



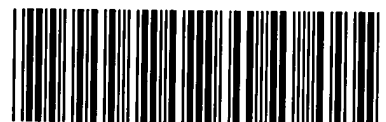
ARBUTHNOT LATHAM
Private Bankers
Since 1833

Arbuthnot Latham & Co., Limited

Annual Report for the year ended 31 December 2019

Registered Number 00819519

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Company Information

Directors

Sir Henry Angest (Chairman)
Andrew A Salmon (Chief Executive)
James R Cobb (Deputy Chief Executive)
Stephen Fletcher (Deputy Chief Executive)
Daniel P Dagg (Executive Director)
Stephen P Kelly (Executive Director)
Angela A Knight (Independent Non-Executive Director)
Paul Marrow (Independent Non-Executive Director)
Sir Michael C G Peat (Independent Non-Executive Director)

Secretary

Nicholas Jennings

Registered Office

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London
EC2M 2SN

Registered Number

00819519

Auditor

Mazars LLP
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London
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Strategic Report – Business Review

Business Review

The principal business of Arbuthnot Latham & Co., Limited (the “Bank” or the “Company”) and its subsidiaries (together referred to as the “Group”) is private banking, including wealth management and planning, commercial banking, asset financing, asset based lending and specialist finance. The Bank’s strategy is to grow its existing business units, and continue to diversify its income streams into other areas of financial services.

Group Key Metrics	2019 £m	2018 £m
Operating income	74.2	68.4
Other income	5.0	6.8
Operating expenses	72.8	59.0
Profit before tax	5.6	13.4
Customer loans	1,610.6	1,236.2
Customer deposits	2,112.2	1,744.0
Total Assets	2,584.2	2,170.7
Term Funding Scheme	225.0	225.0
Key Performance Indicators		
Assets under management	1,107.3	985.1
Average net margin	4.5%	4.7%
Loan to deposit ratio	76.3%	70.9%
Loan to total funding ratio*	68.9%	62.8%
Impairment loss rate on customer loans	0.05%	0.21%
Average LTV on property backed loans	51.1%	50.8%
Liquidity Coverage Ratio	269%	282%
Tier 1 capital ratio	13.1%	15.7%
Total capital ratio	15.1%	15.7%

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

The Group has reported a profit before tax of £5.6m (2018: £13.4m); however, in the year ending 31 December 2019 the Group bore all costs incurred by its parent. In prior years Arbuthnot Latham made a contribution to the Parent’s Group costs (2018: £1.2m), however following a review of the Group structure in 2018, and as the only significant trading subsidiary of the ABG Group, AL absorbed all costs incurred by the parent for 2019. This increased AL’s costs base with an additional charge totalling £9.3m. After taking this into account the group increased underlying profit by 11% compared to the prior year. This treatment significantly suppressed profits for 2019 and will continue to in the short term. However, part of this recharge relates to the Group’s long term strategy and currently does not present a direct benefit to AL at its current scale.

On a normalised basis, management believe that £5.2m of the recharge provided a direct benefit in 2019. The underutilisation of £5.3m is expected to fall in the coming years as the Group grows to scale in size and complexity. Adjusting for this factor results in a normalised profit of £10.9m, which management consider as the core profit base for 2019.

Also included in the result for the year is a credit relating to the future liability payable to the former shareholders in Renaissance Asset Finance totalling £1.5m. The liability held on the balance sheet at the year end relates to the final amount payable in 2021, based on the estimated profitability of the business for 2020.

Strategic Report – Business Review

Overall the Bank's key performance indicators, as noted above, have shown good performance during the year. Customer loan balances increased by 30% and deposits grew by 21%. Assets under management grew by 12% to £1.1bn in the year with six consecutive months of positive net inflows from client monies in the second half of 2019.

The average net margin for the Bank fell by 20bps from 4.7% to 4.5%. This was mainly as a result of the average cost of deposits increasing from 51bps to 66bps as the market for fixed term and notice deposits proved to be competitive.

Included in customer loan balances was the purchase of a mortgage portfolio with £266m of loan balances. The portfolio was acquired in August 2019 for a blended rate of 97.2%, a discount of 2.8% against par. The loans have very similar characteristics to the portfolio that was acquired from the administrators of the Dunfermline Building Society in December 2014 and is expected to generate a yield of 3.6%, before amortisation of the discount.

As part of the Bank's diversification strategy and following its development in 2018, the Bank launched Arbuthnot Direct in February 2019. The online service targeted depositors outside its traditional high net worth client base with fixed term deposits from £10,000 up to £250,000 with a range of terms offered. It is the Bank's intention to maintain a presence in the Best Buy tables so to provide access to quick liquidity sources allowing the Bank to remain nimble and take advantage of market opportunities as they arise.

The Bank also developed its niche lending channels with key milestones achieved for both of its new ventures; firstly, Arbuthnot Commercial Asset Based Lending (ABL) completed its first full twelve months of trading with a net profit before tax for the year of £24,000 after incurring a loss before tax of £1.3m in the prior year. The business increased facilities in issue from £43m to £104m with drawn balances of £76.6m at the year end. Secondly, Arbuthnot Specialist Finance (ASFL) launched writing its first loan in the second quarter, finishing the year with a loan book of £7.3m.

Following the introduction of IFRS9 in the previous year the Group reviewed its assumptions and expected credit loss model. Following 31 December peers' accounts being published, the Group was able to benchmark its key assumptions against the market. Due to the Group's limited loss experience relevant to its current portfolio, the Group revised some of its assumptions. The most significant factors being revised loss given defaults and probability of defaults for stage 1 assets. This resulted in a reduction in provisions and a credit to the income statement, reducing the overall charge compared to the prior year.

Private Banking (including Dubai)

As reported in the prior year the Private Bank continued to experience competitive forces with client loan balances decreasing marginally by 3.7%. It is clear that the ring fenced banks have adjusted pricing in the mortgage markets by lowering margins and increasing loan to value requirements. The Private Bank has refused to be drawn into this competition. Instead, our objective is to extend loans that we believe meet our return criteria, with volumes of loans being the resultant output rather than an input requirement. Customer deposits also marginally declined by 0.2% to close the year at £1,039m (2018: £1,041m).

The Bank continued to pursue its strategy to focus on growing the Wealth Management sector of the Bank, targeting criteria clients and building strong banking relationships with a view to increase the flow of customer balances into deposits and investment management, and also to provide wealth planning opportunities. The Investment Management business started the year with funds under management of £985m and closed at £1,107m and in the second half of the year, saw net inflows of client assets (excluding market movement) in every month.

Commercial Bank

The Commercial Bank continued to trade well during the year. Customer loan balances increased by £85m equating to 19% growth to close the year at £528m. The increase included the largest deal in Bank's history, completed Q4 2019, with a total value of £40m of which £29m was drawn in 2019 with a further £11m to be drawn in 2020. Additionally, the Commercial Bank continued to remain self-funding increasing its customer deposits by £257m, an increase of 45%, to reach a year end balance of £824m. 303 new client relationships were opened in 2019 compared to 354 in 2018 as the business built its client proposition.

Strategic Report – Business Review

Renaissance Asset Finance

RAF continued to perform well during the year increasing customer balances by 20% to close the year at £103m exceeding £100m for the first time. Written volumes grew by 21% to reach £68m. The new business saw average yields hold steady at 8% (2018: 8%).

The network of introducers increased to 107 brokers (2018: 85), an increase of 26%.

However, RAF was subject to a number of credit losses, which appear to be isolated incidents rather than a systematic issue with the underwriting processes. The result of these losses saw credit losses increase by nearly 100% to £708k in the year.

Asset Based Lending

ABL completed its first twelve months of trading, with facilities issued growing from £43m to £103m of which £76.6m was drawn at the year end. The business also generated a profit before tax of £24,000 for the year ended 31 December 2019, compared to a loss of £1.3m in the prior year. The business reported month on month profitability in the second half of the year and is expected to make good all previous period losses towards the end of 2020.

The business has developed its network of business introducers with facilities generated from 26 different relationships.

The loan book is currently spread across 18 industrial sectors and 19 counties. 54% are backed by private equity and the remainder are privately owned.

During the year the business made payments of £450m and processed £485m of invoice volumes. These volumes grew to the extent that the levels processed in the final quarter of the year were double of that in the first quarter.

Specialist Finance

Arbuthnot Specialist Finance (“ASFL”) launched during the year following its formation in August 2018.

ASFL was delayed in starting business due to complications in completing the installation of its operating platform. Once these were resolved the business fully opened itself to receiving proposals from the market. Thus, the business was not able to extend any customer loans until later than initially anticipated. The customer loan balance closed the year at £7.4m.

However, during the year the business received over £600m in enquiries from the market, which resulted in £43m of applications. ASFL was shortlisted for the National Association of Commercial Finance Brokers awards in two categories, namely short term lender of the year and Patron of the year.

The business now anticipates that it will be able to reach profitability on a monthly basis toward the end of the 2020 and become fully profitably in 2021.

Mortgage Portfolios

During the year the Group purchased a residential mortgage portfolio for a cash consideration of £258m. The portfolio consisted of 20% buy-to-let with the remainder owner occupied, with an average loan to value of 67% for the whole portfolio.

The overall yield on the portfolios is 3.6% before taking into account the effect of the negotiated purchase discount.

It is expected that in due course the Group will preposition these assets with the Bank of England to act as collateral for the schemes within the Sterling Monetary Framework. These assets could then be included in the Group's liquidity resources.

All other acquired loan portfolios continued to perform in line with expectations.

Arbuthnot Direct

The Arbuthnot Direct deposits platform developed during 2018, launched in the first quarter. This business enables us to provide deposit products directly to the retail market via a newly created internet platform, with rates advertised on the Best Buy tables.

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The online service targets depositors outside the Bank's traditional high net worth client base with fixed term deposits from £10,000 up to £250,000 across a range of terms available. The Bank received positive feedback through various media channels, and at the year end had raised a book of deposits of £83m with the majority maturing over the next 2 years.

Operations and Technology

2019 has continued to see growth in the banking services we are providing. The number of new accounts opened in 2019 was 56% higher than 2018 and the number of active cards increased by 10% year on year, as did the value of spend on cards. Non card payments have increased by 10.7% year on year, to over 340,000 transactions with a value in excess of £4.5bn, with 92% of traffic now being instructed via Online Banking.

Underpinning this growth there was continued investment in our payments capability and online banking, with an upgrade in the online banking system delivered in October 2019. Changes to comply with the revised Payments Services Directive (PSD2) have seen ongoing enhancements to our payments security and the delivery of our new Open Banking channel which has been effected through further investment in our Oracle Banking Platform.

The Bank has continued to upgrade the underlying IT Infrastructure and Networks, with the phased adoption of cloud services and an upgrade to the Wide Area Network. This is helping to further improve the Bank's resilience and security, forming just part of the overall investment in Cyber Security.

Following the launch of the new Arbuthnot Direct business in February 2019, the bank has continued to invest in its digital capability, with the start of a significant multi-year investment programme in a new Salesforce Customer Relationship Management (CRM) platform. It will enable far greater personalisation of the bank's offering and more efficient fulfilment of customers' needs. The initial phase of this programme will be completed in the first half of 2020, with further enhancements delivered in a number of phases throughout 2020 and beyond.

Board Changes and Personnel

During the year Daniel Dagg, Chief Operating Officer was appointed to the Board. Mr Dagg joined the Group in November 2016 and has over 30 years' experience working in financial services.

Stakeholder Engagement and S. 172 (1) Statement

From 2019 directors of large companies, such as Arbuthnot Latham, are required to publish a statement explaining how they have performed their duty under section 172 of the Companies Act 2006 to have regard to a range of factors when making decisions. 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) and forms the Directors' statement required under section 414CZA of the Companies Act 2006.

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

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

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

Strategic Report – Business Review

The Arbuthnot Principles and Values set out on page 1 of the Annual Report of Arbuthnot Banking Group PLC, the Company's holding company; explain the Board's approach to its stakeholders. Details of how the Directors had regard to the interests of its key stakeholders during the year are set out below, in the Group Directors Report on page 17 and in the Corporate Governance Report on page 20.

