve a positive impact without sacrificing long-term financial returns.

Risk Management Describe the organisation's processes for identifying and assessing climate-related risks. Describe the organization's processes for managing climate-related risks. Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management.	The Board approve the climate change risk assessment and stress test scenarios prepared by risk management. The risk assessments identify and assesses the transition and physicals risk to the business model and lending book. They consider the existing and emerging regulatory requirements and other relevant factors, as well as the potential size and scope of climate-related risks. The stress test scenarios inform the risk assessments. The scenarios are tailored versions of the 2021 Climate Biennial Exploratory Scenario ("CBES") as outlined in the BOE "Key elements of the 2021 Biennial Exploratory Scenario: Financial risks from climate change". Three scenarios are considered which are plausible representations of what might happen based on different future paths of governments' climate policies. They cover the period to 2050 and assume either early action (in current year), late action (ten years' time) or no additional action. Two scenarios consider routes to net-zero carbon dioxide emissions globally by 2050: an Early Action scenario and a Late Action scenario. These scenarios primarily explore transition risks from climate change: • Early Action: Under this scenario, climate policy is ambitious from the beginning, with a gradual intensification of carbon taxes and other policies over time. Global carbon dioxide emissions are reduced to net-zero by around 2050 and global warming (relative to pre-industrial levels) is successfully limited to 1.8°C by the end of the scenario, falling to around 1.5°C by the end of century. The required adjustment in the economy creates a temporary headwind to growth but this dissipates in the latter half of the scenario once a significant portion of the required transition has occurred, and the productivity benefits of green technology investments begin to be realised. • Late Action: The implementation of policy to drive the transition to a net-zero economy is assumed to be delayed by a decade under this scenario. Policy measures are then more sudden and disorderly as a result of the delay. Global warming is limited to 1.8°C by the end of the scenario (2050) relative to pre-industrial levels, but then remains around this level at the end of the century. The more compressed nature of the reduction in emissions also results in material short-term macroeconomic and financial markets disruption. UK unemployment rises to 8.5% and the economy goes into recession for a short period. Falls in output are particularly concentrated in emissions-intensive sectors. The third scenario is based on the physical risks that would begin to materialise if governments around the world fail to enact policy responses to global warming and no additional action is taken to address climate change. This is considered a severe scenario, being based on climate outcomes that would only occur later this century under the assumption that no additional action is taken to address climate change, and represents a worse than expected outcome even under such conditions. The absence of transition policies in this scenario leads to a growing concentration of greenhouse gas emissions in the atmosphere and, as a result, global temperature levels continue to increase, reaching 3.3°C higher relative to pre-industrial levels by the end of the scenario. This leads to chronic changes in precipitation, ecosystems and sea-levels, which are unevenly distributed globally, and in some cases irreversible. There is also a rise in the frequency and severity of extreme weather events. There are permanent impacts on living and working conditions, buildings and infrastructure. As a result, UK and global GDP growth is permanently lower and macroeconomic uncertainty increases. Reflecting the fact that the future looks materially worse at the end of the scenario, with the adverse effects of climate change set to worsen further, UK and US equity prices are respectively just under 20 and 25% lower than they might otherwise be. Climate change is managed within the Group's governance and risk management frameworks. Specifically, the • AL Risk Committee oversees ESG and the financial risks of climate change. • AL Credit Committee considers implications of climate change on new and existing lending. • AL Investment Committee considers implications of climate change on investment decisions. • AL Product Governance Committee considers climate change on propositions. Climate Change is referenced in key documents including the: • ICAAP, • Risk appetite framework,

<table>
<tr><td></td><td colspan="2">• AL risk hierarchy,
• Credit policy.</td></tr>
<tr><td rowspan="4">Metrics and Targets

Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets.

Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process.

Disclose Scope 1, Scope 2 and, if appropriate, Scope 3 greenhouse gas (“GHG”) emissions and the related risks.</td><td>Aspirations
All Buy To Let properties to be either EPC C, or have valid exemption by 2035

AL lend against high quality residential collateral. Typically these properties are EPC C. AL also support Landlords to improve the quality of their collateral, including EPC gradings, where they are currently beneath C.

Following systems upgrade, EPC ratings are now collected on all new lending and this metric will be shared going forward.</td><td>Metrics
• % of Buy To Let properties EPC C and above</td></tr>
<tr><td>All leases to be for electric, or clean alternative, vehicles by 2050 with exception of classic cars.

AL want to support clients as they transition to the low carbon economy and recognise the transition will occur at different speeds. However, AL will cease providing financing on petrol and diesel cars and vans from 2035, and non-zero emission heavy goods vehicles from 2040.</td><td>• Current year % of new electric and hybrid of total vehicles financed.</td></tr>
<tr><td>Energy & utility exposure to be maintained at less than 1% of AL lending portfolio (0.22%, June 2023).</td><td>• Energy and Utility Exposure as a % of portfolio.</td></tr>
<tr><td>Be Net Zero by 2050

By reducing carbon emissions and minimising waste
• Complete switch to new London building which is rated “Excellent”
• Company car fleet to be fully electric or hybrid by 2035
• Company heavy goods fleet (AAG) to be powered by non-combustion engines by 2040

Improve recycling rates to 60% by 2025</td><td>• Scope 1 and 2 intensity ratios

• General Waste Recycling %</td></tr>
<tr><td></td><td colspan="2">Scope 1,2 and 3 emissions are reported on page 38 below.

(Scope 3 emissions will remain as per 2022. We have investigated and decided against extending Scope 3 emissions reporting to the lending and investment portfolios. The Scope 3 emissions methodology and data would not be reliable and would give an illusion of accuracy that would not help decision making.)</td></tr>
</table>

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

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

The report covers data from 1 January to 31 December 2023. The Group has reported all sources of environmental impact, as required in SECR, over which it has financial control, being the Company and its subsidiaries.

Base Year
The Base Year for the organisation is a rolling annual comparison.

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.
- The 2022 and 2023 UK Government Conversion Factors for Company Reporting were used for all calculations of Carbon emissions.
- Data was estimated where necessary, as set out below.

Estimated Data
The following data was estimated in 2023:

Dominion Street, London Natural Gas	Gas use is included in the rent for the property and sub-metering is not available, estimates are based on floor area
Bristol and Gatwick	Energy is included in the rent, and sub-metering for the office is not available, estimates are based on floor area. Note that the floor area, occupied by the business in Bristol, increased this year as has the estimated electricity for this property.
On-site Transport	Diesel used for forklift trucks and refrigerated vehicles held on site at Wolverhampton has been estimated.

Operational Scopes
The report contains all Scope One and Two energy use and Scope Three Grey Fleet for the whole Group as required by SECR.

Reporting Summary

Scope One	2023 Measure	2023 kWh	2023 Carbon Tonnes tCO2e	2023 Intensity Ratio tCO2e	2022 Measure	2022 kWh	2022 Carbon Tonnes tCO2e	2022 Intensity Ratio tCO2e
Natural Gas - Intensity Ratio tCO2e/m2	5,779	407,063	75	0.0130	5,779	397,824	73	0.0130
Kerosene - Intensity Ratio tCO2e/m2	1,545	57,345	14	0.0090	1,545	61,926	15	0.0100
Diesel - Mixed Onsite Use No Metric Available		336,008	80			287,841	69	
Company HGVs Intensity Ratio tCO2e/miles	68,985	293,381	70	0.0010	90,720	397,340	96	0.0017
Company Cars Intensity Ratio tCO2e/miles	384,242	273,464	64	0.0002	314,699	269,795	65	0.0002
Total Scope One		**1,367,261**	**303**			**1,414,726**	**318**	
Scope Two								
Electricity - Intensity Ratio tCO2e/m2	12,400	1,693,514	351	0.0283	14,274	1,703,083	329	0.0231
Company Cars Intensity Ratio tCO2e/miles	17,106	3,063	1	-	19,656	8,317	2	0.0001
Total Scope Two		**1,696,577**	**351**			**1,711,401**	**331**	
Scope Three								
Grey Fleet Vehicles Intensity Ratio tCO2e/miles	272,158	294,941	69	0.0003	270,683	337,205	80	0.0003
Total Scope Three	**272,158**	**294,941**	**69**	**0.0003**	**270,683**	**337,205**	**80**	**0.0003**
Total of all Scopes		**3,358,778**	**724**			**3,463,331**	**729**	
Estimated Data		18%				15%		

Corrective Actions

The prior year numbers have been restated due to further details about diesel use at Wolverhampton being identified during the Energy Savings Opportunity Scheme ("ESOS") audit. The calculation in 2022 for HGVs was assessed as average laden, but the ESOS audit revealed that this should be unladen. The audit also showed that the value used for on-site transport was under reported. Both of these numbers have been corrected and restated for 2022, representing an overall increase of one tonne of carbon for the prior year.

Changes from 2022

Scope One

There was a 2.6% increase in carbon tonnes for Natural Gas. This is attributed to an increase at Wilson Street for heating and hot water.

AAG fuels show improved control in 2023 with an 7.2% decrease in Kerosene, but Diesel used on-site has increased by 15.7%, an overall increase in these fuels of 9.8 tCO2e.

The carbon tonnes for AAG HGVs have reduced by 27.1% due to a reduction in miles of 24%.

Scope Two

There have been small changes in the portfolio of properties compared to last year. Whilst electricity measured in kWh shows a small decrease compared to 2022, the conversion factor for electricity has risen this year due to the mix of fuels generating electricity for the grid. This has caused a 6% increase in tCO2e in 2023, compared to 2022.

Scope Three Transport

Mileage driven by employees in their own vehicles on behalf of the business has remained reasonably similar in 2023 compared to 2022 with a 0.5% increase. The significant drop in tCO2e of 13.9% is related to the type of vehicles being driven with a higher number of miles driven in petrol hybrid and electric vehicles.

Intensity Ratio

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

Energy Efficiency Actions
Further improvement in transport emissions have been made with Arbuthnot Latham running 100% electric company cars and driving fewer company miles in 2023, representing a 62.5% reduction in tCO_2e. AAG have also continued to improve the emissions of vehicles in the fleet, moving significantly to petrol hybrid vehicles; however, increased mileage in company vehicles means savings have only led to a drop of one tCO_2e.

Following the decision to relocate the offices at Wilson Street and Dominion Street later in the year to new head office premises at 20 Finsbury Circus, there has been no further investment in energy savings in 2023 at these buildings.

Group Directors' Report

The Directors present their report for the year ended 31 December 2023.

Business Activities

The principal activities of the Group are banking and financial services. The business review and information about future developments, key performance indicators and principal risks are contained in the Strategic Report on pages 7 to 39.

Corporate Governance

The Corporate Governance report on pages 47 to 54 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 66 of the financial statements. The profit after tax for the year of £35.4m (2022: £16.5m) is included in reserves. The Directors recommend the payment of a final dividend of 27p (2022: 25p) per share which, together with the interim dividend of 19p (2022: 17p) paid on 22 September 2023 represents total dividends for the year of 46p (2022: 42p). The final dividend, if approved by members at the 2024 Annual General Meeting ("AGM"), will be paid on 31 May 2024 to shareholders on the register at close of business on 19 April 2024.

Directors

The names of the Directors of the Company at the date of this report, together with biographical details, are given on pages 40 and 41 of this Annual Report. Ms J.D. Almond, Ms A.A. Knight and Lord Sassoon were appointed to the Board on 1 September 2023. All the other Directors listed on those pages were directors of the Company throughout the year.

Ms Almond, Ms Knight and Lord Sassoon offer themselves for election under Article 75 of the Articles of Association. Messrs Cobb and 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.

Articles of Association

The Company's articles of association may only be amended by a special resolution of the Ordinary shareholders. They were last amended at the AGM in May 2017 and can be viewed at www.arbuthnotlatham.co.uk/group/investor-relations/announcements.

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 2026. A period of three years has been chosen because it is the period covered by the Group's strategic planning cycle and also incorporated in the Individual Capital Adequacy Assessment Process ("ICAAP"), which forecasts key capital requirements, expected changes in capital resources and applies stress testing over that period.

The Directors' assessment has been made with reference to:
- the Group's current position and prospects – please see the Financial Review on pages 11 to 21;
- the Group's key principles – please see Corporate Philosophy on page 3; and
- the Group's risk management framework and associated policies, as explained in Note 6 to the financial statements.

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

Going Concern

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

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

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

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

The key Idiosyncratic Risks for the stress testing included:

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

As a result of the assessment, the Directors are satisfied that the Company and the Group have adequate resources to continue in operation for a period of at least twelve months from when the financial statements are authorised for issue. The financial statements are therefore prepared on the going concern basis.

Share Capital

The Company has in issue two classes of shares, Ordinary shares and Ordinary Non-Voting shares, each with a nominal value of 1p each. 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.

During the year the Company's issued share capital increased by 1,297,297 ordinary shares through the allotment and issue of ordinary shares through the placing of and subscription for new voting Ordinary shares in the Company, raising approximately £12.0 million in a fundraising. The shares were allotted and issued on 5 May 2023 at the placing price on a non-pre-emptive basis pursuant to authorities granted to the directors of the Company at the general meeting held on 4 May 2023. As a result of the issue, the Company's issued share capital increased by 8.64%. In the three year period prior to the issue, the Company did not issue any other shares for cash on a non-pre-emptive basis.

Related Party Transaction

Of these newly issued shares, Sir Henry Angest subscribed for 729,843 shares at a cost of £6,751,047.75 which is disclosed in accordance with Rule 19 of the AIM Rules for Companies.

Authority to Purchase Shares

Shareholders will be asked to approve a Special Resolution renewing the authority of the Directors to make market purchases of shares not exceeding 10% of the issued Ordinary and Ordinary Non-Voting share capital. The Directors will keep the position under review in order to maximise the Company's resources in the best interests of shareholders. Details of the resolutions renewing this authority are included in the Notice of Meeting on pages 163 and 164. No shares were purchased during the year. The maximum number of Treasury shares held at any time during the year was 390,274 Ordinary shares and 19,040 Ordinary Non-Voting shares of 1p each.

Financial Risk Management

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

Directors' Interests

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

Beneficial Interests - Ordinary shares	1 January 2023	31 December 2023	22 March 2024	%
Sir Henry Angest	8,376,401	9,176,185	9,276,185	57.3
Sir Nigel Boardman	26,062	26,062	26,062	0.2
J.D. Almond	-*	11,617	11,617	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 2023	31 December 2023	22 March 2024	%
Sir Henry Angest	86,674	86,674	86,674	64.9
J.R. Cobb	60	60	60	-
A.A. Salmon	516	516	516	0.4

*At date of appointment

Substantial Shareholders

The Company was aware at 12 March 2024 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	1,643,954	10.2
Slater Investments	1,190,376	7.4
Mr. R Paston	529,130	3.3

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 2023, one Director had a loan from Arbuthnot Latham & Co., Limited amounting to £1.5m (2022: £1.4m) and four directors had deposits amounting to £3.2m (2022: £4.4m), all on normal commercial terms as disclosed in Note 43 of the financial statements.

Directors' Indemnities

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

Employee Engagement

The Company gives due consideration to the employment of disabled persons and is an equal opportunities employer. It also regularly provides employees with information on matters of concern to them, consults on decisions likely to affect their interests and encourages their involvement in the performance of the Company through regular communications and in other ways. Further information on employee engagement is given in the Strategic Report on pages 27 and 28.

The Company has a policy in place to ensure that it applies the Equality Act 2010 which makes it unlawful to discriminate on the grounds of disability and other protected characteristics. At the recruitment stage, reasonable adjustments are made to ensure that no candidate is disadvantaged because of their disability. Should existing employees become disabled, every effort is made to retain them within the workforce wherever reasonable and practicable. The Group also endeavours to provide equal opportunities in the training, promotion and general career development of disabled employees.

Engagement with Suppliers, Customers and Others

Information on engagement with suppliers, customers and other stakeholders is given in the Strategic Report on page 24.

Streamlined Energy & Carbon Reporting

The information required by the Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018 is set out in the Sustainability Report on pages 37 to 39. These Regulations implement the Government's policy on Streamlined Energy and Carbon Reporting (SECR) to support business in understanding its responsibility for carbon emissions and to help establish plans to become Net Zero by 2050.

Political Donations

The Company made political donations of £7,500 during the year (2022: £30,000), being payment for attendance at political functions. An Ordinary resolution will be proposed at the forthcoming AGM to renew the authority, last given in June 2020, to make such donations in accordance with Sections 366 and 367 of the Companies Act 2006. This resolution is for the total amount donated or expended not to exceed £250,000, which is the same level as the current authority granted in June 2020, over a further four years to 22 May 2028.

Shareholders may recall that at the AGM in June 2020 74.6% of total votes cast were in favour of the resolution and so, in line with the UK Corporate Governance Code, the Company consulted with five institutional shareholders, comprising almost all of the votes of those which it identified as not having supported the resolution, in order to understand why they had voted against the resolution. The renewal of the resolution in 2020 followed an exceptional amount of expenditure of £77,000 being incurred during 2019, being donations to the Conservative Party ahead of the 2019 General Election in view of the significant adverse impact that a Labour government under Jeremy Corbyn would have had on the Group's clients and business. Having explained its position, the Board was encouraged by the continued support of its major shareholders.

Since June 2020, aggregated political donations have been well within the authorised amount, totalling £67,500 (£10,000 in 2020, £20,000 in 2021, £30,000 in 2022 and £7,500 in 2023). These payments were made for payment mainly for attendance at political functions associated with the Conservative Party for which, as publicly disclosed in the Electoral Commission register, Arbuthnot Latham & Co., Limited acts as a banker.

The Board continues to believe that it is in the interests of shareholders that it has the flexibility to make such payments in light of prevailing political circumstances over the next few years. It accepts that institutional shareholders may have a policy of voting against political donations, but believes the Company's circumstances justify a different approach. The Board therefore recommends approval of the resolution which is for a further four-year period in order to retain this flexibility. It welcomes engagement with shareholders and continues to maintain communications via one-to-one meetings as appropriate.

Events after the Balance Sheet Date

There were no material post balance sheet events.

AGM

The Company's AGM will be held on Wednesday 22 May 2024 at which Ordinary Shareholders will be asked to vote on a number of resolutions. Shareholders are encouraged to submit their votes in respect of the business to be discussed via proxy, appointing the Chairman of the meeting as their proxy. This will ensure that votes will be counted if shareholders are unable to attend the meeting in person. The resolutions, together with explanatory notes about voting arrangements, are set out on pages 163 to 167.

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 UK-adopted international accounting standards in conformity with the requirements of the Companies Act 2006 and have elected to prepare the Parent Company Financial Statements on the same basis.

Financial Statements

Under Company Law the Directors must not approve the Financial Statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the Group profit or loss for that period. In preparing each of the Group and Parent Company Financial Statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant and reliable;
- state whether they have been prepared in accordance with UK-adopted International Accounting Standards 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

Corporate Governance

Introduction and Overview

The Company has a strong and effective corporate governance framework. The Board endorses the principles of openness, integrity and accountability which underlie good governance and applies the principles of the UK Corporate Governance Code, published by the Financial Reporting Council in July 2018 ("the FRC Code"), and complies with its provisions in so far as they are considered appropriate for the Company, given its size and circumstances, and the role and overall shareholding of its majority shareholder. The Company has been approved by the Prudential Regulation Authority ("PRA") as a parent financial holding company of its banking subsidiary, Arbuthnot Latham & Co., Limited. Arbuthnot Latham is authorised by the PRA and regulated by the Financial Conduct Authority ("FCA") and by the PRA. Three of its subsidiaries, Asset Alliance Leasing Limited, Forest Asset Finance Limited and Renaissance Asset Finance Limited, are authorised and 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 decided in 2018 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.

In January 2024 the FRC made limited revisions to its Code, publishing a UK Corporate Governance Code 2024 ("the 2024 Code"). The 2024 Code is not applicable to the Company until its year beginning 1 January 2025 and for one provision until its year beginning 1 January 2026. The Company will be reviewing its procedures to enable the Board to report under the 2024 Code, as required, in due course.

Leadership and Purpose

The Company is led by the Board which comprises ten members: Sir Henry Angest, the Executive Chairman and Chief Executive; two other executive directors, Andrew Salmon and James Cobb; six independent non-executive directors, Sir Nigel Boardman, Angela Knight, Ian Dewar, Sir Alan Yarrow, Jayne Almond and Lord Sassoon; and one other non-executive Director, Frederick Angest. This means that more than half of the Board, excluding the Chairman, comprises independent non-executive directors.

The Board sets the long-term focus and customer-oriented culture of the Group. The responsibilities of Sir Henry Angest as Chairman include leading the Board, ensuring its effectiveness in all aspects of its role, ensuring effective communication with shareholders, setting the Board's agenda and ensuring that all Directors are encouraged to participate fully in the activities and decision-making process of the Board.

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

The Group's cultural values are reflected in a brand values document linking the Arbuthnot Principles to the Group's culture as a way of communicating culture across the business. These cultural Principles are encapsulated in five Group values which are fully embedded into day-to-day activities. These are integrity, respect, empowerment, energy and drive, and collaboration. A formal approach to Environmental, Social and Governance (ESG) is in place to develop over time under five 'pillars of sustainability' – governance, employees, community, environment and clients.

The Board

The Board met regularly throughout the year. In total it held eight scheduled meetings, six of which were held jointly with the Board of Arbuthnot Latham with the other two being held to approve the Annual and Interim Reports, and two ad-hoc meetings relating to the fundraising. It also held a separate strategy meeting, together with the AL Directors, in September. 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.

In addition to overseeing the management of the Group, the Board has determined certain items which are reserved for decision by itself, as set out in the Schedule of Matters Reserved to the Board which is reviewed annually and is published on the Company's website at https://www.arbuthnotlatham.co.uk/group/about/corporate-governance. 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 AL Chief Compliance Officer or by an external firm of lawyers, accountants and other subject matter experts. Risk management training is provided, including that in relation to the ICAAP and ILAAP, by the AL Chief Risk Officer with an overview of credit and its associated risks and mitigation by the AL Chief Credit Officer.

Board Evaluation

The annual Board Effectiveness Review was conducted internally. The 2023 evaluation took the form of a confidential online 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. They also covered clarity of the business, strategy and risk and accountability. The results were discussed by the Board in February 2024 and proposed actions arising will be considered in due course. 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.

Overview of Compliance with the FRC Code, together with Exceptions

The Board focuses not only on the provisions of the Code but on 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 align completely 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, which has had a positive 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. Executive Directors and senior management are fully engaged with the workforce, all of whom interact on a daily basis. Mr. Dewar is the Company's Whistleblowing Champion and is available at all times in this role. It has not been deemed necessary to appoint an employee representative to the Board as the Company has fewer than 20 employees, all of whom have direct access to the Board including its Non-Executive Directors. Given its size, as stated in the s.172 Statement on page 23, 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 Arbuthnot Latham Group's workforce.

Provision 9 – The Chairman was not independent on appointment, though he was appointed prior to the introduction of the provision. 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 Company follows the US model that is 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. In his role as CEO, Sir Henry Angest is responsible for the effective operation and delivery of the business and ensures that he is surrounded by an exceptional management team which ensures the strong leadership required. In particular, ABG has a strong Group Chief Operating Officer and Group Finance Director ensuring challenge and independence from a business perspective, against the stakeholder focus of the Chairman carrying out his Chairman's role.

Provision 10 ¬ The Board considers Jayne Almond, Sir Nigel Boardman, Angela Knight and Lord Sassoon to be independent, notwithstanding their directorships and, in the case of Sir Nigel his chairmanship, at Arbuthnot Latham since their views and any challenge are firmly independent from executive management in both companies. The Board is of the view that the dual directorships complement one another and that there is a benefit to be derived from the appointment of independent directors to both boards simultaneously.

Provision 12 – The Board has not appointed a Senior Independent Director, as the main shareholder is the Chairman and other large independent shareholders communicate frequently with the Chairman, the Group Chief Operating Officer and the Group Finance Director and with the Company's stockbroker, Shore Capital.

Provision 14 – Attendance at meetings is not reported. In the event that a Director is 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 – Directors retire by rotation every three years in accordance with the Company's Articles of Association and company law. The Directors seeking re-election at the 2024 AGM are James Cobb and Ian Dewar, who have served on the Board for 15 years and 8½ 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. Jayne Almond, Angela Knight and Lord Sassoon, appointed to the Board by the Directors on 1 September 2023, will be seeking election by Ordinary shareholders. Accordingly, the Board fully supports the resolutions for their respective reappointment and appointment of these Directors.

Provision 19 - Sir Henry Angest's role as Chairman is critical to and reflective of the overall group structure. It is through the responsibilities that derive from this role that he is able to consider and protect not only the interests of other shareholders, but also his own interests as a majority shareholder as their interests are aligned. It is for this reason that he surrounds himself with notably strong directors who individually, and as a group, ensure the protection of not only his investments, but also those of other shareholders. As such, he remains as Chairman notwithstanding the length of his tenure.

Provision 23 – The Nomination Committee takes into account the provisions of the Board Diversity Policy and in terms of succession planning the Equality, Diversity and Inclusion Policy which promotes equality of opportunity for all staff. Further information on diversity and inclusion is given in the Sustainability Report on pages 27, 28 and 32, though the gender balance of senior management and their direct reports has not been given.

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

Internal Control and Financial Reporting

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

The Directors and senior management of the Group review and approve the Group's Risk Management Policy and Risk Appetite framework. The Risk Management Policy describes and articulates the risk management and risk governance framework, methodologies, processes and infrastructure required to ensure due attention to all material risks for Arbuthnot Latham, including compliance with relevant regulatory requirements.

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

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

In November 2023, the Board received a separate report from the AL CRO enabling it to monitor the company's risk management and internal control systems and to carry out its annual review of the effectiveness of the Group's risk management and internal control systems. The report explained the Risk Management Policy, together with principal risks, risk appetite, policies, three lines of defence, systems, processes, procedures and controls and the risk board dashboard. Following its review, the Board confirms the effectiveness of the Company's risk management and internal control systems.

Shareholder Communications

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

Board Committees

The Board has Audit, Nomination, Remuneration, Donations and Policy Committees, each with formally delegated duties and responsibilities and with written terms of reference, which require consideration of the committee's effectiveness. The Board keeps the governance arrangements under review. Further information in relation to these committees is set out below and the terms of reference of the Audit, Nomination and Remuneration Committees are published on the Company's website. The Board maintains direct responsibility for issues of Risk without the need for its own Risk Committee, since responsibility for large lending proposals is a direct responsibility of its subsidiary, Arbuthnot Latham. Additionally the Chairman of the AL Risk Committee reports to the Board at its regular meetings, held jointly with the Arbuthnot Latham Board, on the activities of that Committee which is responsible for monitoring the status of the Arbuthnot Latham group against its principal risks.

Audit Committee

Membership and meetings

Membership of the Audit Committee comprises Ian Dewar (as Chairman), Sir Nigel Boardman, Sir Alan Yarrow and, since September 2023, Jayne Almond, Angela Knight and Lord Sassoon. All of the Committee's members are therefore independent non-executive Directors. Mr. Dewar and Lord Sassoon have recent and relevant financial experience and the Committee as a whole has competence relevant to the financial sector in which the Company operates. The Company Secretary acts as its Secretary.

The Audit Committee oversees, on behalf of the Board, financial reporting, the appropriateness and effectiveness of systems and controls, the work of Internal Audit and the arrangements for and effectiveness of the external audit. The ultimate responsibility for reviewing and approving the Annual Report and Accounts and the Interim Report lies with the Board. The Committee also reviews procedures for detecting fraud and preventing bribery, reviews whistleblowing arrangements for employees to raise concerns in confidence, and reviews, as necessary, arrangements for outsourcing significant operations.

External Audit

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

Activity in 2023

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

<u>Internal Audit</u>

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

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

The Head of Internal Audit reports directly to the Chairman of the Arbuthnot Latham Audit Committee. In April 2023, the incumbent moved into a new senior internal position after six years in the role and was succeeded by an external candidate who had previously been Senior Manager of the Group's Internal Audit, thereby providing a seamless transition. He provides reports on the outcomes of Internal Audit work directly to the Committee which monitors progress against actions identified in these reports.

The Committee received a self-assessment report on Internal Audit from the Head of Internal Audit in September 2023 and is satisfied with Internal Audit arrangements during the year.

<u>Integrity of Financial Statements and oversight of external audit</u>

The Committee:

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

The reports from the external auditors include details of internal control matters that they have identified as part of the annual statutory financial statements audit. Certain aspects of the system of internal control are also subject to regulatory supervision, the results of which are monitored closely by the Committee and the Board. In addition, the Committee receives by exception reports on the ICAAP and ILAAP which are key control documents that receive detailed consideration by the board of Arbuthnot Latham.

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

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

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

The charge for impaired financial assets totalled £3.2m for the year ended 31 December 2023. The disclosures relating to impairment provisions are set out in Note 4.1(a) to the financial statements.

Property Portfolio
The Group owns two commercial office properties and two repossessed properties. Of these properties, two are held as inventory, one is held for sale and one as an investment property. The properties held as inventory and held for sale are measured at the lower of cost and net realisable value on the basis of internal discounted cash flow models and external valuation reports. The investment property is measured at fair value on the basis of an external valuation report. The Committee discussed the bases of valuation with management and with the auditors who had engaged an internal expert to review management's valuations.

As at 31 December 2023, the Group's total property portfolio totalled £23.9m. 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), 20, 25 and 31 to the financial statements.

Residual Value Risk
The Committee discussed the fair value adjustment for the portfolio of leased assets of Asset Alliance Group where an uplift had been applied to represent markets at the time of acquisition at 31 March 2021. The Committee also reviewed the maintenance provision,

recognised to eliminate temporarily inflated values. It established that the uplift in lease values at that date appeared to have been completely justified by the subsequent asset sales experience where in aggregate losses had not been made on sales of trucks at the uplifted values. It also established that the residual value provision at that time was deemed sufficient to cover the shortfall between the value of the portfolio and the estimated net sales value. This provision has since been realised through sales, with no remaining balance at year-end.

Going Concern and Viability Statement

The financial statements are prepared on the basis that the Group and Company are each a going concern for a period of at least twelve months from when the financial statements are authorised for issue. The Audit Committee reviewed management's 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. It is satisfied that the going concern basis and assessment of the Group's longer-term viability is appropriate.

Other Committee activities

The Audit Committee reviewed and discussed the minutes of meetings of the Financial Regulatory Reporting Committee whose main responsibility is to ensure that the Group meets the PRA's regulatory reporting expectations. The Committee performs this role since it is concerned with financial reporting as well as with external reporting. During the year, it also reviewed the FRC Publication: Audit Committees and the External Audit: Minimum Standard in particular around audit tendering, albeit that the report is only applicable to premium listed FTSE 350 companies.

In November 2023, Committee members contributed to the review of the Committee's effectiveness as part of its evaluation by the Board. In February 2024, the Committee reviewed its performance and agreed that it continued to operate effectively. In March 2024 the Committee met separately with each of the Head of Internal Audit and the Senior Statutory Auditor without any other executives present. There were no concerns raised by them in regard to discharging their responsibilities.

On behalf of the Board, the Audit 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 Nigel Boardman and Sir Alan Yarrow. A majority of the Committee's members are therefore independent non-executive Directors. The Company Secretary acts as its Secretary. The Committee meets once a year and otherwise as required.

The Nomination Committee assists the Board in discharging its responsibilities relating to the composition of the Board. The Nomination Committee is responsible for and evaluates on a regular basis the balance of skills, experience, independence and knowledge on the Board, its size, structure and composition, retirements and appointments of additional and replacement directors and will make appropriate recommendations to the Board on such matters. The Nomination Committee also considers performance, training requirements and succession planning, taking into account the skills and expertise that will be needed on and beneficial to the Board in the future.

Activity in 2023

The Nomination Committee met twice during the year. It met first to assess and recommend the appointment of Jayne Almond, Lord Sassoon and Angela Knight as three new independent Non-Executive Directors as part of succession planning and of its consideration of diversity as directors of the Company. Jayne Almond is a highly experienced professional in the banking, mortgages and financial services arenas, with past and present appointments as Chairman, Chief Executive and NED in a wide range of organisations. Angela Knight has a wealth of commercial and financial experience from her time in government as a Treasury Minister, as Chief Executive of the British Bankers' Association (now UK Finance) and of Energy UK and as a non-executive director of a range of listed companies over many years. Lord Sassoon is a highly experienced professional in the banking and financial services industry.

It was not considered appropriate to widen the search to include other banking and financial services experts for the roles, given the status and profile of these individuals, and their exceptional knowledge of the sector and, in the case of Ms Knight, her knowledge of the Group as a director of Arbuthnot Latham since October 2016. In each case, it was regarded that their careers and reputation demonstrably reflected a good cultural fit with the Group and its Principles, Values and ESG Pillars. For all of these reasons, each individual was approached directly and it not being considered necessary to widen the search to comprise other experts for the role, and so neither advertising nor an external consultancy was used for these appointments.

The Committee also met to assess and confirm the collective and individual suitability of the existing 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, Sir Nigel Boardman's credibility, knowledge and reputation have been a real benefit to the Board both in terms of collective and individual suitability and when third parties are considering dealings with the wider group. Ian Dewar, with a wealth of experience as a partner in a major accounting firm, has successfully chaired the Audit Committee. The Board has benefitted from Sir Alan Yarrow's wise counsel, challenge to management and many years' banking experience in the City of London. Frederick Angest is deepening his knowledge about the business, working at Arbuthnot Latham as a private banker, having worked previously within Wealth Management and Credit Risk.

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

In terms of the performance of the Company's Board generally, the Committee noted that it takes into account the provisions of the Board Diversity Policy and the Board Suitability Policy. It reviewed the summary of training carried out by each Director during 2023 and noted that Directors had been able to carry out sufficient training both in person and online.

In November 2023, the Nomination Committee confirmed that the Board's current composition provides the Company with a balanced, knowledgeable, diverse and informed group of directors, bringing strategic acumen, foresight and challenge to the executive, commensurate with the size of the business. The Committee reviewed succession planning and agreed that a sensible and strong plan remained in place. It also agreed that it continued to operate effectively and, as such, no further 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 55. The Committee meets once a year and otherwise as required. The Remuneration Report on pages 55 to 57 gives information on the Committee's responsibilities, together with 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 Andrew Salmon and Sir Alan Yarrow The Company Secretary acts as its Secretary. 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 2023

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

Policy Committee

Membership and meetings

The Policy Committee is chaired by Andrew Salmon. 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. In December 2023, the Board approved a proposal to combine the Committee with that of the Arbuthnot Latham Policy Committee. In addition to Mr. Salmon and its other members, James Cobb and the AL Chief Compliance Officer, two other members of the AL Committee, being the AL Chief Risk Officer and an AL non-executive director were appointed to it. A member of the Operational Risk team acts as its Secretary.

Activity in 2023

The Policy Committee met three times during the year to review and approve Company policies.

Remuneration Report

Remuneration Committee

Membership of the Remuneration Committee is limited to non-executive directors together with Sir Henry Angest as Chairman. The other members of the Committee are Sir Nigel Boardman and Sir Alan Yarrow. As such, a majority of the Committee's members are therefore independent non-executive Directors. The Company Secretary acts as its Secretary. The Committee normally meets twice a year and otherwise, as required.

The Remuneration Committee has responsibility for approving the overall remuneration policy for directors for review by the Board. The Committee is also responsible for remuneration more generally 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. Members of the Committee do not vote on their own remuneration.

The Committee also deals with remuneration-related issues, taking into account the requirements established by the PRA and the FCA.

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 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 contributions paid by the Company to individuals in the form of cash allowances, and, where applicable, to individual money purchase schemes. 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 requirements established by the PRA and the FCA, the Company and its subsidiaries are all considered to be Tier 3 institutions.

Activity in 2023

The Remuneration Committee met four times during the year. It undertook its regular activities including reviewing the operation of the Remuneration Policy, having regard to the performance of the Company during the year. It reviewed the level of fees for non-executive Directors which it decided to standardise, reflecting the appropriate level of fee to continue to secure the services of a high level non-executive director. It also reviewed and approved the Executive Directors' remuneration.

The Committee also met to approve the payment to Jayne Almond, and Lord Sassoon of the standardised director's fee for a non-executive director, and to Angela Knight who receives an extra amount being for her additional role as the Board's Consumer Duty Champion, her fee already being received in her capacity as a non-executive director of Arbuthnot Latham.

In March 2024, the Committee met again to review the Executive Directors' remuneration, approving, after due consideration of comparable market rates, salary rises for each of them and the award of bonuses to Messrs Salmon and Cobb for exceptional performance in the year. As in previous years, Sir Henry Angest waived his right to be considered for receipt of a bonus. It decided to increase by £5,000 p.a. with effect from June 2024 the additional fee payable for chairing the Audit Committee, whilst leaving unchanged the basic fee for acting as a non-executive director. The Committee also agreed that it continued to operate effectively with its overall performance and the performance of its individual members effective throughout the 2023 year.

Directors' Service Contracts

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

Long Term Incentive Schemes

Grants were made to Messrs Salmon and Cobb on 14 June 2016 under Phantom Option Scheme introduced on that date, to acquire ordinary 1p shares in the Company at 1591p exercisable in respect of 50% on or after 15 June 2020 and in respect of the remaining 50% on or after 15 June 2021 when a cash payment would be made equal to any increase in market value.

Under this Scheme, these directors were granted a phantom option to acquire 200,000 and 100,000 ordinary 1p shares respectively in the Company. The value of each phantom option is related to the market price of an Ordinary Share. The fair value of these options at the grant date was £1m. The first tranche of share lapsed on 14 June 2023 when not exercised at 1591p. The second tranche had lapsed in 2020 as one of the performance conditions was not met, being the payment of dividends which was not possible in 2020 due to the regulators' response to the pandemic, requiring banks to cease payment of dividends, and to its economic impact.

On 23 July 2021, Messrs Salmon and Cobb were granted further phantom options relating to 200,000 and 100,000 ordinary shares respectively. The fair value of these options at the grant date was £1.4m. The value of each Ordinary Share for the purposes of this grant of phantom options is 990 pence, being the mid-market share price at close of business on 23 July 2021. An increase in the value of an Ordinary Share over 990 pence will give rise to an entitlement to a cash payment by the Company on the exercise of a phantom option. The right to exercise phantom options is subject to the satisfaction of performance conditions, as set out in note 40 to the financial statements. 50% of each director's individual holding of phantom options is exercisable after 23 July 2024 and the other 50% is exercisable after 23 July 2026. These phantom options will lapse if not exercised within seven years of the date of grant, i.e. by 23 July 2028. The fair value of the outstanding options at 31 December 2023 was £0.1m (2022: £0.1m).

Details of outstanding options are set out below.

Phantom Options	At 1 January 2023	At 31 December 2023	Exercise Price £	Date from which exercisable	Expiry
AA Salmon	100,000	-	£15.90	15-Jun-19	14-Jun-23
	100,000	100,000	£9.90	23-Jul-24	23-Jul-28
	100,000	100,000	£9.90	23-Jul-26	23-Jul-28
	300,000	200,000			
JR Cobb	50,000	-	£15.90	15-Jun-19	14-Jun-23
	50,000	50,000	£9.90	23-Jul-24	23-Jul-28
	50,000	50,000	£9.90	23-Jul-26	23-Jul-28
	150,000	100,000			
	450,000	**300,000**			

Directors' Emoluments

	2023 £000	2022 £000
Fees (including benefits in kind)	416	301
Salary payments (including benefits in kind)	6,094	5,197
Pension contributions	73	71
	6,583	**5,569**

	Salary £000	Bonus £000	Benefits £000	Pension £000	Fees £000	Total 2023 £000	Total 2022 £000
Sir Henry Angest	1,200	-	61	-	-	1,261	1,278
JD Almond	-	-	-	-	23	23	-
F Angest	68	20	1	3	34	126	37
The Hon Sir Nigel Boardman	-	-	-	-	158	158	121
JR Cobb	850	1,000	20	35	-	1,905	1,498
IA Dewar	-	-	-	-	83	83	75
AA Knight	-	-	-	-	25	25	-
Sir Christopher Meyer	-	-	-	-	-	-	25
AA Salmon	1,350	1,500	24	35	-	2,909	2,465
Lord Sassoon	-	-	-	-	23	23	-
Sir Alan Yarrow	-	-	-	-	70	70	70
	3,468	**2,520**	**106**	**73**	**416**	**6,583**	**5,569**

Details of any shares or options held by directors are presented above.

The emoluments of the Chairman were £1,261,000 (2022: £1,278,000). The emoluments of the highest paid director were £2,909,000 (2022: £2,465,000) including pension contributions of £35,000 (2022: £35,000). The emoluments reported on the previous page for Ms Knight and in the prior year for Mr. F Angest are pro-rated from the date they became Directors of the Company.

Retirement benefits are accruing under money purchase schemes for three directors who served during 2023 (2022: three directors).

Independent Auditor's Report

Opinion

We have audited the financial statements of Arbuthnot Banking Group PLC (the 'Parent Company') and its subsidiaries (the 'Group') for the year ended 31 December 2023 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Financial Position, the Company Statement of Financial Position, the Consolidated Statement of Changes in Equity, the Company Statement of Changes in Equity, the Consolidated Statement of Cash Flows, the Company Statement of Cash Flows, and notes to the financial statements, including material accounting policy information.

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

In our opinion, the financial statements:

- give a true and fair view of the state of the Group and of the Parent Company's affairs as at 31 December 2023 and of the Group's profit for the year then ended;
- have been properly prepared in accordance with UK-adopted international accounting standards and, as regards the Parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the "Auditor's responsibilities for the audit of the financial statements" section of our report. We are independent of the Group and the Parent Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's ("FRC") Ethical Standard as applied to listed entities and 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 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;
- Obtaining an understanding of the relevant controls relating to the directors' going concern assessment;
- Making enquiries of the directors to understand the period of assessment considered by them, the assumptions they considered and the implication of those when assessing the Group's and the Parent Company's future financial performance;
- Evaluating management's going concern assessment of the Group and the Parent Company and challenging the appropriateness of the key assumptions used in and mathematical accuracy of management's forecasts, including assessing the historical accuracy of management's forecasting and budgeting;
- Assessing the sufficiency of the Group's capital and liquidity taking into consideration the most recent Internal Capital Adequacy Assessment Process ('ICAAP') and Internal Liquidity Assessment Process ('ILAAP') performed by Arbuthnot Latham & Co., Ltd, a wholly owned subsidiary within the Group which is a bank regulated by the Prudential Regulation Authority ('PRA'), and evaluating the results of management's scenarios and reverse stress testing which includes sensitivity analysis, and including consideration of principal and emerging risks on liquidity and regulatory capital;
- Assessing the accuracy of management's forecast through a review of post year-end performance;
- Evaluating the Group's Resolution and Recovery plans which includes possible cost saving measures that could be taken in the event circumstances prevent forecast results from being achieved;
- Reading regulatory correspondence, minutes of meetings of the Audit Committee and the Board of Directors, and post balance sheet events to identify events of conditions that may impact the Group and the Parent Company's ability to continue as a going concern;
- Considering the consistency of management's forecasts with other areas of the financial statements and our audit; and
- Evaluating the appropriateness of the disclosures in the financial statements related to going concern.

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

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

In relation to Arbuthnot Banking Group PLC's reporting on how it has applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting.