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. As an example, this was demonstrated in the year by the decision to make further significant investment in modern technology to grow the Group's businesses, the cost of which is likely to some extent to precede the benefits in the Income Statement. A further illustration of the balancing of the interests of our stakeholders in the long term interest of the Company is dividend policy where the Board approved dividends to its shareholder in the context of its decisions on capital allocation.

Interests of the Company's employees

As explained in the Directors Report on page 18, Mr. Marrow, the Group's Whistleblowing Champion, has been designated by the Board as the Director to engage with the workforce. The Board receives an update on Human Resources matters at each of its meetings. The Employee Survey undertaken in the year showed high engagement and positive responses with 83% of employees proud to work for Arbuthnot Latham. To make the Company a better place to work, the following key themes were identified through the survey results and comments: Reward and Recognition; Employee Wellbeing; Communication; and IT. Each of these themes has been and will be an area of focus.

The workforce is able to raise concerns in confidence to the HR Team, with grievances followed up in line with a specified process which satisfies all legal requirements. Additionally, there is an anonymous whistleblowing service via an external provider. There is also protection for employees deriving from the Public Interest Disclosure Act 1998. Whistleblowing events are notified to the Board and to the applicable regulator.

Our people are a vital asset and the Board is committed to ensuring all staff are treated fairly and with respect. Staff were asked for suggestions for what the Company could do to demonstrate its commitment to diversity and inclusion. A consistent message was to review Maternity/Adoption and Paternity Pay, as a consequence of which an enhanced policy was implemented and communicated to staff.

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 customers are central to our business and forging and maintaining client relationships are core to Arbuthnot Latham's business and crucial for client retention. As clients' needs and expectations are changing, meaningful relationships with their bankers are more important than ever. Clients now demand access to their bank and relationship managers through a variety of channels and expect efficient and streamlined processes supported by state of the art technology. Accordingly, during 2019 a decision was taken to invest in the adoption of modern and integrated Client Relationship Management (CRM) technology with the potential to improve significantly front-office operations and help us support our existing and new clients better.

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 Board has adopted a Modern Slavery Statement which sets out the steps that the Company has taken to give assurance that slavery and human trafficking are not taking place in its supply chains or any part of its business.

Other stakeholders include the Company's Regulators, the PRA and the FCA, with whom open and regular dialogue is maintained. During the year, the Directors held their regular meetings with the PRA Supervisory team. The Board also received

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and considered feedback, following the PRA's review of the Group's risk governance and ILAAP and the Periodic Summary Meeting.

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

As a financial services company our impact on the environment is limited. Nevertheless, there is growing consensus that an orderly transition to a low-carbon economy will bring structural adjustments to the global economy which will have financial implications, bringing both risks and opportunities. Accordingly, in November the Board adopted a Climate Change Framework, reflecting the PRA's expectation.

Desirability of the Company maintaining a reputation for high standards of business conduct

The Directors believe that the Arbuthnot culture set out in the Arbuthnot Principles and Values on page 1 of ABG's Annual report manifests itself at Board level and in the external view of the Group as a whole. The critical importance of the Company's continuing good reputation is considered at each Board meeting. It was encouraging in this respect when the Bank won the City A.M. Bank of the Year Award in November 2019.

Acting fairly as between members of the Company

The Company is a wholly owned subsidiary of ABG and so this factor is not relevant to the Directors' decision-making.

Strategic Report – Financial Review

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

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

	2019	2018
	£000	£000
Summarised Income Statement		
Net interest income	60,398	55,654
Net fee and commission income	13,828	12,722
Operating income	74,226	68,376
Other income	5,019	6,758
Operating expenses	(72,767)	(59,029)
Impairment losses - loans and advances to customers	(867)	(2,731)
Profit before tax	5,611	13,374
Income tax expense	(238)	(396)
Profit for the year	5,373	12,978
	2019	2018
	£000	£000
Underlying profit reconciliation		
Profit before tax	5,611	13,374
Parent recharge surplus	5,325	-
Loss of rental income from King Street	629	-
Cost of establishing AL new ventures	1,208	1,579
RAF deferred consideration adjustment	(1,495)	(2,584)
Underlying profit	11,278	12,369

The Group's profit before tax is £5.6m (2018: £13.4m). Operating income grew steadily increasing 8.6% on the prior year, however the lower profit is a result of increased operating costs due to a number of factors.

Firstly, the largest increase to operating costs was due to recharged costs from the Parent: Arbuthnot Banking Group (ABG). In preceding years AL made a contribution towards the ABG costs (2018: £1.2m). As the sole source of operating income for ABG, from 1 January 2019 AL absorbed all costs incurred by ABG. This resulted in an increase to the cost base of £9.3m compared to the prior year, with a total contribution of £10.5m for 2019.

This treatment significantly reduced profits for 2019 and will continue to in the short term, however management do not consider that the 100% recharge has a commensurate benefit at AL's current scale. On a normalised basis, management believe that £5.2m of the recharge represents a direct benefit, leaving a surplus of £5.3. This underutilisation is expected to fall to zero in the coming years as the Group grows in size and complexity.

Secondly the Group has incurred additional costs from its start-up subsidiaries. Although both are performing in line with expectations neither has yet achieved scale. Consequently, costs incurred in establishing these business have been excluded from underlying profit.

In the third quarter the previous tenants of 20 King Street vacated the property. The Group intends to start redevelopment of the site to enhance the property and take full advantage of its prime location and maximise the property's potential, however whilst

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the redevelopment takes place the Group will not receive rental income. Whilst the Group believe that this deficit will be offset by an increase in value in the future, when comparing current profitability to the prior year the rent forgone has been added back.

Lastly, included in the result for the year is a credit relating to the future liability payable to the former shareholders in Renaissance Asset Finance. A liability is held on the balance sheet for the final tranche of the consideration payable in 2021, based on the estimated profitability of the business for 2020. As per prior years the reduction in the liability established on acquisition has been excluded from underlying profit.

Adjusting for these factors for the year ending 31 December 2019, results in an underlying profit of £11.3m (2018: £12.4m).

As noted above, in line with the diversification strategy the Group continued to invest in its niche lending subsidiaries, ABL and ASFL. ABL's cost base increased by £1.0m as the team grew and the full year impact of additional costs in the prior year were recognised. Despite this increase in operating costs the business delivered monthly profitability in the second half of 2019 and made a profit of £24,000 for the full year. It is expected that this business will make good all losses and return full profits by the end of 2020. Investment continued in ASFL with operating costs of £1.3m reported for the year. The business wrote its first loan in the second quarter and grew its loan book to £7m at the year end.

Following the introduction of IFRS9 in the previous year, the Group reviewed its assumptions and expected credit loss model approach. The 31 December 2018 reporting cycle allowed the Group to review its approach against industry peer financial statements and gather more data from across the industry. Due to the Group's limited loss experience on its core lending book along with limited data sets, the Group took the opportunity to benchmark its key assumptions and revised them in some cases. For stage 1 assets this resulted in a net credit to the income statement of £1.1m.

Other operating income was lower in 2019, £5.0m compared to £6.8m in the prior year. The 2018 result included a release for the amounts payable to the former RAF shareholders totalling £2.5m as mentioned above. A similar adjustment was made in 2019 however the release amounted to £1.5m, £1m lower than the prior year.

Balance Sheet Strength

	2019	2018
Summarised Balance Sheet	£000	£000
Assets		
Loans and advances to customers	1,610,553	1,236,157
Liquid assets	815,112	802,176
Other assets	158,490	132,372
Total assets	2,584,155	2,170,705
Liabilities		
Customer deposits	2,112,197	1,744,048
Other liabilities	287,918	249,615
Total liabilities	2,400,115	1,993,663
Equity	184,040	177,042
Total equity and liabilities	2,584,155	2,170,705

During the year total assets increased to £2.6bn (2018: £2.2bn), which was as a result of our ongoing growth of customer loan balances, while at the same time maintaining our conservative funding policy of relying only on retail deposits and targeting a loan to deposit ratio of between 65-80%.

Included in other assets are the Group's property portfolios which total £63.2m. The most significant of these properties is 20 King Street which is valued at £53.7m. The property is currently vacant following the exit of the previous tenants in Q3 in 2019. In 2020 the Group intends to start redevelopment of the site to enhance the property and take full advantage of its prime location and maximise the property's potential.

Other assets and other liabilities also include £19.4m and £19.8m respectively relating to right-of-use assets and lease liabilities. This is as the result of the implementation of IFRS 16 (leases).

Strategic Report – Financial Review

Segmental Analysis

The Group is organised into seven business lines as shown below:

- 1) Private Banking – Provides traditional private banking services as well as offering financial planning and investment management services. This segment includes Dubai.
- 2) Commercial Banking – Provides bespoke commercial banking services and tailored secured lending against property investments and other assets.
- 3) Renaissance Asset Finance – Specialist asset finance lender mainly in high value cars but also business assets.
- 4) Asset Based Lending – Asset based finance lender providing finance including invoice discount facilities to UK based SMEs.
- 5) Specialist Finance – Specialist finance lender providing shorter term bridging lending to SME and retail markets.
- 6) Mortgage Portfolios – Acquired mortgage portfolios.
- 7) All other divisions – All other smaller divisions: Arbuthnot Direct, Investment properties and central unallocated costs.

During the year the Group changed the way indirect costs are allocated to divisions. Treasury income and expenditure and the costs relating to certain support departments are no longer allocated to divisions. This is in accordance with how the divisions are managed internally. The Mortgage Portfolios were previously included as part of Private Banking. ABL and ASFL are now also reported separately (previously included in All Other Divisions). The comparative numbers for the divisions have been restated to reflect the new allocation method.

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

Private Banking

	2019	2018
Summarised Income Statement	£000	£000
Net interest income	25,107	28,243
Net fee and commission income	10,687	10,831
Operating income	35,794	39,074
Other Income	-	2
Operating expenses	(32,373)	(32,499)
Impairment losses - loans and advances to customers	(485)	(1,966)
Profit before tax	2,936	4,611
Loans and advances to customers	579,267	601,741
Customer deposits	1,039,112	1,041,208

Private Banking reported a profit before tax of £2.9m (2018: £4.6m). This is a decrease of £1.7m or 36%.

This decrease is largely attributable to reduced net interest income from a decreasing loan book and lower yields. As competition for volume increased, margin compression has followed and resulted in ineffectively priced risk in some transactions. The business actively chose not to dilute its lending criteria and maintained its credit discipline at the cost of loan book growth. Despite this the business wrote £100m of new lending however this was offset by repayments of £125m. It finished the year with a loan book of £579m (2018: £602m). The average customer loan yield was 4.6% (2018: 4.7%) with an average loan to value of 52% (2018: 52%). Customer deposits fell marginally to £1,039.1m (2018: £1,041.2m).

The Wealth Planning division was loss making as a result of a fundamental change in its business proposition and hence its charging structure. In July the business ceased charging clients for ongoing annual advice reviews and moved to an event based model, where clients are charged wealth planning fees when they need specific advice. This resulted in a reduction of £0.4m in fee income.

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The change in strategy to focus the Private Bank on identifying and attracting new criteria clients is beginning to show results. AUMs closed the year at £1.1bn (2018: £1.0bn). Poor market conditions during 2019 only started to recover towards the end of the year. As a result, fee and commission income remained fairly flat year on year at £10.7m (2018: £10.8m).

Operating expenses stayed flat, with a decrease in direct costs offset by an increase in indirect costs.

The fall in operating income was partially offset by a £272,000 release of impairment charges following a review of assumptions for stage 1 assets.

Commercial Banking

	2019	2018
Summarised Income Statement	£000	£000
Net interest income	20,151	15,145
Net fee and commission income	1,114	727
Operating income	21,265	15,872
Operating expenses	(14,312)	(12,794)
Impairment losses - loans and advances to customers	320	(278)
Profit/(Loss) before tax	7,273	2,800
Loans and advances to customers	527,620	443,108
Customer deposits	824,120	566,748

The Commercial Bank continued to increase profit before tax, to £7.3m for 2019 (2018: £2.8m), an increase of £4.5m. Net interest income grew by £5.0m in part due to a full years income from loans written part way through 2018.

The loan book continued to grow finishing the year at £527.6m (2018: £443.1m) an increase of 20% which included the largest deal in Bank's history completed Q4 2019. The average customer loan yield increased to 4.7% (2018: 4.5%) and the average loan to value of the Commercial Bank loan portfolio was 52% (2018: 50%).