Key Audit Matters

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

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

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

Key Audit Matter	How our scope addressed this matter
Allowances for impairment of loans and advances Group - £6.8m; 2022: £6.6m (refer to notes 4, 23 and 24) 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. As set out in note 3.4, ECL is measured using a three-stage model. ECL is determined based on Probability of Default ('PD') and the present value of future cash flows arising primarily from the sale of or repossession of security which determines the Loss Given Default ('LGD') and the Exposure at Default ('EAD'). For loans with no significant deterioration in credit risk since origination (stage 1), ECL is determined using collective portfolio assumptions. For loans that have experienced a significant deterioration in credit risk since origination (stage 2) or have defaulted (stage 3), key assumptions are determined on a case-by-case basis. The model used by the Group to determine the ECL provision requires judgement to the input parameters and assumptions, in particular, uncertainty around macro-economic assumptions. The most significant areas where we identified greater levels of management judgement and estimate are: • Staging of loans and advances to customers and the identification of significant increase in credit risk;	Our audit procedures included but were not limited to: *Staging of loans* We have: • Assessed the methodology of identifying significant increase in credit risk to ensure compliance with IFRS 9; • Tested the design and implementation and tested the operating effectiveness of the key controls in relation to credit monitoring, including missed payments monitoring, covenants monitoring and annual reviews; • Tested management's controls to allocate loans to the respective staging categories; • Tested the appropriateness of staging movements throughout the year; • Back tested the staging criteria to assess previous effectiveness of the criteria; and • Assessed loans that have cured during the year, including ensuring the curing is in line with policy and IFRS 9. *Stage 3 impairment assessments* We have: • Performed credit file reviews to test data used in the determination of LGD assumptions; • Re-calculated the ECL provision for a sample of higher risk loans, including consideration of multiple economic scenarios; and • Involved our in-house valuation specialist to independently assess the underlying collateral used in the ECL calculations for a sample of higher risk loans. However, in some cases, we relied on management's external valuation experts with indexing applied and, in this situation, we assessed the capabilities, professional competence, and objectivity of the experts. *Key LGD assumptions* We have: • Tested and challenged the key assumptions applied to LGD; and • Back tested key assumptions to assess appropriateness. *Use of macro-economic variables* We have:

• Stage 3 impairment assessments; • Key LGD assumptions around adjustments to collateral when estimating the present value of future recoverable cashflows; and • Use of macro-economic variables reflecting a range of future scenarios. Further detail on the key judgements and estimates involved are set out within the critical accounting estimates and judgements in applying accounting policies (note 4) and in notes 23 and 24 to the financial statements. We consider the risk to have increased in the year given the sustained impact of high interest rates and inflation, as well as the sustained economic impact of the rising cost of living on the ECL provision.	• Involved our in-house credit risk specialists and economist experts in the assessment of model approach and assumptions, including assessing the impact on commercial and residential property prices, the completeness and appropriateness of key economic variables and the appropriateness of the economic scenarios and the probability weightings applied by management. *Stand back assessment* We have: • Performed a stand back analysis to assess the overall adequacy of the ECL coverage. In performing this procedure, we considered the credit quality of the portfolio and performed benchmarking across similar banks considering both staging percentages and provision coverage ratios. *Disclosures* We have assessed the adequacy and appropriateness of the disclosures in the financial statements in relation to ECL. *Our observations* We found the approach taken in respect to ECL is materially in accordance with the requirements of IFRS 9 and determined that the allowance for impairment of loans and advances is not materially misstated at 31 December 2023.

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

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

Group materiality

Overall materiality	£2.4m (2022: £1.0m)
How we determined it	5% of profit before tax (2022: 0.5% of net assets but capped at component materiality levels)
Rationale for benchmark applied	Our materiality benchmark for the Group has changed during the year from net assets to profit before tax. We consider profit before tax to be the appropriate benchmark as the Group's profits have now established a track record following the pandemic and the low interest rate environment, and profit is increasingly a key focus for the users of the financial statements in assessing the performance of the Group.
Performance materiality	Performance materiality is set to reduce, to an appropriately low level, the probability that the aggregate of uncorrected and undetected misstatements in the financial statements exceeds materiality for the financial statements as a whole. We set performance materiality at £1.6m (2022: £0.7m), which represents 70% of overall materiality (2022: 70%). In determining the performance materiality, we considered a number of factors, including the level and nature of uncorrected and corrected misstatements in the prior year and the robustness of the control environment, and concluded that an amount toward the upper end of our normal range was appropriate.
Reporting threshold	We agreed with the directors that we would report to them misstatements identified during our audit above £71k (2022: £30k) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Parent company materiality

Overall materiality	£0.8m (2022: £0.2m)
How we determined it	0.5% of net assets (2022: 0.5% of net assets but capped at component materiality levels).
Rationale for benchmark applied	Given that the Parent Company's primary purpose is to be an investment holding entity, we consider net assets to be the most appropriate benchmark to apply in our determination of materiality. The Parent Company does not have significant revenue generating activities and therefore a profit-based measure was not considered to be appropriate.
Performance materiality	Performance materiality is set to reduce, to an appropriately low level, the probability that the aggregate of uncorrected and undetected misstatements in the financial statements exceeds materiality for the financial statements as a whole. We set performance materiality at £0.6m (2022: £0.1m), which represents 70% of overall materiality (2022: 70%). In determining the performance materiality, we considered a number of factors, including the level and nature of uncorrected and corrected misstatements in the prior year and the robustness of the control environment, and concluded that an amount toward the upper end of our normal range was appropriate.

Reporting threshold	We agreed with the directors that we would report to them misstatements identified during our audit above £24k (2022: £6k) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

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

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

Our Group audit scope included an audit of the Group and the Parent Company financial statements. Based on our risk assessment, six components of the Group, including the Parent Company, were subject to full scope audit. We used a Mazars UK component audit team as component auditor for one component (2022: one component). All other components were audited by the Group audit team.

Our component performance materiality ranged from £0.05m to £1.5m (2022: £0.02m to £0.7m). Full scope audits carried out on six components (2022: eight components), including the Parent Company, account for 99.5% of interest income (2022: 100%), 97.3% of profit before tax (2022: 100%), 99.1% of net assets (2022: 100%) and 99.8% of total assets (2022: 100%).

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

Working with our component audit team

We determined the level of involvement we needed as the Group team in the work of the component audit team to be able to conclude whether sufficient and appropriate audit evidence was obtained to provide a basis for our opinion on the Group financial statements as a whole. We maintained oversight of the component audit team, directing and supervising their activities related to our audit of the Group. The Group team maintained frequent communications to monitor progress. The Senior Statutory Auditor and senior members of the Group team attended component meetings, which were held via video conference. We issued instructions to our component audit team and interacted with them throughout the audit process. In the absence of component visits, we reviewed electronic work papers remotely which were prepared by the component audit team and held meetings with component management.

Other information

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

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

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

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

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

Matters on which we are required to report by exception

In light of the knowledge and understanding of the Group and the Parent Company and their environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

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

Corporate governance statement

We have reviewed the directors' statement in relation to going concern, longer term viability and that part of the Corporate Governance Statement relating to the Group and the Parent Company's voluntary compliance with the provisions of the UK Corporate Governance Code.

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

- Directors' statement with regards the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified, set out on pages 42 and 43;
- Directors' explanation as to its assessment of the entity's prospects, the period this assessment covers and why they period is appropriate, set out on page 42;
- Directors' statement on fair, balanced and understandable, set out on page 46;
- Board's confirmation that it has carried out a robust assessment of the emerging and principal risks, set out on page 50;
- The section of the annual report that describes the review of effectiveness of risk management and internal control systems, set out on pages 49 and 50; and;
- The section describing the work of the audit committee, set out on pages 50 to 52.

Responsibilities of Directors

As explained more fully in the 'Statement of Directors' Responsibilities in Respect of the Strategic Report and the Directors' Report and the Financial Statements' set out on page 46, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

Based on our understanding of the Group and the Parent Company and their industry, we considered that non-compliance with the following laws and regulations might have a material effect on the financial statements: regulations and supervisory requirements of the PRA and the Financial Conduct Authority ('FCA'), Alternative Investment Market ('AIM') rules, Aquis Stock Exchange ('AQSE') rules, Streamlined Energy and Carbon Reporting ('SECR') requirements, Anti Money Laundering regulations ('AML'), General Data Protection Regulation ('GDPR') and the UK Corporate Governance Code.

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

- Gaining an understanding of the legal and regulatory framework applicable to the Group and the Parent Company, the industry in which they operate, and the structure of the Group, and considering the risk of acts by the Group and the Parent Company which were contrary to the applicable laws and regulations, including fraud;
- Inquiring of the directors, management and, where appropriate, those charged with governance, as to whether the Group and the Parent Company is in compliance with laws and regulations, and discussing their policies and procedures regarding compliance with laws and regulations;
- Inspecting correspondence with relevant licensing or regulatory authorities including the PRA and FCA;
- Review of minutes of meetings of the Board of Directors and the Audit Committee held during the year and up until the date of approval of the financial statements;
- Discussing amongst the engagement team the laws and regulations listed above, and remaining alert to any indications of non-compliance; and
- Focusing on areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience and through discussions with those charged with governance and senior management, review of regulatory and legal correspondence, and review of minutes of meetings of the Board of Directors and the Audit Committee during the year and up until the date of the approval of the financial statements.

We also considered those laws and regulations that have a direct effect on the preparation of the financial statements, such as UK tax legislation, pension legislation and the Companies Act 2006.

In addition, we evaluated the directors' and management's incentives and opportunities for fraudulent manipulation of the financial statements, including the risk of management override of controls, and determined that the principal risks related to posting manual journal entries to manipulate financial performance, management bias through judgements and assumptions in significant accounting estimates, and significant one-off or unusual transactions.

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

- Making enquiries of the Directors and management on whether they had knowledge of any actual, suspected or alleged fraud;
- Gaining an understanding of the internal controls established to mitigate risks related to fraud;
- Discussing amongst the engagement team the risks of fraud;
- Addressing the risks of fraud through management override of controls by performing journal entry testing on a sample basis; and
- Being sceptical to the potential of management bias through judgements and assumptions in significant accounting estimates.

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

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

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

Other matters which we are required to address

Following the recommendation of the Audit Committee, we were appointed by the Board of Directors on 6 December 2019 to audit the financial statements for the year ended 31 December 2019 and subsequent financial periods. The period of total uninterrupted engagement is five years, covering the years ended 31 December 2019 to 31 December 2023.

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

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

Use of the audit report

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

Greg Simpson (Senior Statutory Auditor)
for and on behalf of Mazars LLP Chartered Accountants and Statutory Auditor
30 Old Bailey
London
EC4M 7AU
27 March 2024

Company statement of financial position

	Note	At 31 December 2023 £000	2022 £000
ASSETS			
Loans and advances to banks	18	623	8,434
Debt securities at amortised cost	19	38,129	24,437
Deferred tax asset	27	520	523
Intangible assets	28	-	1
Property, plant and equipment	29	130	130
Other assets	25	1,449	74
Interests in subsidiaries	44	164,354	159,354
Total assets		**205,205**	**192,953**
EQUITY AND LIABILITIES			
Equity			
Share capital	38	167	154
Share premium account	38	11,606	-
Other reserves	39	(1,280)	(1,280)
Retained earnings*	39	148,809	152,115
Total equity		**159,302**	**150,989**
LIABILITIES			
Current tax liability		2,641	879
Other liabilities	34	5,536	3,491
Debt securities in issue	36	37,726	37,594
Total liabilities		**45,903**	**41,964**
Total equity and liabilities		**205,205**	**192,953**

*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 Parent Company recorded a profit after tax for the year of £3,551k (2022: £4,446k).

Consolidated statement of changes in equity

	Share capital	Share premium	Capital redemption reserve	Fair value reserve	Treasury shares	Retained earnings	Total
	Attributable to equity holders of the Group						
	£000	£000	£000	£000	£000	£000	£000
Balance at 31 December 2022	**154**	**-**	**19**	**1,067**	**(1,299)**	**212,037**	**211,978**
Total comprehensive income for the period							
Profit for 2023	-	-	-	-	-	35,379	35,379
Other comprehensive income, net of tax							
Changes in fair value of equity investments at fair value through other comprehensive income (FVOCI)	-	-	-	412	-	-	412
Sale of financial assets carried at FVOCI	-	-	-	(47)	-	47	-
Tax on other comprehensive income	-	-	-	(91)	-	-	(91)
Total other comprehensive income	**-**	**-**	**-**	**274**	**-**	**47**	**321**
Total comprehensive income for the period	**-**	**-**	**-**	**274**	**-**	**35,426**	**35,700**
Transactions with owners, recorded directly in equity							
Contributions by and distributions to owners							
Issue of new ordinary shares	13	11,606	-	-	-	-	11,619
Final dividend relating to 2022	-	-	-	-	-	(3,756)	(3,756)
Interim dividend relating to 2023	-	-	-	-	-	(3,101)	(3,101)
Total contributions by and distributions to owners	**13**	**11,606**	**-**	**-**	**-**	**(6,857)**	**4,762**
Balance at 31 December 2023	**167**	**11,606**	**19**	**1,341**	**(1,299)**	**240,606**	**252,440**

	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 2021	**154**	**19**	**979**	**(1,299)**	**201,026**	**200,879**
Total comprehensive income for the period						
Profit for 2022	-	-	-	-	16,458	16,458
Other comprehensive income, net of tax						
Changes in fair value of equity investments at fair value through other comprehensive income (FVOCI)	-	-	628	-	-	628
Sale of financial assets carried at FVOCI			(412)		412	
Tax on other comprehensive income	-	-	(128)	-	-	(128)
Total other comprehensive income	**-**	**-**	**88**	**-**	**412**	**500**
Total comprehensive income for the period	**-**	**-**	**88**	**-**	**16,870**	**16,958**
Transactions with owners, recorded directly in equity						
Contributions by and distributions to owners						
Special dividend relating to 2021	-	-	-	-	(3,305)	(3,305)
Interim dividend relating to 2022	-	-	-	-	(2,554)	(2,554)
Total contributions by and distributions to owners	**-**	**-**	**-**	**-**	**(5,859)**	**(5,859)**
Balance at 31 December 2022	**154**	**19**	**1,067**	**(1,299)**	**212,037**	**211,978**

Company statement of changes in equity

	Attributable to equity holders of the Company						
	Share capital	Share premium	Capital redemption reserve	Fair value reserve	Treasury shares	Retained earnings	Total
	£000	£000	£000	£000	£000	£000	£000
Balance at 1 January 2022	**154**	**-**	**19**	**-**	**(1,299)**	**153,528**	**152,402**
Total comprehensive income for the period							
Profit for 2022	-	-	-	-	-	4,446	4,446
Other comprehensive income, net of income tax							
Total comprehensive income for the period	**-**	**-**	**-**	**-**	**-**	**4,446**	**4,446**
Transactions with owners, recorded directly in							
Contributions by and distributions to owners							
Final dividend relating to 2021	-	-	-	-	-	(3,305)	(3,305)
Interim dividend relating to 2022	-	-	-	-	-	(2,554)	(2,554)
Total contributions by and distributions to	**-**	**-**	**-**	**-**	**-**	**(5,859)**	**(5,859)**
Balance at 31 December 2022	**154**	**-**	**19**	**-**	**(1,299)**	**152,115**	**150,989**
Total comprehensive income for the period							
Profit for 2023	-	-	-	-	-	3,551	3,551
Other comprehensive income, net of income tax							
Total comprehensive income for the period	**-**	**-**	**-**	**-**	**-**	**3,551**	**3,551**
Transactions with owners, recorded directly in							
Contributions by and distributions to owners							
Issue of new ordinary shares	13	11,606	-	-	-	-	11,619
Final dividend relating to 2022	-	-	-	-	-	(3,756)	(3,756)
Interim dividend relating to 2023	-	-	-	-	-	(3,101)	(3,101)
Total contributions by and distributions to	**13**	**11,606**	**-**	**-**	**-**	**(6,857)**	**4,762**
Balance at 31 December 2023	**167**	**11,606**	**19**	**-**	**(1,299)**	**148,809**	**159,302**

Consolidated statement of cash flows

	Note	Year ended 31 December 2023 £000	Year ended 31 December 2022 £000
Cash flows from operating activities			
Profit before tax		47,117	20,009
Adjustments for:			
- Depreciation and amortisation	29,28,30	9,819	7,193
- Impairment loss on loans and advances	24	208	214
- Net interest expense		564	80
- Elimination of exchange differences on debt securities		8,712	(8,783)
- Other non-cash or non-operating items included in profit before tax		155	163
- Tax expense		(11,738)	(3,551)
Cash flows from operating profits before changes in operating assets and liabilities		54,837	15,325
Changes in operating assets and liabilities:			
- net decrease/(increase) in derivative financial instruments		3,005	(4,605)
- net increase in loans and advances to customers		(28,347)	(165,328)
- net increase in assets held for leasing		(95,853)	(50,175)
- net (increase)/decrease in other assets		(1,176)	57,563
- net increase in amounts due to customers		667,018	254,680
- net increase in other liabilities		18,013	6,323
Net cash inflow from operating activities		**617,497**	**113,783**
Cash flows from investing activities			
Acquisition of financial investments		(174)	(53)
Disposal of financial investments		63	640
Purchase of intangible assets	28	(1,523)	(6,174)
Purchase of property, plant and equipment	29	(4,846)	(1,065)
Proceeds from sale of property, plant and equipment	29	5	50
Purchase of debt securities		(1,582,889)	(799,341)
Proceeds from redemption of debt securities		1,071,232	670,164
Net cash outflow from investing activities		**(518,132)**	**(135,779)**
Cash flows from financing activities			
Issue of new ordinary shares		11,619	-
Decrease in borrowings		(43,049)	(4,306)
Lease payments		(3,654)	(7,458)
Dividends paid		(6,857)	(5,860)
Net cash outflow from financing activities		**(41,941)**	**(17,624)**
Net increase/(decrease) in cash and cash equivalents		57,424	(39,620)
Cash and cash equivalents at 1 January		848,516	888,136
Cash and cash equivalents at 31 December	42	**905,940**	**848,516**

Company statement of cash flows

	Note	Year ended 31 December 2023 £000	Year ended 31 December 2022 £000
Cash flows from operating activities			
Profit before tax		6,856	5,850
Adjustments for:			
- Depreciation and amortisation	28, 29	1	10
- Net interest (income) / expense		(523)	80
- Elimination of exchange differences on debt securities		(170)	741
- Other non-cash or non-operating items included in profit before tax		84	(71)
- Tax expense		(3,305)	(1,404)
Cash flows from operating profits before changes in operating assets and liabilities		2,943	5,206
Changes in operating assets and liabilities:			
- net increase in group company balances		(93)	(1,013)
- net (increase)/decrease in other assets		(1,372)	221
- net increase in other liabilities		3,900	2,242
Net cash inflow from operating activities		**5,378**	**6,656**
Cash flows from investing activities			
Issue of subordinated debt to Arbuthnot Latham		(12,951)	-
Receipt on dissolution of People's Trust & Savings PLC		-	50
Capital contribution to Arbuthnot Latham		(5,000)	-
Net cash (outflow)/inflow from investing activities		**(17,951)**	**50**
Cash flows from financing activities			
Issue of new shares		11,619	-
Dividends paid		(6,857)	(5,859)
Net cash used in financing activities		**4,762**	**(5,859)**
Net (decrease)/increase in cash and cash equivalents		(7,811)	847
Cash and cash equivalents at 1 January		8,434	7,587
Cash and cash equivalents at 31 December	42	**623**	**8,434**

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 2023 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 UK-adopted international accounting standards in conformity with the requirements of the Companies Act 2006.

The consolidated financial statements were authorised for issue by the Board of Directors on 27 March 2024.

(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), capital resources (see Note 7) and the potential impact of climate-related risks, the directors are satisfied that the Company and the Group have adequate resources to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue. The Audit Committee reviewed management's assessment, which incorporated analysis of the ICAAP and ILAAP approved by the Board of AL and of relevant metrics, focusing on liquidity, capital, and the stress scenarios. It is satisfied that the going concern basis and assessment of the Group's longer-term viability is appropriate. The financial statements are therefore prepared on the going concern basis.

(f) Accounting developments
The accounting policies adopted are consistent with those of the previous financial year.

3. Material 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. Certain debt securities are held by the Group Central Treasury in a separate portfolio for long-term yield. These securities may be sold, but such sales are not expected to be more than infrequent. The Group considers that these securities are held within a business model whose objective is to hold assets to collect the contractual cash flows. 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).

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 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.

Modification of financial assets
If the terms of financial assets are modified, then the Group evaluates whether the cash flow of the modified asset are substantially different.

If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value plus any eligible transaction costs. Any fees received as part of the modification are accounted as follows:
- fees that are considered in determining the fair value of the new asset and fees that represent reimbursement of eligible transaction costs are included in the initial measurement of the asset; and
- other fees are included in profit or loss as part of gain or loss on derecognition.

3.4 Impairment for financial assets at amortised cost and lease receivables
IFRS 9 impairment model adopts a three stage expected credit loss approach ("ECL") based on the extent of credit deterioration since origination.

The three stages under IFRS 9 are as follows:
- Stage 1 – if, at the reporting date, the credit risk on a financial instrument has not increased significantly since initial recognition, an entity shall measure the loss allowance for that financial instrument at an amount equal to 12-month expected credit losses.
- Stage 2 – a lifetime loss allowance is held for financial assets where a significant increase in credit risk has been identified since initial recognition for financial assets that are not credit impaired. The assessment of whether credit risk has increased significantly since initial recognition is performed for each reporting period for the life of the loan.
- Stage 3 – a lifetime ECL allowance is required for financial assets that are credit impaired at the reporting date.

Measurement of ECL
The assessment of credit risk and the estimation of ECL are unbiased and probability weighted. ECL is measured on either a 12 month (Stage 1) or lifetime (Stage 2) basis depending on whether a significant increase in credit risk has occurred since initial recognition or where an account meets the Group's definition of default (Stage 3).
The ECL calculation is a product of an individual loan's probability of default ('PD'), exposure at default ('EAD') and loss given default ('LGD') discounted at the effective interest rate ('EIR').

Significant increase in credit risk ("SICR") (movement to Stage 2)
The Group's transfer criteria determines what constitutes a significant increase in credit risk, which results in a financial asset being moved from Stage 1 to Stage 2. The Group has determined that a significant increase in credit risk arises when an individual borrower is more than 30 days past due or in other circumstances such as forbearance measures.

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

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

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

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

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

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

The Group uses bespoke macroeconomic models to determine the most significant factors which may influence the likelihood of an exposure defaulting in the future. At present, the most significant macroeconomic factors relate to property prices, UK real GDP growth and unemployment rate. The Group currently consider five probability weighted scenarios: baseline; extreme downside; downside 2; downside 1 and upside. The Group has derived an approach for factoring probability weighted macroeconomic forecasts into ECL calculations, adjusting PD and LGD estimates.

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

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

3.5 Derivatives held for risk management purposes and hedge accounting

The Group has elected, as an accounting policy choice permitted under IFRS 9 'Financial Instruments', to continue to apply the hedge accounting rules set out in IAS 39 'Financial Instruments – Recognition and measurement'. However, additional hedge accounting disclosures introduced by IFRS 9's consequential amendments to IFRS 7 are provided.

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

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

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

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

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

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

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

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

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

3.8. Adoption of new and revised reporting standards
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 2023 or later periods, that will have any material impact on the Group's financial statements.

3.9. Standards issued but not yet effective
A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2023 and earlier application is permitted; however, the Group has not early adopted the new and amended standards in preparing these consolidated financial statements.

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

- International Tax Reform - Pillar Two Model Rules (Amendments to IAS 12, effective for annual periods beginning on or after 23 May 2023).
- Non-current Liabilities with Covenants (Amendments to IAS 1, effective for annual periods beginning on or after 1 January 2024).
- Classification of Liabilities as Current or Non-Current (Amendments to IAS 1, effective for annual periods beginning on or after 1 January 2024).
- Lease Liability in a Sale and Leaseback (Amendments to IFRS 16, effective for annual periods beginning on or after 1 January 2024).
- Supplier Finance Arrangements (Amendments to IAS 7 and IFRS 7, effective for annual periods beginning on or after 1 January 2024).
- Lack of Exchangeability (Amendments to IAS 21, effective for annual periods beginning on or after 1 January 2025).
- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28, available for optional adoption/ effective date deferred indefinitely).

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 Critical accounting judgements

Information about judgements made in applying accounting policies that have the most significant effects on the amounts recognised in the consolidated financial statements is included in the following notes:

- Notes 3.4 and 6(a): establishing the criteria for determining whether credit risk on a financial asset has increased significantly since initial recognition.
- Notes 3.4 and 6(a): establishing the criteria to determine whether an account meets the definition of default and as a result moves into Stage 3.
- Notes 3.3 and 6(f): classification of financial assets: assessment of the business model within which the assets are held and assessment of whether the contractual terms of financial asset are SPPI on the principal amount outstanding.

4.2 Estimation uncertainty

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

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

The Group incorporates FLI into the assessment of whether there has been a significant increase in credit risk. Forecasts for key macroeconomic variables that most closely correlate with the Bank's portfolio are used to produce five economic scenarios, comprising of a base case, which is the central scenario, developed internally based on consensus forecast, and four less likely scenarios, one upside and three downside scenarios (downside 1, downside 2 and extreme downside), and the impacts of these scenarios are then probability weighted. The estimation and application of this FLI will require significant judgement supported by the use of external information.

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

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

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

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

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

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

- Baseline
- Upside
- Downside 1
- Downside 2
- Extreme downside

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

Group	Probability weighting 2023	2022
Economic Scenarios		
Baseline	46.0%	53.0%
Upside	16.0%	13.0%
Downside 1	18.0%	12.0%
Downside 2	12.0%	11.0%
Extreme downside	8.0%	11.0%

The tables below show the five-year forecasted average for property prices growth, UK unemployment rate and UK real GDP growth:

	31 December 2023				
	Base	Upside	Downside 1	Downside 2	Extreme downside
Five-year summary					
UK House price index - average growth	1.5%	5.8%	-0.4%	-2.3%	-4.2%
UK Commercial real estate price - average growth	1.5%	3.6%	-0.7%	-2.8%	-4.9%
UK Unemployment rate - average	4.9%	3.9%	5.7%	6.5%	7.3%
UK GDP - average growth	1.3%	2.1%	0.9%	0.4%	0.0%

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

The tables below list the macroeconomic assumptions at 31 December 2023 used in the base, upside and downside scenarios over the five-year forecast period. The assumptions represent the absolute percentage unemployment rates and year-on-year percentage change for GDP and property prices.

UK House price index - four quarter growth

Year	Baseline	Upside	Downside 1	Downside 2	Extreme downside
2024	(2.3%)	5.5%	(5.2%)	(8.1%)	(11.0%)
2025	(2.2%)	3.8%	(7.1%)	(12.0%)	(16.9%)
2026	2.1%	4.8%	(0.9%)	(3.8%)	(6.8%)
2027	5.0%	7.7%	5.7%	6.4%	7.2%
2028	5.1%	7.2%	5.6%	6.1%	6.6%
5 year average	1.5%	5.8%	(0.4%)	(2.3%)	(4.2%)

UK Commercial real estate price - four quarter growth

Year	Baseline	Upside	Downside 1	Downside 2	Extreme downside
2024	0.8%	7.5%	(9.5%)	(19.8%)	(30.0%)
2025	1.5%	3.9%	(5.2%)	(11.9%)	(18.6%)
2026	1.9%	3.1%	3.6%	5.3%	7.0%
2027	1.6%	1.9%	3.9%	6.2%	8.5%
2028	1.6%	1.9%	3.9%	6.3%	8.6%
5 year average	1.5%	3.6%	(0.7%)	(2.8%)	(4.9%)

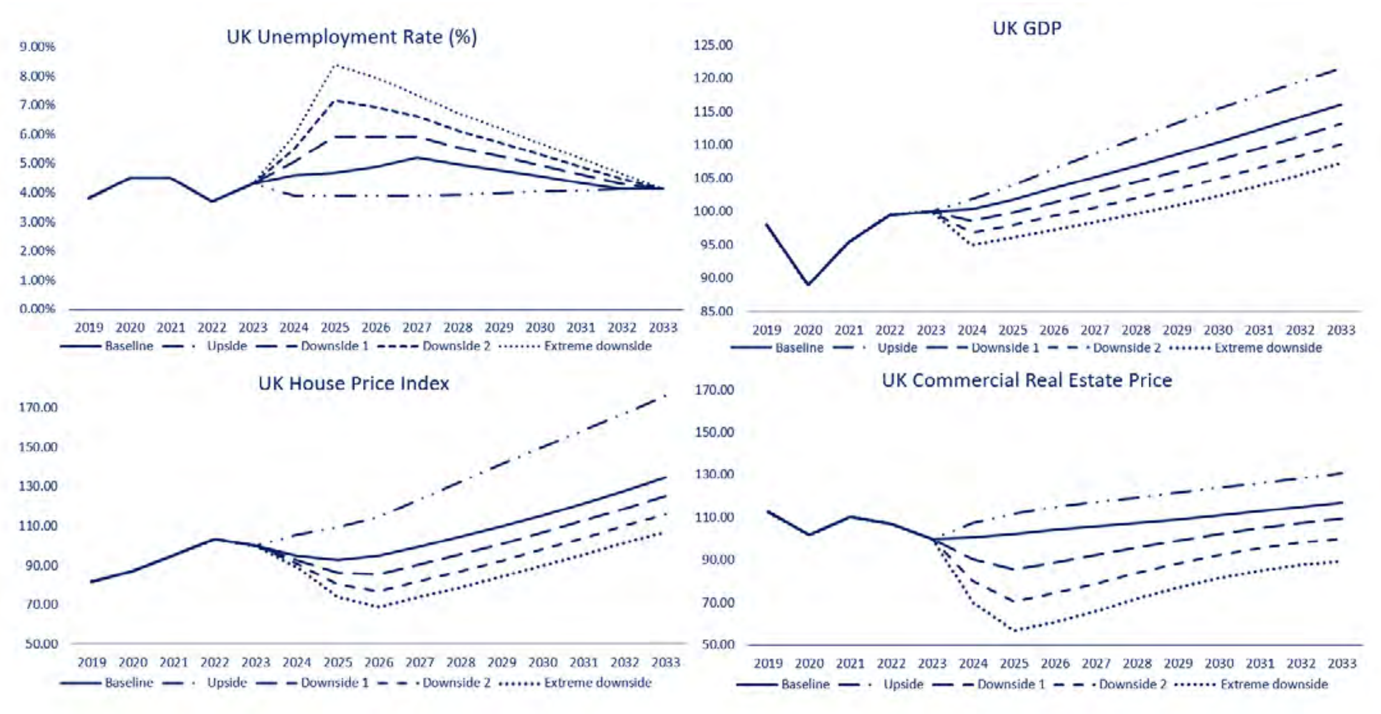
UK Unemployment rate - annual average

Year	Baseline	Upside	Downside 1	Downside 2	Extreme downside
2024	4.7%	3.9%	5.1%	5.5%	6.0%
2025	4.7%	3.9%	5.9%	7.2%	8.4%
2026	4.9%	3.9%	5.9%	6.9%	8.0%
2027	5.2%	3.9%	5.9%	6.6%	7.4%
2028	5.0%	3.9%	5.6%	6.1%	6.7%
5 year average	4.9%	3.9%	5.7%	6.5%	7.3%

UK GDP - annual growth

Year	Baseline	Upside	Downside 1	Downside 2	Extreme downside
2024	0.4%	1.9%	(1.4%)	(3.2%)	(5.0%)
2025	1.4%	2.0%	1.3%	1.4%	1.2%
2026	1.7%	2.4%	1.5%	1.4%	1.2%
2027	1.6%	2.2%	1.5%	1.3%	1.2%
2028	1.6%	2.1%	1.5%	1.3%	1.2%
5 year average	1.3%	2.1%	0.9%	0.4%	0.0%

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



The table below compares the 31 December 2023 ECL provision using the 31 December 2023 economic scenarios and the 31 December 2023 ECL provision using the 31 December 2022 economic scenarios.

Group	Economic scenarios as at 2023 £000	2022 £000
ECL Provision		
Stage 1	900	852
Stage 2	429	429
Stage 3	5,479	5,642
At 31 December 2023	6,808	6,923

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

Group	2023 £m	2022 £m
Impact of 100% scenario probability		
Baseline	0.8	0.7
Upside	1.6	1.0
Downside 1	(1.7)	(2.0)
Downside 2	(8.1)	(7.5)
Extreme downside	(24.0)	(19.1)

(b) Effective Interest Rate

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

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

In 2023 the Group recognised £28k (2022: £Nil) 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 (2022: £0.7m), due to acceleration of fee income.

In 2023 the Group recognised £13k additional (2022: additional £0.1m) of interest income to reflect actual cash flows received on the acquired mortgage books being less than forecast cash flows.

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

If the acquired loan books were modelled to accelerate cash flows by 6 months, it would increase interest income in 2023 by £0.03m (2022: £0.1m) while a 10% increase in principal repayments will increase interest income in 2023 by £0.1m (2022: £0.2m) through a cash flow reset adjustment.

(c) Investment property

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

The uncertainty due to Brexit, rising inflation and interest rates has resulted in less market evidence being available for Management in making its judgement on the key assumptions of property yield and market rent. The Group currently owns one (2022: one) investment property, as outlined in Note 31.

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

Crescent Office Park in Bath with value of £6.0m (2022: £6.6m)
In December 2017, the office building was acquired with the intention to be included within a new property fund initiative that the Group had planned to start-up. The property had tenants in situ with the Fund recognising rental income.

The property was initially recognised as held for sale under IFRS 5. In 2018 the launch of the property fund was placed on hold and as a result it was reclassified as an investment property as the property no longer met the IFRS 5 criteria. The property remained occupied as at 31 December 2023 with the Group receiving rental income.

In accordance with IAS 40, the property is measured at fair value, with its carrying value at year end of £5.95m equal to its fair value.

The valuation of the property has the following key inputs:
- yield: 7.48%
- total topped up rental income per annum: £0.47m

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

Management have assessed that should the fair value of the investment property reduce by 5% this would impact profit or loss by £0.3m and a reduction of 10% would impact profit or loss by £0.6m.

(d) Inventory
The Group owns one commercial property (2022: one property) and one repossessed property (2022: one property), classified as inventory and presented as part of other assets in the Statement of Financial Position. The properties are assessed at the reporting date for impairment.

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

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

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

Management have assessed that should the net realisable value less cost to sell of each of the combined property inventory reduce by 5% this would impact profit or loss by £0.7m and a reduction of 10% would impact profit or loss by £1.5m (or 10% of cost).

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

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

Management have assessed that should the residual value decrease by 5% this would impact profit or loss by £2.1m and a reduction of 10% would impact profit or loss by £4.2m. Expected residual values underlying the calculation of depreciation of leased assets are kept under review to take account of any change in circumstances. Refer to Note 29 for further detail.

(f) Climate change

The Group has considered the potential impact of climate change on the Group's financial position and performance.

This included performing an assessment over the Group's financial and non-financial assets and evaluating information about the observable effects of physical and transition risk of climate change on the Group's financial position and performance. Many of the effects of climate change will be less significant in the short term and will have limited impact on accounting estimates and judgements in the current year. The following items represent the most significant effects:

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

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 2023:

At 31 December 2023	Due within one year £000	Due after more than one year £000	Total £000
ASSETS			
Cash and balances at central banks	826,559	-	826,559
Loans and advances to banks	79,381	-	79,381
Debt securities at amortised cost	859,430	83,007	942,437
Assets classified as held for sale	3,281	-	3,281
Derivative financial instruments	4	4,210	4,214
Loans and advances to customers	563,244	1,500,973	2,064,217
Other assets	32,619	24,531	57,150
Financial investments	-	3,942	3,942
Intangible assets	6,116	23,471	29,587
Property, plant and equipment	107,600	166,706	274,306
Right-of-use assets	5,987	46,829	52,816
Investment property	-	5,950	5,950
	2,484,221	**1,859,619**	**4,343,840**
LIABILITIES			
Deposits from banks	3,410	190,000	193,410
Derivative financial instruments	66	966	1,032
Deposits from customers	3,687,489	72,078	3,759,567
Current tax liability	294	-	294
Other liabilities	40,700	-	40,700
Deferred tax liability	-	4,910	4,910
Lease liabilities	2,559	51,202	53,761
Debt securities in issue	-	37,726	37,726
	3,734,518	**356,882**	**4,091,400**

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

At 31 December 2022	Due within one year £000	Due after more than one year £000	Total £000
ASSETS			
Cash and balances at central banks	732,729	-	732,729
Loans and advances to banks	115,788	-	115,788
Debt securities at amortised cost	328,988	110,765	439,753
Assets classified as held for sale	3,279	-	3,279
Derivative financial instruments	113	6,209	6,322
Loans and advances to customers	690,145	1,345,932	2,036,077
Other assets	31,034	21,151	52,185
Financial investments	-	3,404	3,404
Deferred tax asset	-	2,425	2,425
Intangible assets	8,716	23,833	32,549
Property, plant and equipment	77,599	97,674	175,273
Right-of-use assets	3,134	4,580	7,714
Investment property	-	6,550	6,550
	1,991,525	**1,622,523**	**3,614,048**
LIABILITIES			
Deposits from banks	11,027	225,000	236,027
Derivative financial instruments	135	-	135
Deposits from customers	3,041,084	51,465	3,092,549
Current tax liability	1,748	-	1,748
Other liabilities	26,144	-	26,144
Lease Liabilities	3,325	4,547	7,872
Debt securities in issue	-	37,594	37,594
	3,083,463	**318,606**	**3,402,069**

The table below shows the maturity analysis of assets and liabilities of the Company as at 31 December 2023:

At 31 December 2023	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	616	-	616
Debt securities at amortised cost	-	38,129	38,129
Deferred tax asset	-	520	520
Property, plant and equipment	-	130	130
Other assets	1,449	-	1,449
Interests in subsidiaries	-	164,354	164,354
	2,072	**203,133**	**205,205**
LIABILITIES			
Current tax liability	2,641	-	2,641
Other liabilities	5,536	-	5,536
Debt securities in issue	-	37,726	37,726
	8,177	**37,726**	**45,903**

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

At 31 December 2022	Due within one year £000	Due after more than one year £000	Total £000
ASSETS			
Loans and advances to banks	6	-	6
Loans and advances to banks - due from subsidiary undertakings	8,427	-	8,427
Debt securities at amortised cost	-	24,437	24,437
Deferred tax asset	-	522	522
Intangible assets	-	1	1
Property, plant and equipment	-	130	130
Other assets	73	-	73
Interests in subsidiaries	-	159,354	159,354
	8,506	**184,444**	**192,950**
LIABILITIES			
Current tax liability	879	-	879
Other liabilities	3,490	-	3,490
Debt securities in issue	-	37,594	37,594
	4,369	**37,594**	**41,963**

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 rising inflation and interest rates on performance against both credit risk appetite and a range of key credit risk metrics.

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

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

The economic environment remains uncertain and future impairment charges may be subject to further volatility (including from changes to macroeconomic variable forecasts).

Rising inflation and interest rates have created a challenge for ECL modelling, given the severity of economic shock and associated uncertainty for the future economic path coupled with the scale of government and central bank intervention that have altered the relationships between economic drivers and default.

The Group has attempted to leverage stress test modelling insights to inform ECL model refinements to enable reasonable estimates. Management review of modelling approaches and outcomes continues to inform any necessary adjustments to the ECL estimates through the form of in-model adjustments, based on expert judgement including the use of available information. Management considerations included the potential severity and duration of the economic shock, including the mitigating effects of government support actions, as well the potential trajectory of the subsequent recovery.

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

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

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

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards.

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

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

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

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

Group	2023							
	Banking	Mortgage Portfolios	RAF	ABL	ASFL	AAG	All Other Divisions	Total
Credit risk exposures (all stage 1, unless otherwise stated)	£000	£000	£000	£000	£000	£000	£000	£000
On-balance sheet:								
Cash and balances at central banks	-	-	-	-	-	-	826,397	826,397
Loans and advances to banks	-	-	-	-	-	-	79,381	79,381
Debt securities at amortised cost	-	-	-	-	-	-	942,437	942,437
Assets classified as held for sale	-	-	-	-	-	-	3,281	3,281
Derivative financial instruments	-	-	-	-	-	-	4,214	4,214
Loans and advances to customers (Gross of ECL)	1,442,827	124,905	200,606	240,178	3,113	59,396	-	2,071,025
Stage 1	1,333,006	95,231	194,571	223,912	3,113	59,109	-	1,908,942
Stage 2	59,681	10,084	2,267	10,432	-	287	-	82,751
Stage 3	50,140	19,590	3,768	5,834	-	-	-	79,332
Other assets	-	-	-	-	-	-	22,361	22,361
Financial investments	-	-	-	-	-	-	3,942	3,942
Off-balance sheet:								
Guarantees	2,051	-	-	-	-	-	-	2,051
Loan commitments and other credit related liabilities	156,027	-	-	294,399	113	-	-	450,539
At 31 December	**1,600,905**	**124,905**	**200,606**	**534,577**	**3,226**	**59,396**	**1,882,013**	**4,405,628**

Group	2022							
	Banking	Mortgage Portfolios	RAF	ABL	ASFL	AAG	All Other Divisions	Total
Credit risk exposures (all stage 1, unless otherwise stated)	£000	£000	£000	£000	£000	£000	£000	£000
On-balance sheet:								
Cash and balances at central banks	-	-	-	-	-	-	732,513	732,513
Loans and advances to banks	-	-	-	-	-	-	115,788	115,788
Debt securities at amortised cost	-	-	-	-	-	-	439,753	439,753
Derivative financial instruments	-	-	-	-	-	-	6,322	6,322
Loans and advances to customers (Gross of ECL)	1,455,607	148,957	134,724	270,999	14,950	17,442	-	2,042,679
Stage 1	1,363,572	126,726	128,807	267,962	13,756	17,066	-	1,917,889
Stage 2	59,904	10,777	2,454	-	1,001	376	-	74,512
Stage 3	32,131	11,454	3,463	3,037	193	-	-	50,278
Other assets	-	-	-	-	-	-	14,160	14,160
Financial investments	-	-	-	-	-	-	3,404	3,404
Off-balance sheet:								
Guarantees	2,591	-	-	-	-	662	-	3,253
Loan commitments and other credit related liabilities	219,490	-	-	250,276	1,312	-	-	471,078
At 31 December	**1,677,688**	**148,957**	**134,724**	**521,275**	**16,262**	**18,104**	**1,311,940**	**3,828,950**

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

	2023	2022
	£000	£000
Credit risk exposures relating to on-balance sheet assets are as follows:		
Loans and advances to banks	623	8,434
Debt securities at amortised cost	38,129	24,437
At 31 December	**38,752**	**32,871**

The above tables represent the maximum credit risk exposure (net of impairment) to the Group and Company at 31 December 2023 and 2022 without taking account of any collateral held or other credit enhancements attached. For financial assets, the balances are based on carrying amounts as reported in the Statement of Financial Position. For guarantees and loan commitments, the amounts in the table represent the amounts for which the group is contractually committed.