Deposits increased by 45% to £824.1m.

Operating Costs increased partially offsetting the increase in income. Direct costs reduced slightly due to lower staff costs, while indirect costs increased in line with the greater scale of the business. A net write back of impairment losses of £857,000 was recognised in the year due to revised assumptions on expected credit losses. 303 new client relationships were opened in 2019 compared to 354 in 2018.

RAF

	2019	2018
Summarised Income Statement	£000	£000
Net interest income	5,873	5,344
Net fee and commission income	207	137
Operating income	6,080	5,481
Other income	64	73
Operating expenses	(3,577)	(3,169)
Impairment losses - loans and advances to customers	(708)	(437)
Profit before tax	1,859	1,948
Loans and advances to customers	102,888	85,958

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Despite increasing the loan book to £102.8m (2018: £86.0m), equating to an increase of 20%, Renaissance Asset Finance recorded a static profit before tax of £1.9m (2018: £1.9m).

The new business taken on during 2019 saw average yields hold steady at 8% (2018: 8%).

The business recognised increased impairment provisions due to a number of asset specific credit losses rather than a systematic issue with the underwriting processes. The result of these losses saw the credit losses increase to £708,000 for the year (2018: £437,000).

RAF is 100% funded by intragroup funding. The result for the business includes interest charged on intra-group funding of £2.8m which is sourced through surplus deposits in the banking businesses.

Asset Based Lending

	2019	2018
Summarised Income Statement	£000	£000
Net interest income	1,342	219
Net fee and commission income	1,380	266
Operating income	2,722	485
Operating expenses	(2,708)	(1,768)
Impairment losses - loans and advances to customers	10	(50)
Profit before tax	24	(1,333)
Loans and advances to customers	75,871	25,341

ABL reported a profit before tax of £24,000. Strong loan book growth in the first half of 2019 resulted in operating income of £2.7m compared to £485,000 in the prior year. Operating costs increased by £1.0m as the team grew with full year charges from the prior year's investment. However, despite this increase in operating costs the business delivered monthly profitability in the second half of 2019 ahead of previous expectations.

Drawn loan balances grew to £75.8m from £25.3m, with £103m of facilities in issue at the year end.

It is expected that this business will make good all losses towards the end of 2020 to return full profitability by the end of the year.

Arbuthnot Specialist Finance

	2019	2018
Summarised Income Statement	£000	£000
Net interest income	71	-
Operating income	71	-
Operating expenses	(1,275)	(345)
Impairment losses - loans and advances to customers	(4)	-
Loss before tax	(1,208)	(345)
Loans and advances to customers	7,352	-

Investment continued in ASFL with operating costs of £1.3m for the year. The business wrote its first loan in the second quarter and grew its loan book to £7.4m at the year end.

Strategic Report – Financial Review

Mortgage Portfolios

	2019	2018
Summarised Income Statement	£000	£000
Net interest income	4,113	2,135
Operating income	4,113	2,135
Operating expenses	(807)	(235)
Profit before tax	3,306	1,900
Loans and advances to customers	306,044	68,723

Mortgage Portfolios

Mortgage portfolios includes acquired loan books. In August 2019 the Bank completed the acquisition of a residential mortgage portfolio for a cash consideration of £258m. Following the completion of the acquisition the total portfolio finished the year at £306m.

The mortgages acquired were during the year from Raphael Mortgages Limited Designated Activity Company ("Raphael" or "Portfolio A") and Magellan Funding No2. Designated Activity Company ("Magellan" or "Portfolio B").

Portfolio A has been in run off since it was originated by Edeus Mortgages and Victoria Mortgage Funding between 2005 and 2008 and consisted of 20 per cent buy-to-let with the remainder owner occupied with an average loan to value of 67.4 per cent. Portfolio B was originated in 2018 and 2019 by Magellan Homeloans, and were all owner occupied with an average loan to value of 70 per cent. Both portfolios are geographically distributed around the UK.

It is expected that in due course the Group will preposition these assets with the Bank of England to act as collateral for schemes within the Sterling Monetary Framework. It is then expected that these assets will be included in the Group's liquidity resources.

Other Divisions

	2019	2018
Summarised Income Statement	£000	£000
Net interest income	3,738	4,563
Net fee and commission income	443	815
Operating income	4,181	5,378
Other income	4,955	6,683
Operating expenses	(7,170)	(7,287)
Profit before tax	1,966	4,774
Loans and advances to customers	11,511	11,286
Treasury Assets	768,868	748,016
Investment Property	6,763	67,081
Other Assets	63,219	-
Total Assets	850,361	826,383
Customer deposits	248,965	136,092
Term Funding Scheme	225,000	225,000
Other liabilities	1,528	3,643
Total Liabilities	475,493	364,735

Reported within the other divisions is Investment Property income: £2.1m (2018: 2.6m), and central items, which include the £1.5m adjustment to the RAF management earn out liability.

Strategic Report – Financial Review

	2019 £000	2018 £000
Capital ratios		
Common Equity Tier 1 Capital	185,147	179,028
Deductions	(25,041)	(21,311)
Common Equity Tier 1 capital after deductions	160,106	157,717
Tier 2 capital	24,239	-
Own Funds	184,345	157,717
Common Equity Tier 1 capital ratio (Common Equity Tier 1 capital/Total Risk Exposure)	13.1%	15.7%
Total Capital Ratio (Own Funds/Total Risk Exposure)	15.1%	15.7%

Liquidity

The Group's prudent approach to liquidity management continued with client loans at 68.9% (2018: 62.8%) of the Group's funding base which consists of client deposits and Bank of England Term Funding Scheme ("TFS") borrowings. The Group's TFS drawings were £225m at the year end (2018: £225m). The TFS funding has a duration of four years, and is supported by property backed loan collateral and debt securities. Access to the TFS closed in early 2018.

The LCR decreased to 269% as the year end (2018: 282%) against a regulatory requirement of 100%.

Strategic Report – Financial Review

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

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

Macroeconomic and competitive environment

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

Coronavirus

The economic environment is currently unstable and difficult to predict in the UK. This is also the case on the International landscape as many of the developed nations have taken unprecedented steps to completely shut down the normal functioning of their economies. The impact from the coronavirus has already had an adverse effect on the stock markets around the world.

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

- a) Increased credit risk as borrowers are unable to continue to meet their interest obligations as they fall due. It is also currently unclear precisely how the Government's announced package of measures will interact with this clear risk. The mortgage payment holiday for three months will allow borrowers some grace to return to normal payments and may also result in some form of Government guarantee, which would possibly reduce this risk to the Group
- b) The uncertainty in the economy could result in a significant fall in the collateral values of our security held against the loans. The Royal Institute of Charter Surveyors ("RICS") has issued a statement suggesting that any valuations they may produce in the current environment would be subject to a warning that the values vary significantly. However, the average loan to value of our property backed lending book is 51.1%, so to have any material impact, this fall in collateral values would have to be severe and prolonged.
- c) A prolonged reduction in business activity will affect our ability to generate new business opportunities and it is highly likely that repayments in our current lending portfolios will be greater than new originations, which will lead to an overall fall in the Group's customer lending balances and the associated revenue that this generates.
- d) The reduction in the base rate will have a material impact on the Group's net interest income in 2020 and possibly beyond, as earnings on our customer loans and assets we hold at the Bank of England will be substantially lower than the benefit we can achieve by lowering our cost of funding.
- e) The economic shock could also lead to a fall in valuations in the Groups investment properties and those properties held in inventory.
- f) As the revenues earned by the Group's Investment Management business are directly linked to the balances managed on behalf of our customers, any reduction in these values due to market movements will have a corresponding impact on these revenues.

Brexit

Despite the decisive result in the General Election, which gave a clear mandate to complete the Article 50 withdrawal provision, there still remains the uncertainty over the transitional arrangements and negotiation of the final trade deal relating to Brexit, with the UK due to formally exit from the EU rules on 31 December 2020. The Group has tried to anticipate the risks that it may face if an economic shock arises as a result. It has also examined how business activities may be affected if free provision of services cross borders is prohibited. The Group's only overseas operation is in Dubai, so the vast majority of the Group's income and expenditure is based in the UK.

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. The Board of Directors meets once a year to hold a two day board meeting to ensure that the Group's strategy is appropriate for the market and economy.

Credit risk

Credit risk is the risk that a counterparty (borrower) will be unable to pay amounts in full when due. This risk exists in Arbuthnot Latham, which currently has a loan book of £1,611m (2018: £1,236m). The majority of AL's lending portfolio is secured against cash, property or other high quality assets. Credit risk is managed through the Credit Committee.

Strategic Report – Financial Review

Market risk

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

The Group is exposed to changes in the market value of its properties. The current carrying value of its UK property portfolios totals £70.0m. Any changes in the market value of the property will be accounted for in the Income Statement and as a result could have a significant impact on the profit or loss of the Group.

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

Liquidity risk

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

Operational risk

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

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 test the infrastructure to ensure that it remains robust to a range of threats, and has continuity of business plans in place including a disaster recovery plan.

Conduct risk

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

The Group adopts a zero risk appetite for any unfair customer outcomes. It maintains clear compliance guidelines and provides ongoing training to all staff. Periodic spot checks, 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.

Strategic Report – Financial Review

Regulatory and capital risk

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

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

JR Cobb

Finance Director
26 March 2020

Directors' Report

The Directors present their report for the year ended 31 December 2019.

Principal Activities and Review

The principal activities of the Group are banking and financial services. Arbuthnot Latham & Co., Limited is a banking institution which is authorised by the Prudential Regulation Authority ("PRA") and regulated by the Financial Conduct Authority ("FCA") and the PRA. It provides full banking, investment management and wealth planning services. The business review and information about future developments, key performance indicators and principal risks are contained in the Strategic Report on pages 1 to 16.

Results and Dividends

The results for the year are shown on page 35. The profit after tax for the year of £5.4m (2018: £13.0m) is included in reserves.

The Directors propose the payment of a final dividend of 21p (2018: Nil) per share which will be paid after approval at the Annual General Meeting on 19 May 2020. Together with the dividend of 16.0402848p per share (2018: Nil) paid on 1 October 2019, this makes a total dividend for the year of 37.0902848p (2018: Nil).

Going Concern

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

Financial Risk Management

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

Articles of Association

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

Directors

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

Sir Henry Angest	Chairman
AA Salmon	Chief Executive
JR Cobb	Finance Director
DP Dagg (appointed 26 November 2019)	
SJ Fletcher	
SP Kelly	Chief Risk Officer
AA Knight	
P Marrow	
Sir Michael Peat	

Mr. D.P Dagg was appointed to the Board on 26 November 2019. All other Directors were directors of the Company throughout the year.

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

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

No Director, either during or at the end of the financial year, was materially interested in any contract with the Company or any of its subsidiaries or associated companies, which was significant in relation to the Group's business, other than contracts of employment.

At 31 December 2019, one Director had loans from Arbuthnot Latham & Co., Limited amounting to £0.5m, on normal commercial terms as disclosed in note 39 to the financial statements. At 31 December 2019, six Directors had deposits with

Directors' Report

Arbuthnot Latham & Co., Limited amounting to £2.5m, all on normal commercial terms as disclosed in note 39 to the financial statements.

Sir Henry Angest, Andrew Salmon and James Cobb are directors of the parent company, Arbuthnot Banking Group PLC, and information on their shareholdings and remuneration in that company is contained in its Directors' Report.

Board Committees

Information on the Audit, Nomination, Remuneration and Risk Committees is included in the Corporate Governance section of the Annual Report on pages 20 to 25.

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

Employee Engagement

The Group gives due consideration to the employment of disabled persons and is an equal opportunities employer. It also regularly provides employees with information on matters of concern to them, consults on decisions likely to affect their interests and encourages their involvement in the performance of the Group through staff meetings and in other ways. Mr. Marrow, the Group's Whistleblowing Champion, is the Director designated by the Board to engage with the workforce. Further information on employee engagement is given in the Strategic Report on page 5.

Engagement with Suppliers, Customers and Others

Information on engagement with suppliers, customers and other stakeholders is given in the Strategic Report on page 5.

Political Donations

No political donations were made by the Company during the year (2018: £nil).