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

	2023					
	Banking		Mortgage Portfolios		Total	
	Loan Balance	Collateral	Loan Balance	Collateral	Loan Balance	Collateral
Group	£000	£000	£000	£000	£000	£000
Less than 60%	1,029,694	2,374,285	82,690	202,310	1,112,384	2,576,595
Stage 1	961,118	2,225,190	64,514	158,253	1,025,632	2,383,443
Stage 2	48,766	102,890	7,530	18,493	56,296	121,383
Stage 3	19,810	46,205	10,646	25,564	30,456	71,769
60%-80%	332,632	528,678	27,929	43,196	360,561	571,874
Stage 1	308,321	491,617	20,814	32,103	329,135	523,720
Stage 2	8,578	13,530	1,649	2,655	10,227	16,185
Stage 3	15,733	23,531	5,466	8,438	21,199	31,969
80%-100%	23,236	27,603	8,466	10,710	31,702	38,313
Stage 1	23,236	27,603	6,132	7,608	29,368	35,211
Stage 2	-	-	350	496	350	496
Stage 3	-	-	1,984	2,606	1,984	2,606
Greater than 100%*	20,952	9,843	5,820	6,354	26,772	16,197
Stage 1	3,350	2,583	3,772	3,895	7,122	6,478
Stage 2	1,978	260	554	691	2,532	951
Stage 3	15,624	7,000	1,494	1,768	17,118	8,768
Total	**1,406,514**	**2,940,409**	**124,905**	**262,570**	**1,531,419**	**3,202,979**

*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 £1.0m in the form of cash deposits and security over Arbuthnot Latham Investment Management Portfolios and personal guarantees of £7.0m. 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:

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

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

Loans in the Banking segment with a loan to value of greater than 100% have additional collateral of £9.4m in the form of cash deposits and security over Arbuthnot Latham Investment Management Portfolios and personal guarantees of £13.1m. Non-property collateral reduces loan to value below 100% for all such exposures in the Banking segment.

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

	2023	
	Loan commitments	Collateral
Group	£000	£000
Less than 60%	34,105	178,155
60%-80%	22,261	31,524
Greater than 100%	9,042	2,992
Total	**65,408**	**212,671**

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

Renegotiated loans and forbearance

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

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

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

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

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

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

As at 31 December 2023, loans for which forbearance measures were in place totalled 3.45% (2022: 3.0%) of total value of loans to customers for the Group. These are set out in the following table:

	2023							
	Stage 1		Stage 2		Stage 3		Total	
	Number	Loan Balance	Number	Loan Balance	Number	Loan Balance	Number	Loan Balance
Group		£000		£000		£000		£000
Time for asset sale	-	-	-	-	2	4,157	2	4,157
Term extension	-	-	11	3,701	2	796	13	4,497
Time for refinance with third party	-	-	-	-	1	2,360	1	2,360
Payment holiday	-	-	13	23,771	3	5,490	16	29,261
Covenant waived	-	-	1	8,205	-	-	1	8,205
Switch to interest only	-	-	2	1,882	-	-	2	1,882
Modification in terms and conditions	-	-	39	10,212	41	8,868	80	19,080
Restructure	-	-	2	1,236	3	457	5	1,693
Total forbearance		**-**	**68**	**49,007**	**52**	**22,128**	**120**	**71,135**

	2022							
	Stage 1		Stage 2		Stage 3		Total	
	Number	Loan Balance	Number	Loan Balance	Number	Loan Balance	Number	Loan Balance
Group		£000		£000		£000		£000
Time for asset sale	-	-	3	8,836	1	35	4	8,871
Term extension	-	-	24	1,905	-	-	24	1,905
Time for refinance with third party	-	-	1	2,360	-	-	1	2,360
Payment holiday	-	-	3	4,002	-	-	3	4,002
Covenant waived	-	-	3	28,142	-	-	3	28,142
Modification in term and conditions	-	-	64	9,184	32	6,073	96	15,257
Restructure	-	-	7	1,567	-	-	7	1,567
Total forbearance	**-**	**-**	**105**	**55,996**	**33**	**6,108**	**138**	**62,104**

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	
	2023	2022	2023	2022
	£000	£000	£000	£000
Concentration by product				
Asset based lending*	239,777	268,825	294,399	250,276
Asset finance	257,547	148,788	113	1,312
Cash collateralised	11,464	14,143	8,500	611
Commercial lending	125,193	156,250	7,660	25,720
Investment portfolio secured	16,697	24,485	1,458	2,086
Residential mortgages	1,302,177	1,339,789	103,643	109,948
Mixed collateral*	92,004	69,433	8,710	44,590
Unsecured**	19,358	14,364	26,056	36,535
At 31 December	**2,064,217**	**2,036,077**	**450,539**	**471,078**
Concentration by location				
East Anglia	24,837	28,668	1,938	2,776
London	754,291	759,584	55,175	178,576
Midlands	102,907	86,442	12,433	4,778
North East	66,039	42,897	8,535	18
North West	84,675	94,341	11,342	3,531
Northern Ireland	3,293	3,593	-	-
Scotland	13,555	20,220	50	-
South East	255,597	236,658	18,757	884
South West	181,286	179,034	9,646	5,273
Wales	14,621	15,174	2,007	5,001
Non-property collateral	563,116	569,466	330,656	270,241
At 31 December	**2,064,217**	**2,036,077**	**450,539**	**471,078**

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

** Included within unsecured are £7.8m (2022: £9.0m) of loans which are backed by the government guarantee scheme for BBLs.

(b) Operational risk

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

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

Cyber risk

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

Conduct risk

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

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

(c) Macroeconomic and competitive environment

The Group is exposed to risks that may arise from the macroeconomic and competitive environment.

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

Climate change

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

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

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

(d) Market risk

Price risk

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

Based upon the financial investment exposure in Note 26, a stress test scenario of a 10% (2022: 10%) decline in market prices, would result in a £Nil (2022: £Nil) decrease in the Group's income and a decrease of £0.4m (2022: £0.3m) in the Group's equity. The Group considers a 10% stress test scenario appropriate after taking the current values and historic data into account.

Based upon the financial investment exposure given in Note 26, a stress test scenario of a 10% (2022: 10%) decline in market prices, would result in a £Nil (2022: £Nil) decrease in the Company's income and a decrease of £Nil (2022: £Nil) 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 2023. Included in the table below are the Group's assets and liabilities at carrying amounts, categorised by currency.

At 31 December 2023	GBP (£) £000	USD ($) £000	Euro (€) £000	Other £000	Total £000
ASSETS					
Cash and balances at central banks	826,132	133	-	294	826,559
Loans and advances to banks	13,622	27,832	30,845	7,082	79,381
Debt securities at amortised cost	697,902	161,991	82,543	1	942,437
Assets classified as held for sale	-	-	3,281	-	3,281
Derivative financial instruments	4,213	1	-	-	4,214
Loans and advances to customers	2,060,235	(139)	3,210	911	2,064,217
Other assets	19,129	-	3,232	-	22,361
Financial investments	-	3,942	-	-	3,942
	3,621,233	**193,760**	**123,111**	**8,288**	**3,946,392**
LIABILITIES					
Deposits from banks	193,410	-	-	-	193,410
Derivative financial instruments	1,020	1	-	11	1,032
Deposits from customers	3,453,720	190,052	108,053	7,742	3,759,567
Other liabilities	18,303	-	239	-	18,542
Debt securities in issue	24,720	-	13,006	-	37,726
	3,691,173	**190,053**	**121,298**	**7,753**	**4,010,277**
Net on-balance sheet position	**(69,940)**	**3,707**	**1,813**	**535**	**(63,885)**
Credit commitments	**450,539**	**-**	**-**	**-**	**450,539**

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

At 31 December 2022	GBP (£) £000	USD ($) £000	Euro (€) £000	Other £000	Total £000
ASSETS					
Cash and balances at central banks	732,577	78	71	3	732,729
Loans and advances to banks	18,144	13,581	75,787	8,276	115,788
Debt securities at amortised cost	280,956	158,797	-	-	439,753
Assets classified as held for sale	-	-	3,279	-	3,279
Derivative financial instruments	6,216	100	6	-	6,322
Loans and advances to customers	2,004,654	8,451	22,104	868	2,036,077
Other assets	13,657	-	503	-	14,160
Financial investments	-	3,404	-	-	3,404
	3,056,204	**184,411**	**101,750**	**9,147**	**3,351,512**
LIABILITIES					
Deposits from banks	236,026	-	-	1	236,027
Derivative financial instruments	7	107	8	13	135
Deposits from customers	2,814,786	180,483	87,787	9,494	3,092,550
Other liabilities	3,824	188	942	-	4,954
Debt securities in issue	24,437	-	13,157	-	37,594
	3,079,080	**180,778**	**101,894**	**9,508**	**3,371,260**
Net on-balance sheet position	**(22,876)**	**3,633**	**(144)**	**(361)**	**(19,748)**
Credit commitments	**471,078**	**-**	**-**	**-**	**471,078**

Derivative financial instruments (see Note 21) are in place to mitigate foreign currency risk on net exposures for each currency. A 10% strengthening of the pound against the US dollar would lead to a £11k increase (2022: £35k decrease) in Group profits and equity, while a 10% weakening of the pound against the US dollar would lead to the same decrease (2022: increase) in Group profits and equity. Additionally, the Group holds a property classified as asset held for sale and measured at £3.3m (2022: £3.3m). The property is located in the EU and relates to a Euro denominated loan where the property was repossessed and is being held for sale. Including this Euro asset, the net Euro exposure is positive £2.9m (2022: £3.3m).

The table below summarises the Company's exposure to foreign currency exchange rate risk at 31 December 2023:

At 31 December 2023	GBP (£) £000	Euro (€) £000	Total £000
ASSETS			
Loans and advances to banks	623	-	623
Debt securities at amortised cost	24,989	13,140	38,129
Other assets	1,391	-	1,391
	27,003	**13,140**	**40,143**
LIABILITIES			
Other liabilities	1,796	-	1,796
Debt securities in issue	24,720	13,006	37,726
	26,517	**13,006**	**39,522**
Net on-balance sheet position	**487**	**134**	**621**

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

At 31 December 2022	GBP (£) £000	Euro (€) £000	Total £000
ASSETS			
Loans and advances to banks	(4,737)	13,171	8,434
Debt securities at amortised cost	24,437	-	24,437
	19,700	**13,171**	**32,871**
LIABILITIES			
Other liabilities	470	-	470
Debt securities in issue	24,437	13,157	37,594
	24,907	**13,157**	**38,064**
Net on-balance sheet position	**(5,207)**	**14**	**(5,193)**

A 10% strengthening of the pound against the Euro would lead to £12k increase (2022: £9k increase) in the Company profits and equity, conversely a 10% weakening of the pound against the Euro would lead to a £15k decrease (2022: £8k decrease) 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 both assets and liabilities. 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. The current position of the balance sheet is such that it results in an favourable impact on the economic value of equity of £2.8m (2022: adverse impact of £0.3m) for a positive 200bps shift and an adverse impact of £3.3m (2022: favourable impact of £0.3m) for a negative 200bps movement.

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 2023	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	826,559	-	-	-	-	-	826,559
Loans and advances to banks	79,381	-	-	-	-	-	79,381
Debt securities at amortised cost	352,617	220,504	286,309	83,007	-	-	942,437
Derivative financial instruments	4,214	-	-	-	-	-	4,214
Loans and advances to customers	1,717,677	19,485	50,758	256,348	7,120	12,829	2,064,217
Other assets*	-	-	-	-	-	423,090	423,090
Financial investments	-	-	-	-	-	3,942	3,942
	2,980,448	**239,989**	**337,067**	**339,355**	**7,120**	**439,861**	**4,343,840**
LIABILITIES AND EQUITY							
Deposits from banks	193,410	-	-	-	-	-	193,410
Derivative financial instruments	1,032	-	-	-	-	-	1,032
Deposits from customers	2,789,024	420,826	477,639	66,328	5,750	-	3,759,567
Other liabilities**	-	-	-	-	-	99,665	99,665
Debt securities in issue	37,726	-	-	-	-	-	37,726
Equity	50,236	8,609	12,275	121,802	15,051	44,467	252,440
	3,071,428	**429,435**	**489,914**	**188,130**	**20,801**	**144,132**	**4,343,840**
Impact of derivative instruments	61,220	-	-	(61,220)	-	-	
Interest rate sensitivity gap	**(29,760)**	**(189,446)**	**(152,847)**	**90,005**	**(13,681)**	**295,729**	
Cumulative gap	**(29,760)**	**(219,206)**	**(372,053)**	**(282,048)**	**(295,729)**	**-**	

* 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 2022	Within 3 months £000	More than 3 months but less than 6 months £000	More than 6 months but less than 1 year £000	More than 1 year but less than 5 years £000	More than 5 years £000	Non interest bearing £000	Total £000
ASSETS							
Cash and balances at central banks	732,728	-	-	-	-	-	732,728
Loans and advances to banks	115,737	51	-	-	-	-	115,788
Debt securities at amortised cost	334,700	13,301	85,752	6,000	-	-	439,753
Derivative financial instruments	6,322	-	-	-	-	-	6,322
Loans and advances to customers	1,814,805	15,785	38,073	146,119	5,633	15,662	2,036,077
Other assets	-	-	-	-	-	279,976	279,976
Financial investments	-	-	-	-	-	3,404	3,404
	3,004,292	**29,137**	**123,825**	**152,119**	**5,633**	**299,042**	**3,614,048**
LIABILITIES AND EQUITY							
Deposits from banks	236,027	-	-	-	-	-	236,027
Derivative financial instruments	135	-	-	-	-	-	135
Deposits from customers	2,306,952	353,107	240,934	188,556	3,000	-	3,092,549
Other liabilities	-	-	-	-	-	35,764	35,764
Debt securities in issue	37,594	-	-	-	-	-	37,594
Equity	-	-	-	-	-	211,979	211,979
	2,580,708	**353,107**	**240,934**	**188,556**	**3,000**	**247,743**	**3,614,048**
Impact of derivative instruments	51,376	-	-	(51,376)	-	-	
Interest rate sensitivity gap	**474,960**	**(323,970)**	**(117,109)**	**(87,813)**	**2,633**	**51,299**	
Cumulative gap	**474,960**	**150,990**	**33,881**	**(53,932)**	**(51,299)**	**-**	

* 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 2023	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							
Loans and advances to banks	7	-	-	-	-	-	7
Loans and advances to banks - due from subsidiary	580	-	-	-	-	36	616
Debt securities at amortised cost	38,129	-	-	-	-	-	38,129
Other assets*	-	-	-	-	-	166,453	166,453
	38,716	**-**	**-**	**-**	**-**	**166,489**	**205,205**
LIABILITIES AND EQUITY							
Other liabilities**	-	-	-	-	-	8,176	8,176
Debt securities in issue	37,726	-	-	-	-	-	37,726
Equity	-	-	-	-	-	159,303	159,303
	37,726	**-**	**-**	**-**	**-**	**167,479**	**205,205**
Interest rate sensitivity gap	**990**	**-**	**-**	**-**	**-**	**(990)**	
Cumulative gap	**990**	**990**	**990**	**990**	**990**	**-**	

* 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 2022	Within 3 months £000	More than 3 months but less than 6 months £000	More than 6 months but less than 1 year £000	More than 1 year but less than 5 years £000	More than 5 years £000	Non interest bearing £000	Total £000
ASSETS							
Loans and advances to banks	6						6
Loans and advances to banks - due from subsidiary	8,377	-	-	-	-	50	8,427
Debt securities at amortised cost	24,437	-	-	-	-	-	24,437
Other assets*	-	-	-	-	-	160,081	160,081
	32,820	**-**	**-**	**-**	**-**	**160,131**	**192,951**
LIABILITIES AND EQUITY							
Other liabilities**	-	-	-	-	-	4,369	4,369
Debt securities in issue	37,594	-	-	-	-	-	37,594
Equity	-	-	-	-	-	150,988	150,988
	37,594	**-**	**-**	**-**	**-**	**155,357**	**192,951**
Interest rate sensitivity gap	**(4,774)**	**-**	**-**	**-**	**-**	**4,774**	
Cumulative gap	**(4,774)**	**(4,774)**	**(4,774)**	**(4,774)**	**(4,774)**	**-**	

* 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. There has been an increase in deposits of 20%, which has accordingly improved the Bank's liquidity.

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

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

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

	Carrying amount	Gross inflow/ (outflow)	Not more than 3 months	More than 3 months but less than 1 year	More than 1 year but less than 5 years	More than 5 years
At 31 December 2023	£000	£000	£000	£000	£000	£000
Financial liability by type						
Non-derivative liabilities						
Deposits from banks	193,410	(212,267)	(5,904)	(7,481)	(198,882)	-
Deposits from customers	3,759,567	(3,831,717)	(2,877,406)	(879,887)	(68,351)	(6,073)
Other liabilities	18,542	(20,085)	(18,542)	-	-	(1,543)
Debt securities in issue	37,726	(50,223)	(1,077)	(26,238)	(3,575)	(19,333)
Issued financial guarantee contracts	-	(2,051)	(2,051)	-	-	-
Unrecognised loan commitments	-	(450,539)	(450,539)	-	-	-
	4,009,245	**(4,566,882)**	**(3,355,519)**	**(913,606)**	**(270,808)**	**(26,949)**
Derivative liabilities						
Risk management:						
- Outflows	1,032	(1,032)	(66)	-	(966)	-
	1,032	**(1,032)**	**(66)**	**-**	**(966)**	**-**

At 31 December 2023	Carrying amount £000	Gross inflow/ (outflow) £000	Not more than 3 months £000	More than 3 months but less than 1 year £000	More than 1 year but less than 5 years £000	More than 5 years £000
Financial asset by type						
Non-derivative assets						
Cash and balances at central banks	826,559	826,559	826,559	-	-	-
Loans and advances to banks	79,381	79,381	79,381	-	-	-
Debt securities at amortised cost	942,437	954,382	356,957	513,922	83,503	-
Assets classified as held for sale	3,281	3,281	-	3,281	-	-
Loans and advances to customers	2,064,217	2,497,314	477,308	281,451	1,595,366	143,189
Other assets	22,361	22,361	22,361	-	-	-
Financial investments	3,942	3,942	3,942	-	-	-
	3,942,178	**4,387,220**	**1,766,508**	**798,654**	**1,678,869**	**143,189**
Derivative assets						
Risk management:						
- Inflows	4,214	4,214	4	-	4,210	-
	4,214	**4,214**	**4**	**-**	**4,210**	**-**

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

At 31 December 2022	Carrying amount £000	Gross inflow/ (outflow) £000	Not more than 3 months £000	More than 3 months but less than 1 year £000	More than 1 year but less than 5 years £000	More than 5 years £000
Financial liability by type						
Non-derivative liabilities						
Deposits from banks*	236,027	(236,027)	(11,027)	-	(225,000)	-
Deposits from customers*	3,092,549	(3,164,453)	(2,329,095)	(758,870)	(76,488)	-
Other liabilities	4,954	(4,965)	(4,954)	-	-	(11)
Debt securities in issue	37,594	(64,898)	(892)	(2,719)	(14,540)	(46,747)
Issued financial guarantee contracts	-	(3,253)	(3,253)	-	-	-
Unrecognised loan commitments	-	(470,870)	(470,870)	-	-	-
	3,371,124	**(3,944,466)**	**(2,820,091)**	**(761,589)**	**(316,028)**	**(46,758)**
Derivative liabilities						
Risk management:						
- Outflows	135	(135)	(135)	-	-	-
	135	**(135)**	**(135)**	**-**	**-**	**-**

** Prior year figures have been restated to present cash flows on the same basis as maturity analysis in Note 5.*

At 31 December 2022	Carrying amount £000	Gross inflow/ (outflow) £000	Not more than 3 months £000	More than 3 months but less than 1 year £000	More than 1 year but less than 5 years £000	More than 5 years £000
Financial asset by type						
Non-derivative assets						
Cash and balances at central banks	732,728	732,728	732,728	-	-	-
Loans and advances to banks	115,788	115,788	115,788	-	-	-
Debt securities at amortised cost	439,753	443,409	336,299	101,110	6,000	-
Loans and advances to customers	2,036,077	2,520,811	505,691	276,657	1,285,151	453,312
Other assets	14,161	14,161	14,161	-	-	-
Financial investments	3,404	3,404	3,404	-	-	-
	3,341,911	**3,830,301**	**1,708,071**	**377,767**	**1,291,151**	**453,312**
Derivative assets						
Risk management:						
- Inflows	6,322	6,322	113	-	6,209	-
	6,322	**6,322**	**113**	**-**	**6,209**	**-**

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

	31 December 2023		31 December 2022	
Liquidity reserves	Amount £000	Fair value £000	Amount £000	Fair value £000
Cash and balances at central banks	826,559	826,559	732,729	732,729
Loans and advances to banks	79,381	79,381	115,787	115,787
Debt securities at amortised cost	942,437	943,231	439,753	439,389
	1,848,377	**1,849,171**	**1,288,269**	**1,287,905**

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 2023 were £253m (2022: £225m). Assets are encumbered due to the Term Funding Scheme (Note 32).

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

The table below analyses the contractual cash flows of the Company's financial liabilities and assets as at 31 December 2023:

At 31 December 2023	Carrying amount £000	Gross inflow/ (outflow) £000	Not more than 3 months £000	More than 3 months but less than 1 year £000	More than 1 year but less than 5 years £000	More than 5 years £000
Financial liability by type						
Non-derivative liabilities						
Other liabilities	1,796	(1,796)	(256)	-	-	(1,540)
Debt securities in issue	37,726	(50,223)	(1,077)	(26,238)	(3,575)	(19,333)
	39,522	**(52,019)**	**(1,333)**	**(26,238)**	**(3,575)**	**(20,873)**

At 31 December 2023	Carrying amount £000	Gross inflow/ (outflow) £000	Not more than 3 months £000	More than 3 months but less than 1 year £000	More than 1 year but less than 5 years £000	More than 5 years £000
Financial asset by type						
Non-derivative assets						
Loans and advances to banks	623	623	623	-	-	-
Debt securities at amortised cost	38,129	50,356	1,080	26,247	3,632	19,397
	38,752	**50,979**	**1,703**	**26,247**	**3,632**	**19,397**

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

At 31 December 2022	Carrying amount £000	Gross inflow/ (outflow) £000	Not more than 3 months £000	More than 3 months but less than 1 year £000	More than 1 year but less than 5 years £000	More than 5 years £000
Financial liability by type						
Non-derivative liabilities						
Other liabilities	470	(470)	-	-	-	(470)
Debt securities in issue	37,594	(64,898)	(892)	(2,719)	(14,540)	(46,747)
	38,064	**(65,368)**	**(892)**	**(2,719)**	**(14,540)**	**(47,217)**

At 31 December 2022	Carrying amount £000	Gross inflow/ (outflow) £000	Not more than 3 months £000	More than 3 months but less than 1 year £000	More than 1 year but less than 5 years £000	More than 5 years £000
Financial asset by type						
Non-derivative assets						
Loans and advances to banks	8,433	8,433	8,433	-	-	-
Debt securities at amortised cost	24,437	43,404	732	2,238	11,975	28,459
	32,870	**51,837**	**9,165**	**2,238**	**11,975**	**28,459**

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, because the assets do not meet the recognition criteria. 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 £1.7bn (2022: £1.3bn). 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 2023	FVPL £000	FVOCI £000	Amortised cost £000	Total carrying amount £000	Fair value £000
ASSETS					
Cash and balances at central banks	-	-	826,559	826,559	826,559
Loans and advances to banks	-	-	79,381	79,381	79,381
Debt securities at amortised cost	-	-	942,437	942,437	943,231
Derivative financial instruments	4,214	-	-	4,214	4,214
Loans and advances to customers	-	-	2,064,217	2,064,217	2,058,780
Other assets	-	-	22,361	22,361	22,361
Financial investments	-	3,942	-	3,942	3,942
	4,214	**3,942**	**3,934,955**	**3,943,111**	**3,938,468**
LIABILITIES					
Deposits from banks	-	-	193,410	193,410	193,410
Derivative financial instruments	1,032	-	-	1,032	1,032
Deposits from customers	-	-	3,759,567	3,759,567	3,759,567
Other liabilities	-	-	18,542	18,542	18,542
Debt securities in issue	-	-	37,726	37,726	37,726
	1,032	**-**	**4,009,245**	**4,010,277**	**4,010,277**

At 31 December 2022	FVPL £000	FVOCI £000	Amortised cost £000	Total carrying amount £000	Fair value £000
ASSETS					
Cash and balances at central banks	-	-	732,729	732,729	732,729
Loans and advances to banks	-	-	115,787	115,787	115,788
Debt securities at amortised cost	-	-	439,753	439,753	439,389
Derivative financial instruments	6,322	-	-	6,322	6,322
Loans and advances to customers	-	-	2,036,077	2,036,077	1,996,966
Other assets	-	-	14,160	14,160	14,160
Financial investments		3,404	-	3,404	3,404
	6,322	**3,404**	**3,338,506**	**3,348,232**	**3,308,758**
LIABILITIES					
Deposits from banks	-	-	236,027	236,027	236,027
Derivative financial instruments	135	-	-	135	135
Deposits from customers	-	-	3,092,549	3,092,549	3,092,549
Other liabilities	-	-	4,954	4,954	4,954
Debt securities in issue	-	-	37,594	37,594	37,594
	135	**-**	**3,371,124**	**3,371,259**	**3,371,259**

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

At 31 December 2023	FVPL	FVOCI	Amortised cost	Total carrying amount	Fair value
	£000	£000	£000	£000	£000
ASSETS					
Loans and advances to banks	-	-	623	623	623
Debt securities at amortised cost	-	-	38,129	38,129	38,129
Other assets	-	-	1,391	1,391	1,391
	-	**-**	**40,143**	**40,143**	**40,143**
LIABILITIES					
Other liabilities	-	-	1,796	1,796	1,796
Debt securities in issue	-	-	37,726	37,726	37,726
	-	**-**	**39,522**	**39,522**	**39,522**

At 31 December 2022	FVPL	FVOCI	Amortised cost	Total carrying amount	Fair value
	£000	£000	£000	£000	£000
ASSETS					
Loans and advances to banks	-	-	8,433	8,433	8,433
Debt securities at amortised cost	-	-	24,437	24,437	24,437
	-	**-**	**32,870**	**32,870**	**32,870**
LIABILITIES					
Other liabilities	-	-	470	470	470
Debt securities in issue	-	-	37,594	37,594	37,594
	-	**-**	**38,064**	**38,064**	**38,064**

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

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

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

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

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

At 31 December 2023	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
ASSETS				
Derivative financial instruments	-	4,214	-	4,214
Financial investments	-	-	3,942	3,942
	-	**4,214**	**3,942**	**8,156**
LIABILITIES				
Derivative financial instruments	-	1,032	-	1,032
	-	**1,032**	**-**	**1,032**

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

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

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

Group Movement in level 3	2023 £000	2022 £000
At 1 January	3,404	3,169
Purchases	177	53
Disposals	(51)	(640)
Movements recognised in Other Comprehensive Income	412	822
At 31 December	**3,942**	**3,404**

Visa Inc. investment

Arbuthnot Latham currently holds preference shares in Visa Inc., valued at £2.4m (2022: £2.0m) as at 31 December 2023. These shares have been valued at their future conversion value into Visa Inc. common stock.

In 2020, as part of the fourth anniversary of the closing of the Visa Europe transaction, an assessment was performed of the ongoing risk of liability to Visa. As part of the adjustment, Visa awarded the Group 59 preference shares with a carrying value of £920k. In 2022 Visa awarded the Group extra 28 preference shares with a carrying value of £501k. These can be automatically converted into freely tradeable Class A common stock.

There is a haircut of 31% 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.

The haircut is classified as a significant unobservable input. Management have assessed that should the haircut increase by 5 percentage points this would impact equity by £46k and an increase of 10 percentage points would impact equity by £92k.

Hetz Ventures, L.P.

Arbuthnot Latham currently holds an equity investment in Hetz Ventures, L.P. which was launched in January 2018. The primary objective was to generate attractive risk-adjusted returns for its Partners, principally through long-term capital appreciation, by making, holding and disposing of equity and equity-related investments in early stage revenue generating Israeli technology companies, primarily in cyber, fin-tech and the disruptive software sectors. The company has committed to a capital contribution of USD2.5m of the total closing fund capital of USD132.5m. At 31 December 2023 Arbuthnot Latham & Co., Ltd had made capital contributions into the Fund of USD2.0m (2022: USD1.8m).

The investment is classified as FVOCI and is valued at fair value by Hetz Ventures, L.P. at £1.5m (2022: £1.4m). As at year end the fair value is deemed to be the Group's share of the fund based on what a third party would pay for the underlying investments.

The fair values provided by the Hetz Ventures funds are classified as significant unobservable inputs. Management have assessed that should the fund valuation decrease by 5% this would impact equity by £77k and a reduction of 10% would impact equity by £153k.

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

Group At 31 December 2023	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
ASSETS				
Cash and balances at central banks	-	826,559	-	826,559
Loans and advances to banks	-	79,381	-	79,381
Debt securities at amortised cost	-	943,231	-	943,231
Loans and advances to customers	-	-	2,058,780	2,058,780
Other assets	-	-	22,361	22,361
	-	**1,849,171**	**2,081,141**	**3,930,312**
LIABILITIES				
Deposits from banks	-	193,410	-	193,410
Deposits from customers	-	3,759,567	-	3,759,567
Other liabilities	-	-	18,542	18,542
Debt securities in issue	-	-	37,726	37,726
	-	**3,952,977**	**56,268**	**4,009,245**

Group At 31 December 2022	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
ASSETS				
Cash and balances at central banks	-	732,729	-	732,729
Loans and advances to banks	-	115,788	-	115,788
Debt securities at amortised cost	-	439,389	-	439,389
Loans and advances to customers	-	-	1,996,966	1,996,966
Other assets	-	-	14,160	14,160
	-	**1,287,906**	**2,011,126**	**3,299,032**
LIABILITIES				
Deposits from banks	-	236,027	-	236,027
Deposits from customers	-	3,092,549	-	3,092,549
Other liabilities	-	-	4,954	4,954
Debt securities in issue	-	-	37,594	37,594
	-	**3,328,576**	**42,548**	**3,371,124**

Company At 31 December 2023	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
ASSETS				
Loans and advances to banks	-	7	616	623
Debt securities at amortised cost	-	38,129	-	38,129
	-	**38,136**	**616**	**38,752**
LIABILITIES				
Other liabilities	-	-	1,796	1,796
Debt securities in issue	-	-	37,726	37,726
	-	**-**	**39,522**	**39,522**

Company At 31 December 2022	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
ASSETS				
Loans and advances to banks	-	6	8,427	8,433
Debt securities at amortised cost	-	24,437	-	24,437
	-	**24,443**	**8,427**	**32,870**
LIABILITIES				
Other liabilities	-	-	470	470
Debt securities in issue	-	-	37,594	37,594
	-	**-**	**38,064**	**38,064**

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

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

At the end of each year, the fair value of cash and balances at central banks was calculated to be equivalent to their carrying value.
Loans and advances to banks
The fair value of loans and advances to banks was calculated based upon the present value of the expected future principal and interest cash flows. The rate used to discount the cash flows was the market rate of interest at the balance sheet date.

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

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

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

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

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

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

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

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

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

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

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

7. Capital management (unaudited)

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

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

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

Not all material risks can be mitigated by capital, but where capital is appropriate the Board has adopted a "Pillar 1 plus" approach to determine the level of capital the Group needs to hold. This method takes the Pillar 1 capital requirement for credit, market and operational risk as a starting point, and then considers whether each of the calculations delivers a sufficient amount of capital to cover risks to which the Group is, or could be, exposed. Where the Board considers that the Pillar 1 calculations do not adequately cover the risks, an additional Pillar 2A capital requirement is applied. The PRA will set a Pillar 2A capital requirement in light of the calculations included within the ICAAP. The Group's Total Capital Requirement, as issued by the PRA, is the sum of the Pillar 1 and the Pillar 2A capital requirements. The current Total Capital Requirement of the Group is 8.32%.

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

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

	2023 £000	2022 £000
CET1 Capital		
Share capital	167	154
Share premium	11,606	-
Capital redemption reserve	19	19
Treasury shares	(1,299)	(1,299)
Retained earnings*	240,606	212,037
IFRS 9 - Transitional add back	265	523
Fair value reserve	1,341	1,067
Deduction for goodwill	(5,202)	(5,202)
Deduction for other intangibles	(24,385)	(27,347)
Deduction for deferred tax asset that do not arise from temporary differences	(818)	(4,567)
Deduction for Prudent valuation	(9)	(10)
CET1 capital resources	**222,291**	**175,375**
Tier 2 Capital		
Debt securities in issue	37,726	37,594
Total Tier 2 capital resources	**37,726**	**37,594**
Own Funds (sum of Tier 1 and Tier 2)	**260,017**	**212,969**
CET1 Capital Ratio (CET1 Capital/Total Risk Exposure)*	**13.0%**	**11.6%**
Total Capital Ratio (Own Funds/Total Risk Exposure)*	**15.2%**	**14.0%**

* Includes current year audited profit.

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 resources, risk exposures and risk assessment processes. Our Pillar 3 disclosures for the year ended 31 December 2023 are published as a separate document on the Group's website under Investor Relations.

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.

Net interest income is analysed as follows.

	2023	2022
	£000	£000
Cash and balances at central banks	34,275	8,681
Loans and advances to banks	4,990	6
Debt securities at amortised cost	29,929	6,374
Loans and advances to customers	162,642	104,952
Total interest income	**231,836**	**120,013**
Deposits from banks	(9,032)	(3,334)
Deposits from customers	(80,413)	(14,243)
Debt securities in issue	(4,506)	(2,723)
Interest on lease liabilities	(1,266)	(632)
Total interest expense	**(95,217)**	**(20,932)**
Net interest income	**136,619**	**99,081**

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 2023	Banking £000	Wealth Management £000	RAF £000	ACABL £000	ASFL £000	All other divisions £000	Total £000
Banking commissions	1,621	-	45	6,911	13	1,022	9,612
Foreign exchange fees	1,307	-	-	-	-	886	2,193
Investment management fees	-	10,909	-	-	-	-	10,909
Wealth planning fees	-	456	-	-	-	-	456
Total fee and commission income	**2,928**	**11,365**	**45**	**6,911**	**13**	**1,908**	**23,170**

Group At 31 December 2022	Banking £000	Wealth Management £000	RAF £000	ACABL £000	ASFL £000	All other divisions £000	Total £000
Banking and services fees	2,233	-	32	6,178	10	405	8,858
Foreign exchange fees	1,296	-	-	-	-	840	2,136
Investment management fees	-	10,285	-	-	-	-	10,285
Wealth planning fees	-	307	-	-	-	-	307
Total fee and commission income	**3,529**	**10,592**	**32**	**6,178**	**10**	**1,245**	**21,586**

10. Gross profit from leasing activities

Accounting for operating lease and related income:
The statement of comprehensive income is credited with:
- Income from operating leases recognised on a straight-line basis over the period of the lease.
- The sales proceeds from the sale of vehicles at the end of operating lease agreements, when a vehicle is transferred to a buyer, and the buyer obtains control of the vehicle.
- Income from service and maintenance contracts recognised on a straight-line method.

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

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

Group	2023 £000	2022 £000
Income from lease or rental of commercial vehicles	57,529	42,456
Sale of commercial vehicles	31,440	44,385
Income from service and maintenance contracts	11,244	12,088
Other income	739	438
Revenue	**100,952**	**99,367**
Depreciation and rental costs of commercial vehicles held for lease or rent	(40,367)	(31,218)
Carrying amount of vehicles disposed	(29,772)	(38,259)
Service & maintenance cost	(10,935)	(12,632)
Cost of goods sold	**(81,074)**	**(82,109)**
Gross profit from leasing activities	**19,878**	**17,258**

11. Net impairment loss on financial assets

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

Credit loss allowances are measured as an amount equal to lifetime ECL, except for the following assets, for which they are measured as 12 month ECL:
- Financial assets determined to have a low credit risk at the reporting date. The assets, to which the low credit risk exemption applies, include cash and balances at central banks (Note 17), loans and advances to banks (Note 18) and debt securities at amortised cost (Note 19). These assets are all considered investment grade.
- Financial assets which have not experienced a significant increase in credit risk since their initial recognition.

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

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

- Stage 2: When a financial asset experiences a SICR subsequent to origination, but is not in default, it is considered to be in Stage 2. This requires the computation of ECL based on the probability of all possible default events occurring over the remaining life of the financial asset. Provisions are higher in this stage (except where the value of charge against the financial asset is sufficient to enable recovery in full) because of an increase in credit risk and the impact of a longer time horizon being considered (compared to 12 months in Stage 1).

  Evidence that a financial asset has experienced a SICR includes the following considerations:
  - A loan is in arrears between 31 and 90 days;
  - Forbearance action has been undertaken;
  - Any additional reasons whereby the Probability of Default is considered to have increased significantly since inception of the facility.

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

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

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

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

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

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

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

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

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

	2023 £000	2022 £000
Net Impairment losses / (reversals) on financial assets	3,191	5,503
Of which:		
Stage 1	(279)	1,078
Stage 2	299	53
Stage 3	3,301	4,231
Impairment losses / (reversals) on financial investments	(130)	142
	3,191	**5,503**

During the year, the Group recovered £24k (2022: £55k) of loans which had previously been written off.

12. Other income

Included in other income is £0.9m recognised on a non-refundable deposit from a property owned by the Group and £0.4m in relation to a negligent property valuation.

Other items reflected in other income include rental income from the investment property of £0.7m (2022: £0.9m).

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.

13. Operating expenses

Operating expenses comprise:	2023 £000	2022 £000
Staff costs, including Directors:		
Wages, salaries and bonuses	68,414	61,359
Social security costs	7,960	7,534
Pension costs	3,335	2,861
Share based payment transactions (Note 40)	222	(18)
Amortisation of intangibles (Note 28)	4,924	4,026
Depreciation (Note 29, 30)	4,635	1,772
Profit on disposals of property, plant and equipment	(15)	(9)
Financial Services Compensation Scheme Levy	240	174
Charitable donations	70	118
Expenses relating to short-term leases	635	550
Write down of repossessed and commercial properties	2,616	647
Other administrative expenses	38,077	30,017
Total operating expenses from continuing operations	**131,113**	**109,031**

Details on Directors remuneration are disclosed in the Remuneration Report on page 56.

Remuneration of the auditor and its associates, excluding VAT, was as follows:	2023 £000	2022 £000
Fees payable to the Company's auditor for the audit of the Company's annual accounts	131	123
Audit of the accounts of subsidiaries	591	564
Audit related assurance services	121	116
Total fees payable	**843**	**803**

14. 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 23.5% (2022: 19%)	2023 £000	2022 £000
Current taxation		
Corporation tax charge - current year	4,650	3,769
Corporation tax charge - adjustments in respect of prior years	25	246
	4,675	**4,015**
Deferred taxation		
Origination and reversal of temporary differences	7,152	286
Adjustments in respect of prior years	(89)	(750)
	7,063	**(464)**
Income tax expense	**11,738**	**3,551**
Tax reconciliation		
Profit before tax	47,117	20,009
Tax at 23.5% (2022: 19%)	11,073	3,802
Other permanent differences	297	(225)
Tax rate change	433	477
Prior period adjustments	(65)	(503)
Corporation tax charge for the year	**11,738**	**3,551**

Prior year permanent differences predominantly due to the disallowed costs on the sale of the King Street property and Super Deduction allowances.

In the Budget speech on 3 March 2021, the Chancellor of the Exchequer, announced the increase of corporation tax from 19% to 25% from 1 April 2023, which was enacted on 10 June 2021.

15. Average number of employees

	2023	2022
Banking	254	251
RAF	47	37
ACABL	31	28
ASFL	1	9
AAG	138	125
All Other Divisions	310	250
Group Centre	18	18
	799	**718**

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.

16. 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 15,879,200 (2022: 15,022,629) in issue during the year (this includes Ordinary shares and Ordinary Non-Voting shares).

Diluted

There are no convertible instruments, conditional ordinary shares or options or warrants that would create diluted earnings per share. Therefore the diluted earnings per share is equal to basic earnings per share.

	2023	2022
	£000	£000
Profit after tax attributable to equity holders of the Company	35,379	16,458

	2023	2022
	p	p
Basic Earnings per share	222.8	109.6

17. Cash and balances at central banks

	2023	2022
Group	£000	£000
Cash and balances at central banks	**826,559**	**732,729**

ECL has been assessed to be insignificant.

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

18. Loans and advances to banks

	2023	2022
Group	£000	£000
Placements with banks included in cash and cash equivalents (Note 42)	**79,381**	**115,787**

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:

	2023	2022
Group	£000	£000
A1	79,381	115,595
A3	-	193
	79,381	**115,788**

None of the loans and advances to banks are past due (2022: nil). ECL has been assessed as insignificant.

Company	2023 £000	2022 £000
Placements with banks included in cash and cash equivalents (Note 42)	**623**	**8,434**

Loans and advances to banks include bank balances of £Nil (2022: £11.5m) with Arbuthnot Latham & Co., Ltd. ECL has been assessed as insignificant.

19. Debt securities at amortised cost

Debt securities represent certificates of deposit.

The movement in debt securities may be summarised as follows:

Group	2023 £000	2022 £000
At 1 January	439,753	301,052
Exchange difference	(8,973)	9,524
Additions	1,582,889	799,341
Redemptions	(1,071,232)	(670,164)
At 31 December	**942,437**	**439,753**

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

Group	2023 £000	2022 £000
Aaa	401,524	41,907
Aa1	76,543	89,805
Aa2	94,759	44,902
Aa3	294,471	50,000
A1	75,140	213,139
	942,437	**439,753**

None of the debt securities are past due (2022: nil). ECL has been assessed as immaterial.

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

Company	2023 £000	2022 £000
At 1 January	24,437	24,367
Additions	16,801	2,396
Redemptions	(3,109)	(2,326)
At 31 December	**38,129**	**24,437**

The exposure relates to Arbuthnot Latham & Co., Limited, which is unrated. The £25m subordinated loan notes were issued on 3 June 2019 and are denominated in Pound Sterling. The principal amount outstanding at 31 December 2023 was £25m (2022: £25m). The notes carry interest at 7.75% over 3 month average SONIA and are repayable at par in June 2029 unless redeemed or repurchased earlier by the Arbuthnot Latham & Co., Limited. On 24 May 2023 an additional €15m subordinated loan notes were issued and denominated in EURO. The principal amount outstanding at 31 December 2023 was €15m / £13m (2022: £nil). The notes carry interest at 3% over 3 Month EURIBOR and are repayable at par in August 2035. ECL has been assessed as immaterial.

20. Assets classified as held for sale

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

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

- Management is committed to a plan to sell
- The asset is available for immediate sale
- An active programme to locate a buyer is initiated
- The sale is highly probable, within 12 months of classification as held for sale
- The asset is being actively marketed for sale at a 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	
	2023	2022
	£000	£000
Repossessed property held for sale	3,281	3,279
	3,281	**3,279**

Repossessed property held for sale

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

21. Derivative financial instruments

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.

	2023			2022		
	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	4,670	4	66	3,049	113	135
Interest rate swaps	61,220	4,210	966	51,376	6,209	-
	65,890	**4,214**	**1,032**	**54,425**	**6,322**	**135**

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

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

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

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

Group	2023 £000	2022 £000
Aa1	-	250
A1	65,890	52,840
Unrated	-	1,335
	65,890	**54,425**

22. Derivatives held for risk management and hedge accounting

See accounting policy in Note 3.

Derivatives held for risk management

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

	2023		2022	
Group	Fair value assets £000	Fair value liabilities £000	Fair value assets £000	Fair value liabilities £000
Interest rate - Designated fair value hedges	4,220	976	6,184	-
Total interest rate derivatives	**4,220**	**976**	**6,184**	**-**

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

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

Hedge accounting

Fair value hedges of interest rate risk

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

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

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

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

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

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

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

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

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

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

At 31 December 2023 and 31 December 2022, the Group held the following interest rate swaps as hedging instruments in fair value hedges of interest risk.