Branches outside of the UK

During the year, the Group operated a branch in Dubai which is regulated by the Dubai Financial Services Authority.

Events after the balance sheet date

There were no material post balance sheet events.

Auditor

During the year KPMG LLP resigned as auditors to the Company and Mazars LLP were appointed by the Directors. A resolution for the re-appointment of Mazars LLP as auditor will be proposed at the forthcoming Annual General Meeting in accordance with section 487 of the Companies Act 2006.

Statement of Disclosure of Information to the Auditor

The Director's confirm that:

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

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

Directors' Report

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

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

Company law requires the directors to prepare Group and parent Company financial statements for each financial year. Under that law they have elected to prepare the Group and parent Company financial statements in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the EU and applicable law.

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

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

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

By order of the Board

N D Jennings
Secretary
26 March 2020

Corporate Governance

Introduction and Overview

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

Statement of Corporate Governance Arrangements

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

This section of the Report and Accounts summarises key elements of the governance arrangements applicable to the Group. The Company is led by an effective Board, which since November 2019 has comprised nine members: the non-executive Chairman, five executive directors and three independent non-executive directors. The Board sets the long-term focus and customer oriented culture of the Group. The responsibilities of Sir Henry Angest as Chairman include leading the Board, ensuring its effectiveness in all aspects of its role, setting its agenda and ensuring that all Directors are encouraged to participate fully in the activities and decision-making process of the Board. As a wholly-owned subsidiary, the Board has determined that there is no need for a Senior Independent Director.

In 2016, an independent Board Effectiveness Review was carried out by an external consultant. In 2017, the Board commissioned an Internal Audit of Corporate Governance. The Directors were satisfied with the outcome of the reviews and implemented all recommendations as applicable to a private company of the size and nature of Arbuthnot Latham & Co., Limited. In 2018 and again in October 2019 the Board Effectiveness Review was conducted internally. The 2019 evaluation took the form of a confidential questionnaire which assessed the performance of the Board and its Committees. The questions were set to explore the themes developed over the previous two years, including Board effectiveness, Board composition, Board dynamics, alignment of the Board and the executive team, induction, performance and training, Board Committees and the Secretariat. The feedback was collated by the Company Secretary and discussed by the Board in November 2019. 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. In February 2020 the Board approved the Group's cultural values through reference to a brand values document linking the Arbuthnot Principles to its culture as a way of communicating culture across the business.

The Board

The Board meets regularly throughout the year, holding six scheduled meetings during the year, together with ad-hoc meetings held to approve the sale of shares in Secure Trust Bank PLC, to consider the acquisition of two mortgage portfolios and to approve the appointment of Dan Dagg as a director, subject to regulatory approval. A separate session was also held to discuss the ILAAP. Substantive agenda items have briefing papers, which are circulated in a timely manner before each formal meeting. The Board ensures that it is supplied with all the information that it requires and requests, in a form and of a quality to fulfil its duties.

In addition to approving strategy and overseeing management of the Group, the Board has determined certain items that are reserved for decision by itself. These matters include the acquisition and disposal of businesses, changes in strategic direction, cessation of business streams and formation of new ones and approval of the annual budget. In addition, the ICAAP and ILAAP are key control documents that receive its detailed consideration and approval.

The Company Secretary is responsible for ensuring that the Board processes and procedures are appropriately followed and support effective decision-making. All directors have access to the Company Secretary's advice and services. There is an agreed procedure for directors to obtain independent professional advice in the course of their duties, if necessary, at the Group's expense.

New directors receive induction training upon joining the Board comprising regulatory and compliance training provided by the Head of Compliance and/or an external firm of lawyers, and risk management training (including in relation to the ILAAP and ICAAP) provided by the Chief Risk Officer. Additionally, the Chief Credit Officer provides an overview of the Group's governance and mitigation arrangements in relation to credit and its associated risks.

Corporate Governance

Internal Control and Financial Reporting

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

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

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

Shareholder Communications

The Group maintains regular dialogue with its Shareholder, Arbuthnot Banking Group PLC, of which Sir Henry Angest, Andrew Salmon, and James Cobb are directors.

Board Committees

The key governance committees established by the Board are the Audit, Nomination, Remuneration and Risk Committees, each with formally delegated duties and responsibilities and with written terms of reference, which require consideration of the committee's effectiveness. In November 2019 it was decided to change the reporting line of the Assets and Liabilities Committee directly to the Board. The Board keeps the governance arrangements under review. Further information in relation to these committees is set out below.

Audit Committee

Membership and meetings

The Audit Committee comprises three independent non-executive directors: Sir Michael Peat (as Chairman), Angela Knight and Paul Marrow; and also Baroness Finn, an external independent member. Sir Michael Peat has recent and relevant financial experience and the Committee as a whole has competence relevant to the financial sector in which the Company operates. The Company Secretary acts as its Secretary. The Committee met five times during the year.

The Audit Committee oversees on behalf of the Board the financial reporting, the appropriateness and effectiveness of systems and controls, the work of Internal Audit and the arrangements for and effectiveness of the external audit. The ultimate responsibility for reviewing and approving the annual report and accounts rests with the Board. The Audit 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

During the year the Audit Committee conducted a competitive audit tender, as required by the EU Audit Regulation 2014. Following this tender, the Committee recommended to the Board that Mazars LLP be appointed as auditor in place of KPMG LLP which had held office since 2009. The Committee assesses the independence and objectivity, qualifications and effectiveness of the external auditors on an annual basis as well as making a recommendation to the Board on their appointment. The Committee received a report showing the level of non-audit services provided by the external auditors during the year and members were satisfied that the extent and nature of these did not compromise auditor independence. The Committee concluded that Mazars are independent and that their audit is effective.

Activity in 2019

Internal Audit

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

Corporate Governance

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

The Head of Internal Audit reports directly to the Chairman of the Audit Committee. He provides reports on the outcomes of Internal Audit work directly to the Committee which monitors progress against actions identified in these reports.

The Committee received a Quality Assessment report on Internal Audit in September 2019, carried out by an external assessor, and it is satisfied with Internal Audit arrangements during 2019.

Integrity of Financial Statements and oversight of external audit

The Committee:

- Received and agreed the Audit Plan prepared by the external auditors;
- Considered and formed a conclusion on the critical judgements underpinning the Financial Statements, as presented in papers prepared by management. In respect of all of these critical judgements, the Committee concluded that the treatment in the Financial Statements was appropriate;
- Received reports from the external auditors on the matters arising from their work, the key issues and conclusions they had reached;
- The Committee monitored the changes to financial reporting requirements which came into effect on 1 January 2019, being IFRS 16, where it was determined to use the modified retrospective approach, as explained in Note 2;
- In addition, the Committee approved recommendation that the layout of the accounting policies within the financial statements be amended to integrate them within the relevant note.

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

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

Significant areas of judgement

The Audit Committee considered the following significant issues and accounting judgements in relation to the Financial Statements:

Impairment of loans and advances to customers

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

The charge for impaired loans and advances totalled £1.9m for the year ended 31 December 2019. The disclosures relating to impairment provisions are set out in Notes 4 and 10 to the financial statements.

Valuation of Investment Properties

Investment properties are held at fair value. The Committee reviewed and challenged the key assumptions used in the valuation of the properties including yields, rental income and refurbishment costs. Two other investment properties were transferred to inventory during the year, being held at the lower of cost and net realisable value. The Committee reviewed the appropriateness of this accounting treatment.

As at 31 December 2019, Arbuthnot Latham's property investment portfolio totalled £6.7m. The disclosures relating to the fair value of investment property are set out in Notes 4 and 28 to the financial statements.

Corporate Governance

Effective Interest rate

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

The Committee considered and challenged the EIR methodology applied by management and specifically in relation to acquired loan portfolios. The Committee considered management assumptions, including expected future customer behaviours, and concluded that the EIR methodology was appropriate as at 31 December 2019.

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

Going Concern

The financial statements are prepared on the basis that the Group and Company are each a going concern. The Audit Committee reviewed management’s assessment, and is satisfied that the going concern basis is appropriate.

Other Committee activities

In November 2019, Committee members contributed to the review of the Committee’s effectiveness as part of its evaluation by the Board by completion of a questionnaire. The outcome of the review was positive and did not highlight any concerns.

In March 2019 the Committee met separately with the Head of Internal Audit and also with the Senior Statutory Auditor without executive management present. There were no issues or concerns raised by either the internal or external auditors.

Nomination Committee

Membership and meetings

The Nomination Committee is chaired by Sir Henry Angest and its other members are Angela Knight, Paul Marrow and Sir Michael Peat. The General Counsel acts as its Secretary. The Committee met three times during the year.

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 of the Board, along with its size, structure and composition, retirements and appointments of additional and replacement directors and will make appropriate recommendations to the Board on such matters. The Nomination Committee also considers succession planning, taking into account the skills and expertise that will be needed and is beneficial to the Board and to key members of the leadership team in the future.

Activity in 2019

In January 2019, the Committee met to discuss the appointment of a Chief Risk Officer, following discussions with the PRA, and other consequential changes. At that time risk management arrangements placed regulatory responsibility for risk management in the Chief Executive supported by specialists in operational, credit, regulatory and conduct risk. This support was provided via ad hoc meetings as well as formal Risk Management meetings reporting to the Risk Committee. The Nomination Committee recommended to the Board the appointment of Mr. Kelly as Chief Risk Officer and that his responsibilities as Finance Director be transferred to Mr. Cobb. The objective was thereby to separate responsibility for risk management and oversight from the First Line of Defence, taking the opportunity to bring together the Arbuthnot Banking Group and Arbuthnot Latham Finance Director position, given the latter is currently the only PRA-regulated subsidiary of the former, with Mr. Cobb carrying out these roles. This also ensured the continuum of knowledge and experience of risk management and oversight within the business, with the appointment of Mr. Kelly to the CRO role. These appointments were made following receipt of regulatory approval from the PRA.

In July 2019, the Committee met to recommend the appointment of Mr. Dagg, Chief Operating Officer, to the Board, given his skill set which covered inter alia banking and financial markets, the regulatory framework and legal requirements, strategic planning and an understanding of the Company’s business strategy. The Board duly made this appointment following receipt of regulatory approval.

In November 2019 the Committee reviewed policies on Board Diversity, Board Suitability and Board Training and Development. It also assessed and confirmed the collective and individual suitability of Board members. It 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 there was a sensible and strong plan in place. In terms of any new hires, it noted that account

Corporate Governance

would be taken of provisions in the Board Diversity Policy. The Committee also agreed that it continued to operate effectively and, as such, no changes to its membership, composition or activities were proposed to the Board. The Board concurred with this conclusion.

Remuneration Committee

Membership and meetings

The Remuneration Committee is chaired by Sir Henry Angest and its other members are Angela Knight, Paul Marrow and Sir Michael Peat. The General Counsel acts as its Secretary. The Committee met four times during the year. It is required to meet formally at least once per year and otherwise as required.

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

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

Activity in 2019

In addition to its regular activity, the Committee discussed the information deriving from the Gender Pay Gap review, prior to approval and publication of the statement. From the comments about the Committee made by directors in the Board Effectiveness Questionnaire, it agreed that it continued to operate effectively.

Risk Committee

Membership and meetings

The Risk Committee is chaired by Paul Marrow and its other members are James Cobb, Stephen Fletcher and Andrew Salmon and from 25 March 2020 Angela Knight who was appointed as a second non-executive director to ensure that a quorum would not comprise only executive directors. The Company Secretary acts as its Secretary. The Committee met seven times during the year.

The Risk Committee's primary responsibilities are to:

- review and recommend to the Board specific risk policies;
- oversee the development, implementation and maintenance of the Group's overall risk management framework, risk appetite, strategy, principles and policies;
- oversee the Group's risk exposures, and propose improvements to the Group's risk management framework;
- oversee adherence to any risk principles, policies and standards set by Arbutnot Banking Group PLC; and
- to keep it regularly informed of any material risk issues or breaches.

During the year, the Risk Committee sub-Committee structure was reorganised. The Risk Committee now has six sub-committees reporting directly to it - the Conduct Risk Committee, the Information Security Group, the Operational Risk Committee, the Regulatory Governance Committee and the newly established Retail Mortgages Management Committee, and Financial Regulatory Reporting Committee. Below this level, the Anti-Money Laundering Committee and the Product Governance Committee report to the Conduct Risk Committee and the Fraud Committee reports to the Operational Risk Committee. Each of these committees meets regularly. The Information Security Group reviews all matters relating to the management of operational resilience and information security within the Group.