	Maturity 2023			Maturity 2022		
Group	Less than 1 year	1–5 years	More than 5 years	Less than 1 year	1–5 years	More than 5 years
Risk category: Interest rate risk - Hedge of loans and advances						
Nominal amount (in £000)	-	61,220	-	-	48,120	-
Average fixed interest rate	-	2.51%	-	-	1.79%	-

The amounts relating to items designated as hedging instruments and hedge ineffectiveness at 31 December 2023 were as follows:

	2023		
	Nominal amount	Carrying amount	
Group	£000	Assets £000	Liabilities £000
Interest rate risk			
Interest rate swaps – hedge of loans and advances	61,220	4,220	976

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

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

The amounts relating to items designated as hedged items at 31 December 2023 were as follows:

Group	2023 Carrying amount	
	Assets £000	Liabilities £000
Loans and advances	58,323	-

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

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

Group	2023		
Line item in the statement of financial position where the hedging instrument is included	Change in fair value used for calculating hedge ineffectiveness £000	Ineffectiveness recognised in profit or loss £000	Line item in profit or loss that includes hedge ineffectiveness
Derivative financial instruments	(2,940)	(100)	Net interest income

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

Group	2023		
	Change in value used for calculating hedge ineffectiveness	Accumulated amount of fair value hedge adjustments on the hedged item included in the carrying amount of the hedged item	
		Assets	Liabilities
Line item in the statement of financial position in which the hedged item is included	£000	£000	£000
Loans and advances to customers	2,840	(3,839)	942

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

23. Loans and advances to customers

Analyses of loans and advances to customers:

	2023			
	Stage 1	Stage 2	Stage 3	Total
Group	£000	£000	£000	£000
Gross loans and advances at 1 January 2023	**1,917,907**	**74,514**	**50,258**	**2,042,679**
Originations and repayments	85,665	(42,029)	(14,067)	29,569
Write-offs	-	-	(1,223)	(1,223)
Transfer to Stage 1	2,420	(2,185)	(235)	-
Transfer to Stage 2	(66,605)	66,895	(290)	-
Transfer to Stage 3	(30,445)	(14,443)	44,888	-
Gross loans and advances at 31 December 2023	**1,908,942**	**82,752**	**79,331**	**2,071,025**
Less allowances for ECLs (see Note 24)	(900)	(429)	(5,479)	(6,808)
Net loans and advances at 31 December 2023	**1,908,042**	**82,323**	**73,852**	**2,064,217**

	2022			
	Stage 1	Stage 2	Stage 3	Total
Group	£000	£000	£000	£000
Gross loans and advances at 1 January 2022	**1,737,909**	**95,463**	**43,977**	**1,877,349**
Originations	217,525	(36,398)	(10,823)	170,304
Repayments and write-offs	-	-	(4,974)	(4,974)
Transfer to Stage 1	30,323	(29,720)	(603)	-
Transfer to Stage 2	(57,245)	59,912	(2,667)	-
Transfer to Stage 3	(10,605)	(14,743)	25,348	-
Gross loans and advances at 31 December 2022	**1,917,907**	**74,514**	**50,258**	**2,042,679**
Less allowances for ECLs (see Note 24)	(1,147)	(130)	(5,325)	(6,602)
Net loans and advances at 31 December 2022	**1,916,760**	**74,384**	**44,933**	**2,036,077**

*Originations include further advances and drawdowns on existing commitments.

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

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

Group	Banking £000	Mortgage Portfolios £000	RAF £000	ACABL £000	ASFL £000	AAG £000	All Other Divisions £000	Total £000
	2023							
Stage 1	1,332,535	95,218	194,423	223,865	3,078	58,923	-	1,908,042
Stage 2	59,472	10,063	2,146	10,355	-	287	-	82,323
Stage 3	47,607	18,466	2,221	5,558	-	-	-	73,852
At 31 December 2023	**1,439,614**	**123,747**	**198,790**	**239,778**	**3,078**	**59,210**	**-**	**2,064,217**

Group	Banking £000	Mortgage Portfolios £000	RAF £000	ACABL £000	ASFL £000	AAG £000	All Other Divisions £000	Total £000
	2022							
Stage 1	1,362,950	126,713	128,594	267,812	13,675	17,016	-	1,916,760
Stage 2	59,844	10,767	2,394	-	1,001	376	-	74,382
Stage 3	29,855	11,037	2,837	1,013	193	-	-	44,935
At 31 December 2022	**1,452,649**	**148,517**	**133,825**	**268,825**	**14,869**	**17,392**	**-**	**2,036,077**

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

Group	Banking £000	Mortgage Portfolios £000	RAF £000	ACABL £000	ASFL £000	All Other Divisions £000	Total £000
	2023						
Up to 30 days	77,211	3,902	1,969	-	-	-	83,082
Stage 1	56,487	3,476	1,872	-	-	-	61,835
Stage 2	20,678	261	53	-	-	-	20,992
Stage 3	46	165	44	-	-	-	255
30 - 60 days	1,815	4,687	246	-	-	-	6,748
Stage 2	1,797	4,508	225	-	-	-	6,530
Stage 3	18	179	21	-	-	-	218
60 - 90 days	421	3,030	180	-	-	-	3,631
Stage 2	50	3,030	151	-	-	-	3,231
Stage 3	371	-	29	-	-	-	400
Over 90 days	50,258	19,992	3,256	-	-	-	73,506
Stage 2	3,969	-	-	-	-	-	3,969
Stage 3	46,289	19,992	3,256	-	-	-	69,537
At 31 December 2023	**129,705**	**31,611**	**5,651**	**-**	**-**	**-**	**166,967**

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

	2022						
	Banking	Mortgage Portfolios	RAF	ACABL	ASFL	All Other Divisions	Total
Group	£000	£000	£000	£000	£000	£000	£000
Up to 30 days	119,113	9,216	2,240	-	-	-	130,569
Stage 1	113,121	8,056	1,858	-	-	-	123,035
Stage 2	5,626	1,013	215	-	-	-	6,854
Stage 3	366	147	167	-	-	-	680
30 - 60 days	1,633	2,277	43	-	1,001	-	4,954
Stage 2	1,625	2,147	43	-	1,001	-	4,816
Stage 3	8	130	-	-	-	-	138
60 - 90 days	5,555	1,135	116	-	-	-	6,806
Stage 2	5,044	898	52	-	-	-	5,994
Stage 3	511	237	64	-	-	-	812
Over 90 days	37,564	8,302	3,214	-	193	-	49,273
Stage 2	9,524	-	-	-	-	-	9,524
Stage 3	28,040	8,302	3,214	-	193	-	39,749
At 31 December 2022	**163,865**	**20,930**	**5,613**	**-**	**1,194**	**-**	**191,602**

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

	2023	2022
Group	£000	£000
Gross investment in finance lease receivables:		
- No later than 1 year	99,863	54,086
- Later than 1 year and no later than 5 years	195,538	117,179
- Later than 5 years	394	748
	295,795	172,013
Unearned future finance income on finance leases	(37,795)	(20,798)
Net investment in finance leases	**258,000**	**151,215**
The net investment in finance leases may be analysed as follows:		
- No later than 1 year	78,509	43,537
- Later than 1 year and no later than 5 years	179,108	106,979
- Later than 5 years	383	699
	258,000	**151,215**

(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 (2022: £Nil).

(c) Collateral held

Collateral is measured at fair value less costs to sell. Most of the loans are secured by property. The fair value of the collateral held against loans and advances in Stage 3 is £125.8m (2022: £69.2m), against loans of £79.3m (2022: £50.3m). The weighted average loan-to-value of loans and advances in Stage 3 is 63.0% (2022: 73%).

24. Allowances for impairment of loans and advances

An analysis of movements in the allowance for ECLs (2023):

Group	Stage 1 £000	Stage 2 £000	Stage 3 £000	Total £000
At 1 January 2023	**1,147**	**130**	**5,324**	**6,601**
Transfer to Stage 2	(241)	241	-	-
Transfer to Stage 3	(23)	(14)	37	-
Current year charge	(29)	90	3,510	3,571
Change in assumptions	48	1	(162)	(113)
Repayments and write-offs	-	(21)	(3,230)	(3,251)
At 31 December 2023	**902**	**427**	**5,479**	**6,808**

An analysis of movements in the allowance for ECLs (2022):

Group	Stage 1 £000	Stage 2 £000	Stage 3 £000	Total £000
At 1 January 2022	**388**	**77**	**5,922**	**6,387**
Transfer to Stage 1	15	(15)	-	-
Transfer to Stage 2	(57)	57	-	-
Transfer to Stage 3	(8)	(70)	78	-
Current year charge	208	18	4,080	4,306
Change in assumptions	601	63	218	882
Repayments and write-offs	-	-	(4,974)	(4,974)
At 31 December 2022	**1,147**	**130**	**5,324**	**6,601**

25. Other assets

Group	2023 £000	2022 £000
Trade receivables	22,361	14,160
Inventory	24,917	29,210
Prepayments and accrued income	9,872	8,815
	57,150	**52,185**

Trade receivables		
Gross balance	22,511	14,506
Allowance for bad debts	(150)	(346)
Net receivables	**22,361**	**14,160**

Inventory

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

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

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

The Group’s intention is to develop and sell the property and this has therefore been recognised as inventory. The value of inventory for repossessed collateral at 31 December 2023 is £4.8m (2022: £9.4m).

In 2019 two properties were reclassified from investment property to inventory due to being under development with a view to sell. The Group has sold its King Street property in 2022. At 31 December 2023 the remaining property was valued at net realisable value less costs to sell of £9.9m (2022: the remaining property valued at cost of £10.2m).

Company	2023 £000	2022 £000
Trade receivables	1,391	-
Prepayments and accrued income	58	74
	1,449	**74**

26. Financial investments

Group	2023 £000	2022 £000
Designated at fair value through other comprehensive income		
- Unlisted securities	3,942	3,404
Total financial investments	**3,942**	**3,404**

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

During 2020, as part of the fourth anniversary of the closing of the Visa Europe transaction, an assessment was performed of the ongoing risk of liability to Visa. As part of the adjustment, Visa awarded the Group 59 preference shares with a carrying value of £920k. In 2022 Visa awarded the Group extra 28 preference shares with a carrying value of £501k. These can be automatically converted into freely tradeable Class A common stock.

Management have assessed the sum of the fair value of the Group's investment as £2.4m (2022: £2.0m). 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 £12k (2022: £Nil).

A further investment in an unlisted investment vehicle was made in 2023. The carrying value at year end is £1.5m (2022: £1.4m) and the Group received a distribution of £0.1m (2022: £0.6m) which included a gain of £0.1m (2022: £0.5m) in the year.

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

27. Deferred taxation

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	2023 £000	2022 £000
Accelerated capital allowances and other short-term timing differences	(5,639)	(2,196)
Movement in fair value of financial investments FVOCI	(300)	(209)
Unutilised tax losses	819	4,567
IFRS 9 adjustment*	210	263
Deferred tax (liability)/asset	**(4,910)**	**2,425**
At 1 January	2,425	2,562
Other Comprehensive Income - FVOCI	(91)	(57)
Profit and loss account - accelerated capital allowances and other short-term timing differences	(3,443)	(2,233)
Profit and loss account - tax losses	(3,748)	2,198
IFRS 9 adjustment*	(53)	(45)
Deferred tax (liability)/asset at 31 December	**(4,910)**	**2,425**

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

Company	2023 £000	2022 £000
Accelerated capital allowances and other short-term timing differences	7	10
Movement in fair value of financial investments	147	147
Unutilised tax losses	366	366
Deferred tax asset	**520**	**523**
At 1 January	523	523
Profit and loss account - accelerated capital allowances and other short-term timing differences	(3)	
Deferred tax asset at 31 December	**520**	**523**

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

28. Intangible assets

(a) Goodwill

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

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

(b) Computer software

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

Costs associated with maintaining computer software programs are recognised as an expense as incurred.

Costs associated with developing computer software which are assets in the course of construction, which management has assessed to not be available for use, are not amortised.

Expenditure on internally developed software is recognised as an asset when the Group is able to demonstrate: that the product is technically and commercially feasible, its intention and ability to complete the development and use the software in a manner that will generate future economic benefits, and that it can reliably measure the costs to complete the development. The capitalised costs of internally developed software include all costs directly attributable to developing the software, and are amortised over its useful 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 2022	5,202	30,486	6,978	42,666
Additions	-	6,524	-	6,524
Disposals	-	-	(687)	(687)
At 31 December 2022	**5,202**	**37,010**	**6,291**	**48,503**
Additions	-	985	888	1,873
Disposals	-	-	(350)	(350)
At 31 December 2023	**5,202**	**37,995**	**6,829**	**50,026**
Accumulated amortisation				
At 1 January 2022	-	(11,103)	(1,699)	(12,802)
Amortisation charge	-	(2,964)	(188)	(3,152)
At 31 December 2022	**-**	**(14,067)**	**(1,887)**	**(15,954)**
Amortisation charge	-	(3,906)	(579)	(4,485)
At 31 December 2023	**-**	**(17,973)**	**(2,466)**	**(20,439)**
Net book amount				
At 31 December 2022	**5,202**	**22,943**	**4,404**	**32,549**
At 31 December 2023	**5,202**	**20,022**	**4,363**	**29,587**

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 (2022: 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 (2022: 3 years with a terminal value). The 3 year discounted cash flows with a terminal value are considered to be appropriate as the goodwill relates to an ongoing well established business and not underlying assets with finite lives. The terminal value is calculated by applying a discounted perpetual growth model to the profit expected in 2024 as per the approved 3 year plan. A growth rate of 4.6% (2022: 3.1%) was used for income and 7.4% (2022: 8.1%) for expenditure from 2023 to 2025 (these rates were the best estimate of future forecasted performance), while a 3% (2022: 3%) percent growth rate for income and expenditure (a more conservative approach was taken for latter years as these were not budgeted for in detail as per the three year plan approved by the Board of Directors) was used for cash flows after the approved 3 year plan.

Management considers the value in use for the RAF CGU to be the discounted cash flows over 3 years with a terminal value. The 3 year discounted cash flows with a terminal value are considered to be appropriate as the goodwill relates to an ongoing, well established, business and not underlying assets with finite lives. The terminal value is calculated by applying a discounted perpetual growth model to the profit expected in 2024 as per the approved budget. A growth rate of 3% (2022: 3%) was used (this rate was the best estimate of future forecasted performance).

Cash flows were discounted at a pre-tax rate of 14.7% (2022: 14.7%) to their net present value. The discount rate of 14.7% is considered to be appropriate after evaluating current market assessments of the time value of money and the risks specific to the assets or CGUs.

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

	Computer software
Company	£000
Cost	
At 1 January 2022	7
At 31 December 2022	**7**
At 31 December 2023	**7**
Accumulated amortisation	
At 1 January 2022	(5)
Amortisation charge	(1)
At 31 December 2022	(6)
Amortisation charge	(1)
At 31 December 2023	(7)
Net book amount	
At 31 December 2022	**1**
At 31 December 2023	-

29. Property, plant and equipment

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

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

Leasehold improvements	3 to 20 years
Commercial vehicles	2 to 7 years
Plant and machinery	5 years
Computer and other equipment	3 to 10 years
Motor vehicles	4 years

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

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

Group	Leasehold improvements £000	Commercial vehicles £000	Plant and machinery £000	Computer and other equipment £000	Motor Vehicles £000	Total £000
Cost or valuation						
At 1 January 2022	7,656	124,317	13	5,739	323	138,048
Additions	92	115,170	-	507	467	116,236
Disposals	-	(28,918)	-	-	(167)	(29,085)
At 31 December 2022	**7,748**	**210,569**	**13**	**6,246**	**623**	**225,199**
Additions	3,979	161,235	4	627	235	166,080
Disposals	-	(62,181)	-	-	(10)	(62,191)
At 31 December 2023	**11,727**	**309,623**	**17**	**6,873**	**848**	**329,088**
Accumulated depreciation						
At 1 January 2022	(4,962)	(2,754)	(1)	(4,286)	(155)	(12,158)
Depreciation charge	(825)	(36,885)	(8)	(848)	(118)	(38,684)
Disposals	-	808	-	-	108	916
At 31 December 2022	**(5,787)**	**(38,831)**	**(9)**	**(5,134)**	**(165)**	**(49,926)**
Depreciation charge	(857)	(40,219)	(3)	(680)	(121)	(41,880)
Disposals	-	37,018	-	-	6	37,024
At 31 December 2023	**(6,644)**	**(42,032)**	**(12)**	**(5,814)**	**(280)**	**(54,782)**
Net book amount						
At 31 December 2022	**1,961**	**171,738**	**4**	**1,112**	**458**	**175,273**
At 31 December 2023	**5,083**	**267,591**	**5**	**1,059**	**568**	**274,306**

Company	Computer and other equipment £000	Motor Vehicles £000	Total £000
Cost or valuation			
At 1 January 2022	217	91	308
Additions	1	-	1
At 31 December 2022	**218**	**91**	**309**
Additions	(1)	-	(1)
At 31 December 2023	**217**	**91**	**308**
Accumulated depreciation			
At 1 January 2022	(88)	(82)	(170)
Depreciation charge	-	(9)	(9)
At 31 December 2022	**(88)**	**(91)**	**(179)**
Depreciation charge	-	1	1
At 31 December 2023	**(88)**	**(90)**	**(178)**
Net book amount			
At 31 December 2022	**130**	**-**	**130**
At 31 December 2023	**129**	**1**	**130**

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

Group	2023 £000	2022 £000
Maturity analysis for operating lease receivables:		
- No later than 1 year	55,763	35,848
- Later than 1 year and no later than 5 years	70,225	46,583
- Later than 5 years	5,131	1,095
	131,119	**83,526**

30. Right-of-use assets

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

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

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

(a) As a lessee

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

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

Practical exemptions

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

(b) As a lessor

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

Assets leased to customers under agreements which do not transfer substantially all the risks and rewards of ownership are classified as operating leases. When assets are held subject to operating leases, the underlying assets are held at cost less accumulated depreciation. The assets are depreciated down to their estimated residual values on a straight-line basis over the lease term. Lease rental income is recognised on a straight line basis over the lease term.

Breakdown of right-of-use assets:

Group	Properties £000	Equipment £000	Total £000
At 1 January 2022	15,516	158	15,674
Additions	1,254	365	1,619
Amortisation	(2,565)	323	(2,242)
Derecognition	(6,796)	(543)	(7,337)
At 31 December 2022	**7,409**	**303**	**7,714**
Additions	49,228	23	49,251
Amortisation	(3,524)	(149)	(3,673)
Derecognition	(476)	-	(476)
At 31 December 2023	**52,637**	**177**	**52,816**

Additions for 2023 include £48.3m in relation to the 15-year lease on the new Finsbury Circus office, signed for in September 2023.

In the year, the Group received £Nil (2022: £Nil) of rental income from subleasing right-of-use assets through operating leases.

The Group recognised £1.3m (2022: £0.7m) of interest expense related to lease liabilities. The Group also recognised £0.6m (2022: £0.6m) of expense in relation to leases with a duration of less than 12 months.

31. Investment property

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

Group	2023 £000	2022 £000
Opening balance	6,550	6,550
Fair value adjustment	(600)	-
At 31 December 2023	**5,950**	**6,550**

Crescent Office Park, Bath

The property represents a freehold office building in Bath and comprises 25,528 square ft. over ground and two upper floors with parking spaces. The property was acquired for £6.35m. On the date of acquisition, the property was being multi-let to tenants and was at full capacity.

The Group has elected to apply the fair value model (see Note 4.2 (c)). The fair value of the investment property was determined by an external, independent property valuer, having appropriate recognised professional qualifications and recent experience in the location and category of property being valued.

The fair value measurements for the investment property have been categorised as Level 3 fair value measurement.

The Group recognised £0.7m (2022: £0.5m) rental income during the year and incurred £0.7m (2022: £0.07m) of direct operating expenses. The property remained tenanted during 2023.

32. Deposits from banks

Group	2023 £000	2022 £000
	193,410	**236,027**

Deposits from banks include £190m (2022: £225m) obtained through the Bank of England Term Funding Scheme with additional incentives for small and medium-sized enterprises ("TFSME"). £177.6m of TFSME is maturing in 2025, with the remaining £12.4m maturing in 2027.

33. Deposits from customers

Group	2023 £000	2022 £000
Current/demand accounts	2,161,285	1,924,035
Notice accounts	180,854	296,400
Term deposits	1,417,428	872,114
	3,759,567	**3,092,549**

Included in customer accounts are deposits of £32.6m (2022: £15.4m) held as collateral for loans and advances. The fair value of these deposits approximates their carrying value.

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

34. Other liabilities

Group	2023 £000	2022 £000
Trade payables	18,542	4,954
Accruals and deferred income	22,158	21,190
	40,700	**26,144**

Company	2023 £000	2022 £000
Trade payables	1,796	470
Accruals and deferred income	3,740	3,021
	5,536	**3,491**

35. Lease liabilities

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Primarily, the Group uses its incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rates as at the commencement date;
- amounts expected to be payable under a residual value guarantee.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in the statement of comprehensive income if the carrying amount of the right-of-use asset has been reduced to zero.

Group	Properties £000	Equipment £000	Total £000
At 1 January 2022	16,099	5,177	21,276
Additions	848	186	1,034
Interest expense	709	9	718
Lease payments	(3,089)	(5,087)	(8,176)
Derecognition	(6,980)	-	(6,980)
At 31 December 2022	**7,587**	**285**	**7,872**
Additions	48,175	23	48,198
Interest expense	1,336	9	1,345
Lease payments	(3,496)	(158)	(3,654)
At 31 December 2023	**53,602**	**159**	**53,761**

Maturity analysis

Group	2023 £000	2022 £000
Less than one year	2,734	3,675
One to five years	20,239	3,502
More than five years	67,497	8,560
Total undiscounted lease liabilities at 31 December	**90,470**	**15,737**
Lease liabilities included in the statement of financial position at 31 December	**53,761**	**7,872**
Current	2,559	3,398
Non-current	51,202	4,474

36. Debt securities in issue

Issued financial instruments or their components are classified as liabilities where the contractual arrangement results in the Group having a present obligation to either deliver cash or another financial asset to the holder.