In November 2019 the reporting line of the Assets and Liabilities Committee, which ensures effective high-level management of the balance sheet, and monitors capital and liquidity against risk appetite, together with Treasury strategy, guidelines and limits, was transferred directly to the Board.

Corporate Governance

Activity in 2019

The Risk Committee (itself or via its sub-committees) reviewed and monitored, where appropriate for recommendation to the Board: capital and liquidity limits, including the relevant detail for inclusion in the ICAAP and the ILAAP; the Recovery Plan and Resolution Packs; and the risk and the control self-assessments and the overall control environment. During the year various enhancements were made to the Company's risk management, overseen by the Committee. The Company revised the Risk Management Policy and Risk Appetite Framework to set out more clearly how the principal risks are integrated into overall enterprise-wide risk management.

By order of the Board

N D Jennings

Secretary

26 March 2020

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

Opinion

We have audited the financial statements of Arbuthnot Latham & Co., Limited (the 'Parent Company') and its subsidiaries (the 'Group') for the year ended which comprise: the Consolidated Statement of Comprehensive Income; Consolidated Statement of Financial Position; Company Statement of Financial Position; Consolidated Statement of Changes in Equity; Company Statement in Changes in Equity; Consolidated Statement of Cash Flows; Company Statement of Cash Flows; and, notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the Parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2019 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements 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 Parent Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

The impact of uncertainties due to both the COVID-19 coronavirus and the United Kingdom exiting the European Union on our audit

The Directors' view on the impacts of the COVID-19 coronavirus and Brexit are disclosed on page 14 and Note 43.

The full impact following the recent emergence of the global coronavirus is still unknown. It is therefore not currently possible to evaluate all the potential implications to the Group and Parents Company's trade, customers, suppliers and the wider economy.

The United Kingdom withdrew from the European Union on 31 January 2020 and entered into an Implementation Period which is scheduled to end on 31 December 2020. However, the terms of the future trade and other relationships with the European Union are not yet clear, and it is therefore not currently possible to evaluate all the potential implications to the Group and Parent Company's trade, customers, suppliers and the wider economy.

We considered the impacts of Brexit on the Group and Parent Company as part of our audit procedures, applying a standard firm wide approach in response to the uncertainty associated with the Group's and Parent Company's future prospects and performance.

However, no audit should be expected to predict the unknowable factors or all possible implications for the Group and Parent Company and this is particularly the case in relation to both COVID-19 coronavirus and Brexit.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

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

- the Directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Group's or the Parent Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

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

Loan Loss Provisions

Group - £4.8 million; 2018: £6.6 million (*See Note 20*)

Parent Company - £4.2 million; 2018: £6million (*See Note 20*)

Risk	Our Response
Credit risk is an inherently judgmental area due to the use of subjective assumptions and a high degree of estimation. The impairment provision relating to the Group's loan portfolio requires the Directors to make judgements over the ability of the Groups' customers to make future loan repayments. The Group adopted IFRS 9 from 1 January 2018. IFRS 9 requires loan loss provisions to be determined on an Expected Credit Loss ("ECL") basis. The largest element of credit risk relates to Loans and Advances to Customers where the bank is exposed to secured and unsecured lending to private and commercial clients. Individual impairment assessments are made for loans classified as Stage 3 and 2. This is based on assumptions around probability of default and the present value of future cash flows arising primarily from the sale or repossession of collateral. For loans classified as stage 1 ECL is determined through the use of a model. The model used by the Group to determine expected losses requires judgement to the input parameters and assumptions as set out in Notes 3.4 and 4.1 of the financial statements.	Planning We have performed a risk assessment over the Group and Parent Company's loan portfolio to identify areas of heightened risk. We have assessed the methodology of identifying Significant Increase in Credit Risk. Controls Testing We have tested the design and operating effectiveness of the key controls operating across the Group in relation to credit processes (including underwriting, monitoring, collections and provisioning). This also included attendance at a Non-Performing Loan Committee meeting, missed payments monitoring, credit reviews at origination and annual review, watch list movements through the year, and revaluation controls. Test of detail We have reviewed credit files in order to verify data used in the determination of PD and LGD assumptions. This was performed for all loans in Stage 3 and Stage 2 and for a sample of loans in Stage 1 with characteristics of heightened credit risk (e.g. high Loan-to-Value secured exposures and unsecured exposures).

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

The most significant areas where we identified greater levels of management judgement are: - staging of loans and the identification of Significant Increase in Credit Risk; - key assumptions in the model including probability of default ("PD") and loss given default ("LGD") including the present value of future cash flows from collateral; - Use of macro-economic variables reflecting a range of future scenarios. Disclosures regarding the Group's and Parent Company's measurement and classification of financial instruments held under IFRS 9 are key to understanding the key judgements and inputs.	Expected Credit Loss Models We have assessed the models used by management to determine expected loss calculations. We have: - Considered the methodology used by management; - Tested the data inputs used in applying the methodology adopted and assessed for reasonableness; - Tested the completeness of the loan portfolio applied to the model; - Tested the process in place to allocate loans to the respective risk categories (Staging); - Reviewed the key assumptions applied to determine probability of default and loss given default; - We have included in-house Credit Risk and Economic specialists in the assessment of model approach and assumptions. Disclosures We evaluated whether the disclosures are a clear true and fair reflection of managements approach to classification and measure under IFRS 9 and key assumptions made. Key observations <i>We found the approach taken in respect of loan loss provisions to be consistent with the requirements of IFRS 9 and judgements made were reasonable.</i> <i>Disclosures were appropriate.</i>
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Revenue Recognition: Effective Interest Rate

Group - £76.9 million; 2018: £65.3 million (See Note 8)

Risk	Our Response
The financial reporting fraud risk over revenue recognition specifically relates to income recognised on an effect interest method (EIR) on Loans and Advances to Customers including originated and acquired loan portfolios. The EIR takes into account cash flows that are an integral part of the instrument's yield including: premiums, discounts and acquisition costs which are spread over the expected life of the loan. Models adopted to calculate EIR are prepared manually and are therefore have an increased risk of error or fraud.	Acquired Portfolios We have assessed the design and tested the operating effectiveness of controls in place in the Group relating to acquired portfolios and monitoring of expected cash flows when determining effective interest. We have tested controls in place at service providers where acquired portfolios are managed by third parties. We have assessed the basis for recognising revenue of acquired portfolios against the requirements of IFRS 9.

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

Judgement is required to determine whether fees are recognised as EIR or recognised when a service has been performed. The most significant areas where we identified greater levels of management judgement are: - Unwinding of the discount on acquired portfolios where estimations are made to adjust expected future cash flows; - assumptions over the timing of cash flows used in revenue recognition of originated exposures.	We have assessed key judgements over expected future cash flows including estimations over early repayments and credit losses. We have performed tests of detail relating to loan information and security valuations on a sample of exposures in the acquired portfolios. Originated Portfolios We have assessed the design of controls in place over models used within the EIR calculation. We have re-performed model data inputs to identify instances of error. Over a sample of instruments, we have verified details to underlying agreements. We have assessed the EIR model calculation for compliance with IFRS 9. Where approximations have been adopted in the EIR model we have assessed impact. Key observations <i>We identified discrepancies in the application of EIR adjustments in acquired portfolios which were discussed with management and the Audit Committee; however, we gained assurance we required in this area.</i>
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Investment Properties

Group - £6.8 million; 2018: £67.1 million (See Note 28 and Note 22)

Company – Nil; 2018: £60.3 million (See Note 28 and Note 22)

Risk	Our Response
The Group has an accounting policy to hold Investment Properties at fair value. Management engage third party experts to provide observations and market data e.g. property rental yields. This data is included in models built in-house. The outcome of the model is highly sensitive to assumptions made. Where there is a change in use and the property developed with a view to sell, Investment Properties are reclassified as inventory. IAS 40 sets criteria for	We have assessed accounting classification of all Investment Property and Property Held for Sale held by the Group. In assessing fair value, either at the balance sheet date or at the date of reclassification, we have agreed data inputs in the fair value models to source. We have engaged external property valuation specialists as audit experts to assist us in our review of the valuation approach and assumptions.

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

reclassification which can results in misclassification if the criteria is not met. Where property is reclassified as inventory it is held at cost, calculated as being the fair value on date of reclassification using the same in-house models	Key observations We found the methodology and approach in assessing fair value of Investment Property and Property reclassified as held for sale to be in line with IFRS.
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Impact of the outbreak of COVID 19 on the assessment of going concern

The financial statements have been prepared on a going concern basis (*See Basis of Preparation Page 42*)

Risk	Our Response
Since the outbreak of COVID 19 in the UK, the Directors have considered the impact this could have on the Group's and Parent Company's ability to continue as a going concern. In performing this assessment, they considered a range of stress scenarios which included the impact of reductions in the Bank of England base rate to zero per cent, significant falls in residential and commercial property values and the impact of substantial falls in equity markets could have on revenue. Furthermore, reverse stress scenarios were examined to understand the limitations of the Group. Consideration has also been given to mitigation actions that could be implemented such as reducing bonus payments, altering dividend strategy and reducing lending appetite. The Directors concluded that the Group can remain viable and the going concern basis is appropriate.	In forming our conclusions over going concern, we evaluated whether management's going concern assessment robustly considered impacts arising from COVID-19. We reviewed management's going concern assessment. We made enquiries of management to understand the potential impact of COVID-19 on the Group and Parent Company's financial performance, business operations, and regulatory and liquidity positions. We reviewed the Group's most recent Internal Capital Adequacy Assessment Process and Internal Liquidity Adequacy Process which contain the results of the company's latest stress tests. We challenged key assumptions and substantively re-performed key calculations. Our reporting on Going Concern is set out above.

Our application of materiality

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:

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

Overall materiality	Group: £547,000 Parent Company: £470,000
How we determined it	Group and Parent Company: 5% Profit Before tax adjusted for surplus group management recharges.
Rationale for benchmark applied	We selected an adjusted profit benchmark because, as discussed on page 7, management believes an element of the group management charges does not reflect the underlying performance of the Group on a consistent basis and how the Group is run. We excluded surplus management recharge from profit. Other factors excluded from underlying profit by management on page 7 have not been adjusted for in our benchmark, as in our opinion they are recurring items that form part of ongoing business performance.
Performance materiality	Group: £328,000 Parent Company: £282,000
Reporting threshold	Group: £16,000 Parent Company: £14,000

An overview of the scope of our audit, including extent to which the audit was considered capable of detecting irregularities, including fraud

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

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

Our audit procedures were designed to respond to those identified risks, including non-compliance with laws and regulations (irregularities) and fraud that are material to the financial statements.

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

- at planning stage, we gained an understanding of the legal and regulatory framework applicable to the Group and Parent Company, the structure of the Group, the industry in which they operate and considered the risk of acts by the Group and Parent Company which were contrary to the applicable laws and regulations;

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

- during the audit, we focused 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 the Directors (as required by auditing standards), from inspection of the Group's regulatory and legal correspondence and review of minutes of Directors' meetings in the year. We identified that the principal risks of non-compliance with laws and regulations related to breaches of regulatory requirements of the Group's regulators, the Prudential Regulatory Authority and the Financial Conduct Authority. We also considered those other laws and regulations that have a direct impact on the preparation of financial statements, such as the Companies Act 2006 and UK tax legislation; and
- we discussed with the Directors the policies and procedures in place regarding compliance with laws and regulations. We discussed amongst the engagement team the identified laws and regulations, and remained alert to any indications of non-compliance.

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

- inquiries of management whether they have knowledge of any actual, suspected or alleged fraud;
- gaining an understanding of the internal controls established to mitigate risk related to fraud;
- discussion amongst the engagement team regarding risk of fraud such as opportunities for fraudulent manipulation of financial statements, and determined that the principal risks were related to posting manual journal entries to manipulate financial performance, management bias through judgements and assumptions in significant accounting estimates, in particular in relation loan impairments, and the effective interest rate method of income recognition], and significant one-off or unusual transactions; and
- addressing the risk of fraud through management override of controls by performing journal entry testing.

The primary responsibility for the prevention and detection of irregularities including fraud rests with both 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.

As a result of our procedures, we did not identify any "Key audit matters" relating to irregularities. The risks of material misstatement that had the greatest effect on our audit, including fraud, are discussed under "Key audit matters" within this report.

Other information

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

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

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken 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

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

- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In light of the knowledge and understanding of the Group and the Parent Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Directors' Report.

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

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

Responsibilities of Directors

As explained more fully in the Directors' responsibilities statement set out on page 19, 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.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council'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 16 December 2019 to audit the financial statements for the year ending 31 December 2019. The period of total uninterrupted engagement is 1 year, covering the year ending 31 December 2019.

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.

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

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

Use of the audit report

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

Greg Simpson

(Senior Statutory Auditor)

for and on behalf of Mazars LLP

Chartered Accountants and Statutory Auditor

Tower Bridge House, St Katherine's Dock

London

26 March 2020

Consolidated Statement of Comprehensive Income

		Year ended 31 December 2019 £000	Year ended 31 December 2018 £000
	Note		
Interest income	8	76,870	65,290
Interest expense	8	(16,472)	(9,636)
Net interest income	8	60,398	55,654
Fee and commission income	9	13,935	12,956
Fee and commission expense		(107)	(234)
Net fee and commission income		13,828	12,722
Operating income		74,226	68,376
Impairment loss	10	(867)	(2,731)
Other income	11	5,019	6,758
Operating expenses	12	(72,767)	(59,029)
Profit before tax		5,611	13,374
Income tax expense	13	(238)	(396)
Profit for the year		5,373	12,978
Other comprehensive income			
Items that may not be reclassified to profit or loss			
Movement in fair value reserve		4,125	(3,269)
Tax on other comprehensive income		(95)	(26)
Other comprehensive income for the period, net of tax		4,030	(3,295)
Total comprehensive income for the period		9,403	9,683

All amounts relate to continuing operations.

Consolidated Statement of Financial Position

		At 31 December 2019 £000	At 31 December 2018 £000
	Note		
ASSETS			
Cash and balances at central banks	15	325,908	405,325
Loans and advances to banks	16	46,244	54,160
Debt securities at amortised cost	17	442,960	342,691
Current assets held for sale	18	7,617	8,002
Derivative financial instruments	19	1,804	1,846
Loans and advances to customers	20	1,610,553	1,236,157
Current tax asset		169	-
Other assets	22	86,322	12,668
Financial investments	23	5,007	16,038
Deferred tax asset	24	1,425	1,377
Intangible assets	25	23,810	20,264
Property, plant and equipment	26	5,629	5,096
Right-of-use assets	27	19,944	-
Investment property	28	6,763	67,081
Total assets		2,584,155	2,170,705
EQUITY AND LIABILITIES			
Equity attributable to owners of the parent			
Share capital	35	15,000	15,000
Retained earnings	36	47,077	44,163
Other reserves	36	121,963	117,879
Total equity		184,040	177,042
LIABILITIES			
Deposits from banks	29	230,421	232,675
Derivative financial instruments	19	319	188
Deposits from customers	30	2,112,197	1,744,048
Current tax liability		627	288
Other liabilities	31	11,881	16,464
Lease liabilities	32	20,431	-
Debt securities in issue	33	24,239	-
Total liabilities		2,400,115	1,993,663
Total equity and liabilities		2,584,155	2,170,705

The financial statements on pages 35 to 128 were approved and authorised for issue by the Board of directors on 26 March 2020 and were signed on their behalf by:



AA Salmon, Director



JR Cobb, Director

Registered Number: 00819519

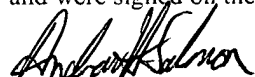
The notes on pages 42 to 128 are an integral part of these consolidated financial statements

Company Statement of Financial Position

	Note	At 31 December 2019 £000	At 31 December 2018 £000
ASSETS			
Cash and balances at central banks	15	325,908	405,325
Loans and advances to banks	16	44,938	53,353
Debt securities at amortised cost	17	442,960	342,691
Current assets held for sale	18	7,617	8,002
Derivative financial instruments	19	1,804	1,846
Loans and advances to customers	20	1,599,229	1,230,114
Current tax asset		169	-
Other assets	22	87,365	12,093
Financial investments	23	5,007	16,038
Deferred tax asset	24	1,065	1,139
Interests in subsidiaries	40	19,602	18,102
Intangible assets	25	18,291	14,754
Property, plant and equipment	26	5,595	5,057
Right-of-use assets	27	19,365	-
Investment property	28	-	60,318
Total assets		2,578,915	2,168,832
EQUITY AND LIABILITIES			
Equity attributable to owners of the parent			
Share capital	35	15,000	15,000
Retained earnings	36	44,574	42,419
Other reserves	36	121,963	117,879
Total equity		181,537	175,298
LIABILITIES			
Deposits from banks	29	230,421	232,675
Derivative financial instruments	19	319	188
Deposits from customers	30	2,111,963	1,744,048
Other liabilities	31	10,610	16,623
Lease liabilities	32	19,826	-
Debt securities in issue	33	24,239	-
Total liabilities		2,397,378	1,993,534
Total equity and liabilities		2,578,915	2,168,832

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

The financial statements on pages 35 to 128 were approved and authorised for issue by the Board of directors on 26 March 2020 and were signed on their behalf by:


AA Salmon, Director


JR Cobb, Director

Registered Number: 00819519

The notes on pages 42 to 128 are an integral part of these consolidated financial statements

Consolidated Statement of Changes in Equity

	Share capital	Retained earnings	Capital contribution reserve	Fair value reserve	Total
	£000	£000	£000	£000	£000
Balance at 1 January 2018	15,000	31,485	84,200	162	130,847
Total comprehensive income for the period					
Profit for 2018	-	12,978	-	-	12,978
Other comprehensive income, net of tax					
Fair value reserve - net change in fair value	-	-	-	(3,269)	(3,269)
Tax on other comprehensive income	-	-	-	(26)	(26)
Total other comprehensive income	-	-	-	(3,295)	(3,295)
Total comprehensive income for the period	-	12,978	-	(3,295)	9,683
Transactions with owners, recorded directly in equity					
Contributions by and distributions to owners					
Capital contribution	-	-	36,812	-	36,812
Interim dividend relating to 2018	-	(300)	-	-	(300)
Total contributions by and distributions to owners	-	(300)	36,812	-	36,512
Balance at 31 December 2018	15,000	44,163	121,012	(3,133)	177,042
Total comprehensive income for the period					
Profit for 2019	-	5,373	-	-	5,373
Other comprehensive income, net of tax					
Fair value reserve - net change in fair value	-	-	-	4,126	4,126
Tax on other comprehensive income	-	-	-	(95)	(95)
Total other comprehensive income	-	-	-	4,031	4,031
Total comprehensive income for the period	-	5,373	-	4,031	9,404
Transactions with owners, recorded directly in equity					
Contributions by and distributions to owners					
Loss on disposal of assets held at FVOCI	-	(53)	-	53	-
Interim dividend relating to 2019	-	(2,406)	-	-	(2,406)
Total contributions by and distributions to owners	-	(2,459)	-	53	(2,406)
Balance at 31 December 2019	15,000	47,077	121,012	951	184,040

The notes on pages 42 to 128 are an integral part of these consolidated financial statements

Company Statement of Changes in Equity

	Share capital	Retained earnings	Capital contribution on reserve	Fair value reserve	Total
	£000	£000	£000	£000	£000
Balance at 1 January 2018	15,000	32,372	84,200	162	131,734
Total comprehensive income for the period					
Profit for 2018	-	10,347	-	-	10,347
Other comprehensive income, net of tax					
Fair value reserve - net change in fair value	-	-	-	(3,269)	(3,269)
Tax on other comprehensive income	-	-	-	(26)	(26)
Total other comprehensive income	-	-	-	(3,295)	(3,295)
Total comprehensive income for the period	-	10,347	-	(3,295)	7,052
Transactions with owners, recorded directly in equity					
Contributions by and distributions to owners					
Capital contribution	-	-	36,812	-	36,812
Interim dividend relating to 2018	-	(300)	-	-	(300)
Total contributions by and distributions to owners	-	(300)	36,812	-	36,512
Balance at 31 December 2018	15,000	42,419	121,012	(3,133)	175,298
Total comprehensive income for the period					
Profit for 2019	-	4,614	-	-	4,614
Other comprehensive income, net of tax					
Fair value reserve - net change in fair value	-	-	-	4,126	4,126
Tax on other comprehensive income	-	-	-	(95)	(95)
Total other comprehensive income	-	-	-	4,031	4,031
Total comprehensive income for the period	-	4,614	-	4,031	8,645
Loss on disposal of assets held at FVOCI	-	(53)	-	53	-
Interim dividend relating to 2019	-	(2,406)	-	-	(2,406)
Total contributions by and distributions to owners	-	(2,459)	-	53	(2,406)
Balance at 31 December 2019	15,000	44,574	121,012	951	181,537

The notes on pages 42 to 128 are an integral part of these consolidated financial statements

Consolidated Statement of Cash Flows

		Year ended 31 December 2019 £000	Year ended 31 December 2018 £000
	Note		
Cash flows from operating activities			
Interest received		72,999	64,380
Interest paid		(13,343)	(7,803)
Fees and commissions received		13,595	13,669
Other income		5,019	6,758
Cash payments to employees and suppliers		(67,331)	(61,618)
Taxation paid		(68)	(815)
Cash flows from operating profit before changes in operating assets and liabilities		10,871	14,571
Changes in operating assets and liabilities:			
- net decrease/(increase) in derivative financial instruments		173	(38)
- net increase in loans and advances to customers		(372,611)	(180,601)
- net increase in other assets		(10,435)	(3,929)
- net increase in amounts due to customers		368,149	304,244
- net (decrease)/increase in other liabilities		(4,583)	2,111
Net cash (outflow)/inflow from operating activities		(8,436)	136,358
Cash flows from investing activities			
Disposal of financial investments		15,330	-
Purchase of computer software	25	(5,553)	(2,287)
Purchase of property, plant and equipment	26	(1,950)	(2,388)
Investment property additions	28	(2,901)	(879)
Purchase of debt securities		(823,139)	(467,772)
Proceeds from redemption of debt securities		719,737	356,883
Net cash outflow from investing activities		(98,476)	(116,443)
Cash flows from financing activities			
Increase in debt securities in issue		24,239	-
(Decrease)/increase in borrowings		(2,254)	37,578
Dividends paid		(2,406)	(300)
Capital contribution received		-	18,526
Net cash inflow from financing activities		19,579	55,804
Net (decrease)/increase in cash and cash equivalents		(87,333)	75,719
Cash and cash equivalents at 1 January		459,485	383,766
Cash and cash equivalents at 31 December	38	372,152	459,485

The notes on pages 42 to 128 are an integral part of these consolidated financial statements

Company Statement of Cash Flows

		Year ended 31 December 2019 £000	Year ended 31 December 2018 £000
	Note		
Cash flows from operating activities			
Interest received		67,612	60,727
Interest paid		(13,321)	(7,737)
Fees and commissions received		12,774	13,476
Other income		4,488	6,139
Cash payments to employees and suppliers		(73,914)	(58,800)
Taxation received/(paid)		(148)	(38)
Cash flows from operating (loss)/profit before changes in operating assets and liabilities		(2,509)	13,767
Changes in operating assets and liabilities:			
- net decrease/(increase) in derivative financial instruments		173	(38)
- net increase in loans and advances to customers		(367,290)	(176,561)
- net increase in other assets		(1,500)	(6,891)
- net increase in amounts due to customers		367,915	303,620
- net (decrease)/increase in other liabilities		(6,013)	2,632
Net cash (outflow)/inflow from operating activities		(9,224)	136,529
Cash flows from investing activities			
Disposal of financial investments		15,330	-
Purchase of computer software	25	(5,270)	(2,219)
Purchase of property, plant and equipment	26	(1,944)	(2,347)
Investment property additions	28	(2,901)	(879)
Purchase of debt securities		(823,139)	(467,772)
Proceeds from redemption of debt securities		719,737	356,883
Net cash outflow from investing activities		(98,187)	(116,334)
Cash flows from financing activities			
Increase in debt securities in issue		24,239	-
(Decrease)/increase in borrowings		(2,254)	37,578
Dividends paid		(2,406)	(300)
Capital contribution received		-	18,526
Net cash inflow from financing activities		19,579	55,804
Net (decrease)/increase in cash and cash equivalents		(87,832)	75,999
Cash and cash equivalents at 1 January		458,678	382,679
Cash and cash equivalents at 31 December	38	370,846	458,678

The notes on pages 42 to 128 are an integral part of these consolidated financial statements

Notes to the Consolidated Financial Statements

1. Reporting entity

Arbuthnot Latham & Co., Ltd is a company domiciled in the United Kingdom. The registered address of Arbuthnot Latham & Co., Ltd is 7 Wilson Street, London, EC2M 2SN. The consolidated financial statements of Arbuthnot Latham & Co., Ltd as at and for the year ended 31 December 2019 comprise Arbuthnot Latham & Co., Ltd and its subsidiaries (together referred to as the "Group" and individually as "subsidiaries"). The Bank is primarily involved in banking and financial services.