Financial liabilities, other than trading liabilities at fair value, are carried at amortised cost using the effective interest rate method as set out in the policy in Note 8.

Group and Company	2023 £000	2022 £000
Subordinated loan notes	**37,726**	**37,594**

Euro subordinated loan notes

The subordinated loan notes 2035 were issued on 7 November 2005 and are denominated in Euros. The principal amount outstanding at 31 December 2023 was €15.0m / £13.0m (2022: €15.0m / £13.3m). 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 amount that will be required to be paid at maturity of the above debt securities is €15.0m.

The fair value of these Euro subordinated loan notes approximates their carrying value.

Pounds Sterling subordinated loan notes

The subordinated loan notes were issued on 3 June 2019 are denominated in Pounds Sterling. The principal amount outstanding at 31 December 2023 was £25.0m (2022: £25.0m). The notes carry interest at 7.75% over three month average GBP SONIA and are repayable at par in June 2029 unless redeemed or repurchases earlier by the Company.

The contractual amount that will be required to be paid at maturity of the above debit securities is £25.0m.

On 19 December 2023 Arbuthnot Banking Group renewed its subordinated loan notes. The new facility principal was increased to £26.0m and will be used to redeem the existing facility, expected 3 June 2024 which is the fifth anniversary of the initial loan. The facility currently remains undrawn. The notes will carry interest at 7.25% over 3 month average GBP SONIA.

The fair value of these subordinated loan notes approximates their carrying value.

37. Contingent liabilities and commitments

Financial guarantees and loan commitments policy

Financial guarantees represent undertakings that the Group will meet a customer's obligation to third parties if the customer fails to do so. Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. The Group is theoretically exposed to loss in an amount equal to the total guarantees or unused commitments. However, the likely amount of loss is expected to be significantly less; most commitments to extend credit are contingent upon customers maintaining specific credit standards. Liabilities under financial guarantee contracts are initially recorded at their fair value, and the initial fair value is amortised over the life of the financial guarantee. Subsequently, the financial guarantee liabilities are measured at the higher of the initial fair value, less cumulative amortisation, and the best estimate of the expenditure to settle obligations.

Provisions and contingent liabilities policy

Provisions are recognised when the Group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic resources will be required from the Group and amounts can be reliably measured.

Onerous contract provisions are recognised for losses on contracts where the forecast costs of fulfilling the contract throughout the contract period exceed the forecast income receivable. In assessing the amount of the loss to provide on any contract, account is taken of the Group's forecast results which the contract is servicing. The provision is calculated based on discounted cash flows to the end of the contract.

Contingent liabilities are disclosed when the Group has a present obligation as a result of a past event, but the probability that it will be required to settle that obligation is more than remote, but not probable.

Contingent liabilities

The Group is subject to extensive regulation in the conduct of its business. A failure to comply with applicable regulations could result in regulatory investigations, fines and restrictions on some of the Group's business activities or other sanctions. The Group seeks to minimise this risk through the adoption and compliance with policies and procedures, continuing to refine controls over business practices and behaviour, employee training, the use of appropriate documentation, and the involvement of outside legal counsel where appropriate.

Capital commitments

At 31 December 2023, the Group had capital commitments of £0.4m (2022: £0.5m) 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:

	2023	2022
Group	£000	£000
Guarantees and other contingent liabilities	2,051	3,253
Commitments to extend credit:		
- Original term to maturity of one year or less	450,539	471,078
	452,590	**474,331**

38. Share capital and share premium

	31 December 2023	31 December 2022
Group and Company	£000	£000
Share capital	167	154
Share premium	11,606	-
Share capital and share premium	**11,773**	**154**

Ordinary share capital

	Number of shares	Share Capital
Group and Company		£000
At 1 January 2023	15,279,322	153
Issue of shares	1,297,297	13
At 31 December 2023	**16,576,619**	**166**

Ordinary non-voting share capital

	Number of shares	Share Capital
Group and Company		£000
At 1 January 2023	152,621	1
At 31 December 2023	**152,621**	**1**

Total share capital

Group and Company	Number of shares	Share Capital £000
At 1 January 2023	15,431,943	154
Issue of shares	1,297,297	13
At 31 December 2023	**16,729,240**	**167**

(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 (2022: 1p per share). At 31 December 2023 the Company held 409,314 shares (2022: 409,314) in treasury. This includes 390,274 (2022: 390,274) Ordinary shares and 19,040 (2022: 19,040) Ordinary Non-Voting shares.

During the year the Company's issued share capital increased by 1,297,297 ordinary shares through the allotment and issue of ordinary shares through the placing of and subscription for new voting Ordinary shares in the Company, raising approximately £12.0 million in a fundraising. The shares were allotted and issued on 5 May 2023 at the placing price on a non-pre-emptive basis pursuant to authorities granted to the directors of the Company at the general meeting held on 4 May 2023.

39. Reserves and retained earnings

Group	2023 £000	2022 £000
Capital redemption reserve	19	19
Fair value reserve	1,341	1,067
Treasury shares	(1,299)	(1,299)
Retained earnings	240,606	212,037
Total reserves at 31 December	**240,667**	**211,824**

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

The fair value reserve relates to gains or losses on assets which have been recognised through other comprehensive income.

Company	2023 £000	2022 £000
Capital redemption reserve	19	19
Treasury shares	(1,299)	(1,299)
Retained earnings	148,809	152,115
Total reserves as 31 December	**147,529**	**150,835**

40. Share-based payment options

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

Under this Scheme, Mr. Salmon and Mr. Cobb were granted a phantom option to acquire 200,000 and 100,000 ordinary 1p shares respectively in the Company. The fair value of these options at the grant date was £1m. The first tranche of the share options had vested but lapsed as not exercised at 1591p before 14 June 2023. The second tranche of the share options had not vested as performance conditions had not been met, due to the non-payment of dividends, which was not possible in 2020 due to the regulatory response to the economic impact of COVID. The valuation of the share options are considered as level 2 within the fair value hierarchy, with the Group adopting a Black-Scholes valuation model as adjusted for an attrition rate for members of the scheme and a probability of pay-out reflecting the risk of not meeting the terms of the scheme over the vesting period. The number of share options that are expected to vest are reviewed at least annually. The fair value of these options as at 31 December 2023 was £Nil (2022: £Nil).

On 23 July 2021 Mr. Salmon and Mr. Cobb were granted further phantom options to subscribe for 200,000 and 100,000 ordinary 1p shares respectively in the Company at 990p. 50% of each director's individual holding of phantom options is exercisable at any time after 23 July 2024 and the other 50% is exercisable at any time after 23 July 2026. All share options awarded on 23 July 2021, regardless of first exercise date, may not be exercised later than 23 July 2028 being the day before the seventh anniversary of the date of grant. The fair value of the options as at 31 December 2023 was £0.36m (2022: £0.13m).

The performance conditions of the Scheme are that, 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 the Company or any of its subsidiaries which has a material impact on the business of Group and for the duration of the vesting period, there has been satisfactory growth in the dividends paid by the Company.

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, July 2024 and July 2026. The attrition rate will increase by 3% per year until the vesting date. ABG had a cost £0.22m in relation to share based payments during 2023 (2022: £0.02m cost), as disclosed in Note 13.

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

	2023	2022
Expected Stock Price Volatility	31.8%	33.6%
Risk Free Interest Rate	4.2%	2.5%
Average Expected Life (in years)	1.56	1.36

41. Dividends per share

The Directors recommend the payment of a final dividend of 27p (2022: 25p) per share. This represents total dividends for the year of 46p (2022: 42p). The final dividend, if approved by members at the 2023 AGM, will be paid on 31 May 2024 to shareholders on the register at close of business on 19 April 2024.

42. Cash and cash equivalents

For the purposes of the Statement of Cash Flows, cash and cash equivalents comprises cash on hand and demand deposits, and cash equivalents are deemed highly liquid investments that are convertible into cash with an insignificant risk of changes in value with a maturity of three months or less at the date of acquisition.

Group	2023 £000	2022 £000
Cash and balances at central banks (Note 17)	826,559	732,729
Loans and advances to banks (Note 18)	79,381	115,787
	905,940	**848,516**

Company	2023 £000	2022 £000
Loans and advances to banks	**623**	**8,434**

43. Related party transactions

Related parties of the Company and Group include subsidiaries, directors, Key Management Personnel, close family members of Key Management Personnel and entities which are controlled, jointly controlled or significantly influenced, or for which significant voting power is held, by Key Management Personnel or their close family members.

A number of banking transactions are entered into with related parties in the normal course of business on normal commercial terms. These include loans and deposits. Directors and Key Management includes solely Executive and Non-Executive Directors.

Group - Directors and close family members	2023 £000	2022 £000
Loans		
Loans outstanding at 1 January	1,409	502
Loans advanced during the year	457	1,013
Loan repayments during the year	(416)	(106)
Loans outstanding at 31 December	**1,450**	**1,409**
Interest income earned	**38**	**2**

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 (2022: £nil).

Group - Directors and close family members	2023 £000	2022 £000
Deposits		
Deposits at 1 January	4,422	4,018
Deposits placed during the year	4,118	6,707
Deposits repaid during the year	(5,350)	(6,303)
Deposits at 31 December	**3,190**	**4,422**
Interest expense on deposits	**72**	**2**

Details of directors' remuneration are given in the Remuneration Report on pages 55 and 57. The Directors do not believe that there were any other transactions with key management or their close family members that require disclosure, other than the subscription of shares by Sir Henry Angest at a cost of £6,751,047.75 as reported in the Directors Report on page 43.

Details of principal subsidiaries are given in Note 44. Transactions and balances with subsidiaries are shown below:

	2023		2022	
	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	12,843	616	8,429	8,427
Due from subsidiary undertakings - Debt securities at amortised cost	38,129	38,129	24,885	24,437
Shares in subsidiary undertakings	164,354	164,354	159,404	159,354
	215,326	**203,099**	**192,718**	**192,218**
Interest income		**4,198**		**5**
LIABILITIES				
Due to subsidiary undertakings	1,339	1,540	776	243
	1,339	**1,540**	**776**	**243**
Interest expense		**223**		**369**

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:

	2023	2022
	£000	£000
Arbuthnot Latham & Co., Ltd - Recharge of property and IT costs	896	896
Arbuthnot Latham & Co., Ltd - Recharge for costs paid on the Company's behalf	3,543	1,127
Arbuthnot Latham & Co., Ltd - Recharge of costs paid on behalf of Arbuthnot Latham & Co., Ltd	(2,100)	(675)
Arbuthnot Latham & Co., Ltd - Group recharges for shared services	(9,764)	(6,993)
Arbuthnot Latham & Co., Ltd - Group recharges for liquidity	(5,814)	(5,862)
Total	**(13,239)**	**(11,507)**

44. Interests in subsidiaries

Company	Investment at cost	Impairment provisions	Net
	£000	£000	£000
At 1 January 2023	159,354	-	159,354
Capital Contribution	5,000	-	5,000
At 31 December 2023	**164,354**	**-**	**164,354**

Company	2023	2022
	£000	£000
Subsidiary undertakings:		
Bank	162,814	157,814
Other	1,540	1,540
Total	**164,354**	**159,354**

(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 2023:

	% 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
Indirect shareholding via intermediate holding companies			
Arbuthnot Commercial Asset Based Lending Limited	100.0%	UK	Asset Finance
Arbuthnot Latham (Nominees) Limited	100.0%	UK	Dormant
Arbuthnot Latham Real Estate PropCo 1 Limited	100.0%	Jersey	Property Investment
Arbuthnot Securities Limited	100.0%	UK	Dormant
Arbuthnot Specialist Finance Limited	100.0%	UK	Specialist Finance
Asset Alliance Finance Limited	100.0%	UK	Commercial Vehicle Financing
Asset Alliance Group Finance No.2 Limited	100.0%	UK	Commercial Vehicle Financing
Asset Alliance Group Holdings Limited	100.0%	UK	Commercial Vehicle Financing
Asset Alliance Leasing Limited	100.0%	UK	Commercial Vehicle Financing
Asset Alliance Limited	100.0%	UK	Commercial Vehicle Financing
ATE Truck & Trailer Sales Limited	100.0%	UK	Dormant
Forest Asset Finance Limited	100.0%	UK	Commercial Vehicle Financing
Hanbury Riverside Limited	100.0%	UK	Dormant
John K Gilliat & Co., Limited	100.0%	UK	Dormant
Pinnacle Universal Limited	100.0%	UK	Property Development
Renaissance Asset Finance Limited	100.0%	UK	Asset Finance
AAG Traffic Management Limited	100.0%	UK	Dormant
The Peacocks Management Company Limited	100.0%	UK	Property Management
Valley Finance Limited	100.0%	UK	Dormant

All the subsidiaries above were 100% owned during the current and prior year and are unlisted and none are banking institutions. All entities are included in the consolidated financial statements and have an accounting reference date of 31 December.

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

Arbuthnot Specialist Finance Limited is exempt from the requirement to prepare audited accounts under section 479A of the Companies Act 2006.

(b) Non-controlling interests in subsidiaries
There were no non-controlling interests at the end of 2023 or 2022.

(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 £4.3bn and £4.1bn respectively (2022: £3.6bn and £3.4bn respectively).

(d) Risks associated with interests
During the year Arbuthnot Banking Group PLC made £5.0m 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.
In 2022 Arbuthnot Banking Group PLC did not make capital contributions to Arbuthnot Latham & Co., Ltd.

45. Operating segments

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

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

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 2023	Banking £000	Wealth Management £000	Mortgage Portfolios £000	RAF £000	ACABL £000	ASFL £000	AAG £000	All Other Divisions £000	Group Centre £000	**Total £000**
Interest revenue	107,986	-	10,593	12,584	23,300	1,103	2,390	73,880	3	**231,839**
Inter-segment revenue	-	-	-	-	-	-	-	-	(3)	**(3)**
Interest revenue from external	107,986	-	10,593	12,584	23,300	1,103	2,390	73,880	-	**231,836**
Fee and commission income	3,168	11,417	-	45	6,911	13	-	1,616	-	**23,170**
Revenue	-	-	-	-	-	-	100,952	-	-	**100,952**
Revenue from external customers	**111,154**	**11,417**	**10,593**	**12,629**	**30,211**	**1,116**	**103,342**	**75,496**	**-**	355,958
Interest expense	6,145	-	(6,348)	(4,540)	(14,658)	(352)	(10,254)	(60,509)	(223)	**(90,739)**
Cost of goods sold	-	-	-	-	-	-	(81,074)	-	-	**(81,074)**
Add back inter-segment revenue	-	-	-	-	-	-	-	-	3	**3**
Subordinated loan note interest	-	-	-	-	-	-	-	-	(4,481)	**(4,481)**
Fee and commission expense	(551)	(89)	-	(11)	-	-	(12)	(105)	-	**(768)**
Segment operating income	116,748	11,328	4,245	8,078	15,553	764	12,002	14,882	(4,701)	**178,899**
Impairment losses	(1,227)	-	(821)	(982)	(234)	46	(98)	125	-	**(3,191)**
Other income	-	-	-	170	-	-	-	3,191	(839)	**2,522**
Operating expenses	(52,073)	(15,584)	(833)	(5,634)	(6,777)	(1,507)	(15,093)	(23,575)	(10,037)	**(131,113)**
Segment profit / (loss) before tax	63,448	(4,256)	2,591	1,632	8,542	(697)	(3,189)	(5,377)	(15,577)	**47,117**
Income tax (expense) / income	-	-	-	(391)	(2,017)	118	(488)	(5,655)	(3,305)	**(11,738)**
Segment profit / (loss) after tax	**63,448**	**(4,256)**	**2,591**	**1,241**	**6,525**	**(579)**	**(3,677)**	**(11,032)**	**(18,882)**	35,379
Loans and advances to customers	1,439,655	-	123,747	198,790	239,777	3,078	59,210	-	(40)	**2,064,217**
Assets available for lease	-	-	-	-	-	-	267,591	-	-	**267,591**
Other assets	-	-	-	-	-	-	-	2,017,916	(5,884)	**2,012,032**
Segment total assets	**1,439,655**	**-**	**123,747**	**198,790**	**239,777**	**3,078**	**326,801**	**2,017,916**	**(5,924)**	4,343,840
Customer deposits	3,760,199	-	-	-	-	-	-	-	(632)	**3,759,567**
Other liabilities	-	-	-	-	-	-	-	329,879	1,954	**331,833**
Segment total liabilities	**3,760,199**	**-**	**-**	**-**	**-**	**-**	**-**	**329,879**	**1,322**	4,091,400
Other segment items:										
Capital expenditure	-	-	-	-	-	-	-	(218,035)	1	**(218,034)**
Depreciation and amortisation	-	-	-	-	-	-	-	(46,363)	-	**(46,363)**

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

Year ended 31 December 2022	Banking £000	Wealth Management £000	Mortgage Portfolios £000	RAF £000	ACABL £000	ASFL £000	AAG £000	All Other Divisions £000	Group Centre £000	**Total £000**
Interest revenue	70,545	-	7,333	8,898	14,665	1,068	664	16,840	5	**120,018**
Inter-segment revenue	-	-	-	-	-	-	-	-	(5)	**(5)**
Interest revenue from external	70,545	-	7,333	8,898	14,665	1,068	664	16,840	-	**120,013**
Fee and commission income	3,138	10,689	-	32	6,178	10	-	1,539	-	**21,586**
Revenue	-	-	-	-	-	-	99,367	-	-	**99,367**
Revenue from external customers	**73,683**	**10,689**	**7,333**	**8,930**	**20,843**	**1,078**	**100,031**	**18,379**	**-**	**240,966**
Interest expense	(5,980)	-	(2,223)	(3,353)	(7,903)	(355)	(5,120)	7,153	(368)	**(18,149)**
Cost of goods sold	-	-	-	-	-	-	(82,109)	-	-	**(82,109)**
Add back inter-segment revenue	-	-	-	-	-	-	-	-	5	**5**
Subordinated loan note interest	-	-	-	-	-	-	-	-	(2,788)	**(2,788)**
Fee and commission expense	(335)	-	-	-	(202)	-	-	-	-	**(537)**
Segment operating income	67,368	10,689	5,110	5,577	12,738	723	12,802	25,532	(3,151)	**137,388**
Impairment losses	(1,547)	-	(415)	(768)	(2,082)	(179)	(369)	(143)	-	**(5,503)**
Other income	-	-	-	82	-	-	-	2,385	(840)	**1,627**
Operating expenses	(46,683)	(14,790)	(935)	(4,697)	(5,463)	(1,489)	(14,507)	(16,074)	(8,865)	**(113,503)**
Segment profit / (loss) before tax	19,138	(4,101)	3,760	194	5,193	(945)	(2,074)	11,700	(12,856)	**20,009**
Income tax (expense) / income	-	-	-	23	(989)	236	(1,016)	(401)	(1,404)	**(3,551)**
Segment profit / (loss) after tax	**19,138**	**(4,101)**	**3,760**	**217**	**4,204**	**(709)**	**(3,090)**	**11,299**	**(14,260)**	**16,458**
Loans and advances to customers	1,452,649	-	148,517	133,825	268,825	14,869	17,392	11,500	(11,500)	**2,036,077**
Assets available for lease	-	-	-	-	-	-	171,738	-	-	**171,738**
Other assets	-	-	-	-	-	-	-	1,409,231	(2,999)	**1,406,232**
Segment total assets	**1,452,649**	**-**	**148,517**	**133,825**	**268,825**	**14,869**	**189,130**	**1,420,731**	**(14,499)**	**3,614,047**
Customer deposits	3,112,478	-	-	-	-	-	-	-	(19,929)	**3,092,549**
Other liabilities	-	-	-	-	-	-	-	293,531	15,989	**309,520**
Segment total liabilities	**3,112,478**	**-**	**-**	**-**	**-**	**-**	**-**	**293,531**	**(3,940)**	**3,402,069**
Other segment items:										
Capital expenditure	-	-	-	-	-	-	-	(122,409)	(1)	**(122,410)**
Depreciation and amortisation	-	-	-	-	-	-	-	(41,826)	(10)	**(41,836)**

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

All operations of the Group are conducted wholly within the United Kingdom and geographical information is therefore not presented.

46. Country by Country Reporting

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

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

31 December 2023 Location	Turnover £m	FTE employees Number	Profit/(loss) before tax £m	Tax paid £m
UK	178.9	799	47.1	11.7

31 December 2022 Location	Turnover £m	FTE employees Number	Profit/(loss) before tax £m	Tax paid £m
UK	137.4	749	20.0	3.6

No public subsidies were received during 2023 or 2022.

47. Ultimate controlling party

The Company regards Sir Henry Angest, the Group Chairman and Chief Executive Officer, who has a beneficial interest in 57.3% of the issued share capital of the Company, as the ultimate controlling party. Details of his remuneration are given in the Remuneration Report and Note 43 of the consolidated financial statements includes related party transactions with Sir Henry Angest.

48. Events after the balance sheet date

There were no material post balance sheet events to report.

Five Year Summary

	2019	2020	2021	2022	2023
	£000	£000	£000	£000	£000
Profit / (loss) for the year after tax	6,176	(1,332)	6,786	16,458	35,379
Profit / (loss) before tax from continuing operations	7,011	(1,090)	4,638	20,009	47,117
Total Earnings per share					
Basic (p)	41.2	(8.9)	45.2	109.6	222.8
Earnings per share from continuing operations					
Basic (p)	41.2	(8.9)	45.2	109.6	222.8
Dividends per share (p) - ordinary	16.0	-	38.0	42.0	46.0
- special	-	-	21.0	-	-

Other KPI:	2019	2020	2021	2022	2023
Net asset value per share (p)	1,363.5	1,291.5	1,337.2	1,411.1	1,546.8