2. Basis of preparation

(a) Statement of compliance

The Group's consolidated financial statements and the Company's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs as adopted and endorsed by the EU) and the Companies Act 2006 applicable to companies reporting under IFRS.

(b) Basis of measurement

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

(c) Functional and presentational currency

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

(d) Use of estimates and judgements

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

(e) Going concern

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

(f) Accounting developments

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

IFRS 16 'Leases'

The Group has adopted IFRS 16 under the modified retrospective transition approach from 1 January 2019 and has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. The Group's accounting as a lessor under IFRS 16 is substantially unchanged from its approach under IAS 17; however, for lessee accounting there is no longer a distinction between finance and operating leases. The total impact of IFRS 16 over the life of a lease will be neutral on the income statement, however its implementation will result in a higher charge in the earlier years following implementation with a lower charge in later years.

On adoption of IFRS 16, the Group recognised a right-of-use asset and a corresponding liability in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases.

These liabilities were measured at present value of the remaining lease payments, discounted using the Icssec's incremental borrowing rate as of 1 January 2019. The Group has calculated an incremental borrowing rate for each individual lease only using a single incremental borrowing rate where the leases share reasonably similar characteristics. The aggregate of the Group's leases equates to a weighted incremental borrowing rate of 4.8%.

The associated right-of-use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the Statement of Financial Position as at 31 December 2018. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

Notes to the Consolidated Financial Statements

The recognised right-of-use assets relate to the following types of assets:

	1-Jan 2019 £000
Investment properties	8,108
Properties	14,036
Total Right-of-use assets	22,144

	£000
Operating lease commitment as at 31 December 2018	16,654
Discount using the incremental borrowing rate at 1 January 2019	(1,906)
Investment property finance leases	8,108
Recognition exemption for leases with less than 12 months of lease term at transition	(124)
Total lease liability as at 1 January 2019	22,732

There was no impact to retained earnings due to the modified retrospective approach being used.

Practical expedients

In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the Standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics,
- reliance on previous assessments on whether leases are onerous immediately before 1 January 2019 as an alternative to performing an impairment review of the right-of-use asset,
- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases,
- low-value assets where the value of the underlying asset is less than £5,000,
- the exclusion of initial direct costs for the measurement of the right-of-use asset immediately before 1 January 2019, and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying IAS 17 and IFRS 4 Determining whether an Arrangement contains a Lease.

The Group's leasing activities

The Group has leasehold investment property, offices and equipment all under operating leases. Rental contracts are typically made for fixed periods but may have extension or termination options. Extension and termination options are included in a number of property and equipment leases across the Group. These terms are used to maximise operational flexibility in terms of managing contracts. The extension and termination options held are exercisable only by the Group and not by the respective lessor.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Until the 2018 financial year, leases of investment property and property, plant and equipment were classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Notes to the Consolidated Financial Statements

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments less any lease incentives receivable
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the lessee's incremental borrowing rate, being the rate that the Group would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of the lease liability
- any lease payments made at or before the commencement date less any lease incentives received, and
- any restoration costs payable.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

Notes to the Consolidated Financial Statements

3. Significant accounting policies

The accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

3.1. Consolidation

(a) Subsidiaries

Subsidiaries are all investees (including special purpose entities) controlled by the Group. The Group controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The acquisition method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. Identifiable assets acquired, liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest. The excess of the cost of acquisition over the fair value of the Group's shares of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the Statement of Comprehensive Income as a gain on bargain purchase. Contingent consideration related to an acquisition is initially recognised at the date of acquisition as part of the consideration transferred, measured at its acquisition date fair value and recognised as a liability. The fair value of a contingent consideration liability recognised on acquisition is remeasured at key reporting dates until it is settled, changes in the contingent consideration liability are recognised in the profit and loss.

The company's investments in subsidiaries are recorded at cost less, where appropriate, provisions for impairment in value.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(b) Changes in ownership and non-controlling interests

Changes in ownership interest in a subsidiary that do not result in the loss of control are accounted for as equity transactions and no gain or loss is recognised. Adjustments to non-controlling interests are based on a proportionate amount of the net assets of the subsidiary.

When control of a subsidiary is lost, the Group derecognises the assets, liabilities, non-controlling interest and all other components of equity relating to the former subsidiary from the consolidated statement of financial position. Any resulting gain or loss is recognised in profit or loss. Any investment retained in the former subsidiary is recognised at its fair value at the date when control is lost.

(c) Special purpose entities

Special purpose entities ("SPEs") are entities that are created to accomplish a narrow and well-defined objective such as the securitisation of particular assets or the execution of a specific borrowing or lending transaction. SPEs are consolidated when the investor controls the investee. The investor would only control the investee if it had all of the following:

- power over the investee;
- exposure, or rights, to variable returns from its involvement with the investee; and
- the ability to use its power over the investee to affect the amount of the investor's returns.

The assessment of whether the Group has control over an SPE is carried out at inception and the initial assessment is only reconsidered at a later date if there were any changes to the structure or terms of the SPE, or there were additional transactions between the Group and the SPE.

3.2. Foreign currency translation

Foreign currency transactions are translated into the functional currency using the spot exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Statement of Comprehensive Income. Foreign exchange differences arising from translation of equity instruments in respect of which an election has been made to present subsequent changes in fair value in OCI are recognised in Other Comprehensive Income.

Notes to the Consolidated Financial Statements

3.3. Financial assets and financial liabilities

IFRS 9 requires financial assets and liabilities to be measured at amortised cost, fair value through other comprehensive income ("FVOCI") or fair value through the profit and loss ("FVTPL"). Liabilities are measured at amortised cost or FVTPL. The Group classifies financial assets and financial liabilities in the following categories: financial assets and financial liabilities at FVTPL; FVOCI, financial assets and financial liabilities at amortised cost. Management determines the classification of its financial instruments at initial recognition.

A financial asset or financial liability is measured initially at fair value, plus transaction costs that are directly attributable to its acquisition or issue with the exception of financial assets at FVTPL where these costs are debited to the income statement.

(a) Financial instruments measured at amortised cost

Financial assets that are held to collect contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. A basic lending arrangement results in contractual cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding. Financial assets measured at amortised cost are predominantly loans and advances and debt securities.

Loans and advances

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable and the SPPI criteria are met. Loans are recognised when cash is advanced to the borrowers inclusive of transaction costs. Loans and advances, other than those relating to assets leased to customers, are carried at amortised cost using the effective interest rate method. The accounting for assets leased to customers is set out under note 27.

Debt securities at amortised cost

Debt securities at amortised cost are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group has determined meets the SPPI criteria. Debt security investments are carried at amortised cost using the effective interest rate method, less any impairment loss.

(b) Financial assets and financial liabilities at FVTPL

Financial assets and liabilities are classified at FVTPL where they do not meet the criteria to be measured at amortised cost or FVOCI or where financial assets are designated at FVTPL to reduce an accounting mismatch. They are measured at fair value in the statement of financial position, with fair value gains/losses recognised in the income statement.

Financial assets that are held for trading or managed within a business model that is evaluated on a fair value basis are measured at FVTPL, because the business objective is neither hold-to-collect contractual cash flows nor hold-to-collect-and-sell contractual cash flows.

This category comprises derivative financial instruments and financial investments. Derivative financial instruments utilised by the Group include structured notes and derivatives used for hedging purposes.

Financial assets and liabilities at FVTPL are initially recognised on the date from which the Group becomes a party to the contractual provisions of the instrument, including any acquisition costs. Subsequent measurement of financial assets and financial liabilities held in this category are carried at FVTPL until the investment is sold.

(c) Financial instruments at FVOCI

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

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

A debt instrument is measured at fair value through other comprehensive income if it meets both of the following conditions:

- the asset is held within a business model whose objective is achieved by collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset meet the SPPI criterion.

Notes to the Consolidated Financial Statements

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

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

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

(d) Financial guarantees and loan commitments

Financial guarantees represent undertakings that the Group will meet a customer's obligation to third parties if the customer fails to do so. Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. The Group is exposed to loss in an amount equal to the total guarantees or unused commitments, however, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards, where the amount of loss exceeds the total unused commitments, an ECL is recognised. Liabilities under financial guarantee contracts are initially recorded at their fair value, and the initial fair value is amortised over the life of the financial guarantee. Subsequently, the financial guarantee liabilities are measured at the higher of the initial fair value, less cumulative amortisation, and the ECL of the obligations.

(e) Financial liabilities at amortised cost

Financial liabilities at amortised cost are non-derivative financial liabilities with fixed or determinable payments. These financial liabilities are recognised when cash is received from the depositors. Financial liabilities are carried at amortised cost using the effective interest rate method. The fair value of other liabilities repayable on demand is assumed to be the amount payable on demand at the Statement of Financial Position date.

Basis of measurement for financial assets and liabilities

Amortised cost measurement

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

Fair value measurement

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

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

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

Derecognition

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

Notes to the Consolidated Financial Statements

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

Offsetting

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

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

3.4 Impairment for financial assets and liabilities

IFRS 9 impairment model adopts a three stage expected credit loss ("ECL") approach based on the extent of credit deterioration since origination.

The three stages under IFRS 9 are as follows:

- Stage 1 – entities are required to recognise a lifetime ECL allowance for financial assets that are expected to default in the following 12 months, where there is no indication of significant increase in credit risk since initial recognition and are not credit impaired.
- Stage 2 – a lifetime loss allowance is held for financial assets where a significant increase in credit risk has been identified since initial recognition for financial assets that are not credit impaired. The assessment of whether credit risk has increased significantly since initial recognition is performed for each reporting period for the life of the loan.
- Stage 3 – a lifetime ECL allowance is required for financial assets that are credit impaired at the reporting date.

Measurement of ECL

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

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

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

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

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

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

Definition of default (movement to Stage 3)

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

- The rebuttable assumption that more than 90 days past due is an indicator of default. The Group therefore deems more than 90 days past due as an indicator of default except for cases where the customer is already within forbearance. This will ensure that the policy is aligned with the EU Capital Requirement Regulation definition of default.
- The Group has also deemed it appropriate to classify accounts where there has been a breach in agreed forbearance arrangements, recovery action is in hand or Bankruptcy proceedings 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 minimum period of six months and the improvement in the borrower's situation to the extent that the probability of default has receded sufficiently and a full repayment of the loan, without recourse to the collateral is likely.

Notes to the Consolidated Financial Statements

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

Expected life

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

3.5. Impairment of non-financial assets

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets, are assessed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Impairment for goodwill is discussed in more detail under note 25.

3.6. Fiduciary activities

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

3.7. New standards and interpretations not yet adopted

There are no standards, interpretations and amendments to existing standards that have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2020 or later periods, that will have any material impact on the Group's financial statements.

Notes to the Consolidated Financial Statements

4. Critical accounting estimates and judgements in applying accounting policies

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

4.1 Estimation uncertainty

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

The Group reviews its loan portfolios and debt security investments to assess impairment at least on a quarterly basis. The basis for evaluating impairment losses is described in note 10. The measurement of ECL required by the implementation of IFRS 9, from 1 January 2018, necessitates a number of significant judgements and estimation uncertainties relate to assessment of whether credit risk on the financial asset has increased significantly since initial recognition, incorporation of forward-looking information ("FLI") in the measurement of ECLs and key assumptions used in estimating recoverable cash flows. These estimates are driven by a number of factors that are subject to change which may result in different levels of ECL allowances.

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

12 month ECLs on loans and advances (loans within Stage 1) are calculated using a statistical model on a collective basis, grouped together by product and geographical location. The key assumptions are the probability of default, the economic scenarios and loss given default having consideration to collateral. Life time 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.

During the year, the ECL model and the assumptions were reviewed resulting in a revised basis for estimating LGD after taking account collateral values, this has resulted in a release of ECL provision of £1.3m in Stage 1 and an increase in ECL provision in Stage 3 of £0.2m.

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

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

If the collateral valuations increased by 10% across client exposures, this would lead to a positive £1.4m impact through Profit or Loss. If the collateral valuations decreased by 10% across all Stage 3 client exposures, this would lead to a £2.1m adverse impact on Profit or Loss.

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

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

Notes to the Consolidated Financial Statements

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

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

Other than collateral values/property prices, no other assumptions were assessed to have a material impact on ECL. The table below therefore reflects the expected changes in collateral/property prices in each of the macroeconomic scenarios and the probability weighting applied for each scenario:

Another of the key judgements concerns the probability of the economic scenarios to the measurement of the ECL. The probability weighting and forward-looking economic scenarios are as follows:

	Probability weighting		Change in property price		
	2019	2018	London	Rest of UK	Overseas
Economic Scenarios					
Severe Decline	1.0%	1.0%	-40.0%	-40.0%	-40.0%
Moderate Decline	3.0%	3.0%	-20.0%	-20.0%	-20.0%
Decline	50.0%	50.0%	-2.0%	-1.5%	-1.0%
No Change	26.0%	21.0%	0.0%	0.0%	0.0%
Growth	20.0%	25.0%	0.5%	0.5%	2.3%

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

Management assess a range of scenarios and in the current economic climate it is reasonably possible that the severe decline scenario could increase to 5%, the moderate decline scenario could increase to 20% probability and the decline scenario increase to 65% probability this would lead to a negative £1.4m impact through Profit or Loss.

Management have additionally 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:

- Severe decline (£30.4m)
- Moderate decline (£7.4m)
- Decline (-)
- No change £0.4m
- Growth £0.6m

(b) Effective Interest Rate

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

Notes to the Consolidated Financial Statements

Management must therefore use judgement to estimate the expected life of each instrument. The accuracy of the effective interest rate would therefore be affected by unexpected market movements resulting in altered customer behaviour, inaccuracies in the models used compared to actual outcomes and incorrect assumptions.

If customer loans repaid 6 months earlier than anticipated on the originated loan book, interest income would increase by £0.4m (2018: £0.8m), due to acceleration of fee income.

In 2019, the Group recognised £0.4m (2018: £0.9m) of additional interest income to reflect actual cash flows received on the acquired mortgage books being in excess of forecast cash flows.

The key judgements in relation to calculating the net present value of the acquired mortgage books relate to the timing of future cash flows and loss rates 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 2019 by £0.3m (2018: £0.3m) while a 10% increase in principal repayments will increase interest income in 2019 by £0.8m (2018: £0.3m) through a cash flow reset adjustment.

Notes to the Consolidated Financial Statements

(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 has had the effect of reducing the activity in the property market, which has in turn resulted in less market evidence being available for Management in making its judgement on the key assumptions of property yield and market rent. The Group currently owns one (2018: three) investment properties, as outlined in note 28.

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

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

Crescent Office Park, Bath (value at 2019: £6.76m; (2018: £6.76m))

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.

It was recognised as held for sale under IFRS 5 and therefore not consolidated in the financial statements in 2017. 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 2019 with the Group receiving rental income.

In accordance with IAS 40, the property is recognised at fair value, with its carrying value at year end of £6.8m equal to its fair value.

The valuation of the property has the following key considerations:

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

		Revised fair value gain / (loss)	
		£'m	%
Model Yield	6.50%		
- Yield 0.25% lower	6.25%	0.2	2.8%
- Yield 0.25% higher	6.75%	(0.1)	-1.6%
Model Future Rent Increases (Every 5 Years)	4.00%		
- Positive +25%	5.00%	0.1	0.8%
- Negative -25%	3.00%	-	0.2%

(d) Inventory

During 2019, two properties were reclassified from investment property to inventory due to being under development with the intention to sell. The properties are transferred at fair value and subsequently measured at the lower of cost and net realisable value (NRV) less costs to sell. Cost is deemed to be fair value on the date of transfer. The properties are valued at the reporting date to assess for impairment.

The 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. The uncertainty due to Brexit has had the effect of reducing the activity in the property market, which, has in turn resulted in less market evidence being available for Management in making its judgement on the key assumptions of property yield and market rent.

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

Notes to the Consolidated Financial Statements

King Street, London (value at 2019 £53.7m;

The King Street property's main lease ended in 2019 at which point a comprehensive refurbishment development was started on the office space. The valuation assessment considers the gross development value of the property less expected development costs. The gross development value is discounted using risk-adjusted discount rates. Among other factors, the discount rate estimation considers the quality of a building and its location, and potential lease terms. Management judgement is required for the inputs used in the gross development value assessment, which have been assessed as follows:

- yield: 3.67%
- future rent forecast (per square ft.) £95.40 (Office space £110.80 and Retail space £45.75)
- estimated refurbishment costs: £8.1m

	Variable	Revised fair value gain / (loss)	
		£'m	%
Forecast yield	3.67%		
- Yield 0.17% lower	3.50%	3.3	6.2%
- Yield 0.42% lower	3.25%	8.4	15.6%
- Yield 0.08% higher	3.75%	(1.0)	-1.9%
- Yield 0.33% higher	4.00%	(4.8)	-8.9%
Future forecast rent (Per Square Foot)	£95.4		
- Positive +5%	£100.2	3.5	6.5%
- Negative -5%	£90.6	(2.7)	-5.1%

4 St Philips Place, Birmingham value at 2018: £9.5m

The St Philips Place property was acquired on 24 November 2017. The property has recently completed a comprehensive refurbishment and was partially tenanted at the end of the financial year. A development appraisal has been undertaken by estimating the gross development value and deducting the estimated costs to complete the refurbishment.

The gross development has the following key considerations:

- forecast yield: 6.50%
- future rent forecast (per square ft.) £30.20
- refurbishment costs to completion: £nil

		Revised fair value gain / (loss)	
		£'m	%
Forecast yield	6.50%		
- Yield 0.25% lower	6.25%	0.5	4.9%
- Yield 0.25% higher	6.75%	(0.3)	-2.9%
Forecast net rental value (£ per square foot)	£30.20		
- Positive +5%	£31.71	0.6	6.4%
- Negative -5%	£28.69	(0.4)	-4.7%

Notes to the Consolidated Financial Statements

5. Maturity analysis of assets and liabilities

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

	Due within one year	Due after more than one year	Total
At 31 December 2019	£000	£000	£000
ASSETS			
Cash and balances at central banks	325,908	-	325,908
Loans and advances to banks	46,244	-	46,244
Debt securities at amortised cost	337,807	105,153	442,960
Assets classified as held for sale	7,617	-	7,617
Derivative financial instruments	105	1,699	1,804
Current tax asset	169	-	169
Loans and advances to customers	670,676	939,877	1,610,553
Other assets	86,141	181	86,322
Financial investments	3,204	1,803	5,007
Deferred tax asset	-	1,425	1,425
Intangible assets	7,037	16,773	23,810
Property, plant and equipment	1,433	4,196	5,629
Right of use assets	2,757	17,187	19,944
Investment property	-	6,763	6,763
	1,489,098	1,095,057	2,584,155
LIABILITIES			
Deposits from banks	5,421	225,000	230,421
Derivative financial instruments	101	218	319
Deposits from customers	1,900,620	211,577	2,112,197
Current tax liability	627	-	627
Other liabilities	11,881	-	11,881
Lease liabilities	63	20,368	20,431
Debt securities in issue	-	24,239	24,239
	1,918,713	481,402	2,400,115

Notes to the Consolidated Financial Statements

The table below shows the maturity analysis of assets and liabilities of the Group as at 31 December 2018:

	Due within one year £000	Due after more than one year £000	Total £000
At 31 December 2018			
ASSETS			
Cash and balances at central banks	405,325	-	405,325
Loans and advances to banks	54,160	-	54,160
Cash	203,211	139,480	342,691
Assets classified as held for sale	8,002	-	8,002
Derivative financial instruments	192	1,654	1,846
Loans and advances to customers	400,104	836,053	1,236,157
Other assets	8,209	4,459	12,668
Financial investments	14,976	1,062	16,038
Deferred tax asset	-	1,377	1,377
Intangible assets	-	20,264	20,264
Property, plant and equipment	-	5,096	5,096
Investment property	-	67,081	67,081
	1,094,179	1,076,526	2,170,705
LIABILITIES			
Deposits from banks	7,675	225,000	232,675
Derivative financial instruments	188	-	188
Deposits from customers	1,654,740	89,308	1,744,048
Current tax liability	288	-	288
Other liabilities	16,464	-	16,464
	1,679,355	314,308	1,993,663

Notes to the Consolidated Financial Statements

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

	Due within one year	Due after more than one year	Total
At 31 December 2019	£000	£000	£000
ASSETS			
Cash and balances at central banks	325,908	-	325,908
Loans and advances to banks	44,938	-	44,938
Debt securities at amortised cost	337,807	105,153	442,960
Assets classified as held for sale	7,617	-	7,617
Derivative financial instruments	105	1,699	1,804
Current tax asset	169	-	169
Loans and advances to customers	658,070	941,159	1,599,229
Other assets	87,184	181	87,365
Financial investments	3,204	1,803	5,007
Deferred tax asset	-	1,065	1,065
Investment in subsidiary	-	19,602	19,602
Intangible assets	7,037	11,254	18,291
Property, plant and equipment	1,433	4,162	5,595
Right of use assets	2,686	16,679	19,365
	1,476,158	1,102,757	2,578,915
LIABILITIES			
Deposits from banks	5,421	225,000	230,421
Derivative financial instruments	101	218	319
Deposits from customers	1,972,291	139,672	2,111,963
Other liabilities	10,610	-	10,610
Lease liabilities	-	19,826	19,826
Debt securities in issue	-	24,239	24,239
	1,988,423	408,955	2,397,378

Notes to the Consolidated Financial Statements

The table below shows the maturity analysis of assets and liabilities of the Company as at 31 December 2018:

	Due within one year £000	Due after more than one year £000	Total £000
At 31 December 2018			
ASSETS			
Cash and balances at central banks	405,325	-	405,325
Loans and advances to banks	53,353	-	53,353
Cash	203,211	139,480	342,691
Assets classified as held for sale	8,002	-	8,002
Derivative financial instruments	192	1,654	1,846
Loans and advances to customers	384,986	845,128	1,230,114
Other assets	7,634	4,459	12,093
Financial investments	14,976	1,062	16,038
Deferred tax asset	-	1,139	1,139
Investment in subsidiary	-	18,097	18,097
Intangible assets	-	14,759	14,759
Property, plant and equipment	-	5,057	5,057
Investment property	-	60,318	60,318
	1,077,679	1,091,153	2,168,832
LIABILITIES			
Deposits from banks	7,675	225,000	232,675
Derivative financial instruments	188	-	188
Deposits from customers	1,654,740	89,308	1,744,048
Other liabilities	16,623	-	16,623
	1,679,226	314,308	1,993,534

Notes to the Consolidated Financial Statements

6. Financial risk management

Strategy

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

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

(a) Credit risk

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

The 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 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.

Notes to the Consolidated Financial Statements

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:

- future economic scenarios
- probability of default
- loss given default
- exposure at default

The below tables represent the maximum credit risk exposure (net of impairment) to the Group and Company at 31 December 2019 and 2018 without taking account of any collateral held or other credit enhancements attached. For on-balance-sheet assets, the exposures are based on the net carrying amounts as reported in the Statement of Financial Position.

Group	2019							Total
	Private Banking	Commercial Banking	Mortgage Portfolios	RAF	ABL	ASFL	All Other Divisions	
Credit risk exposures (all stage 1, unless otherwise stated)	£000	£000	£000	£000	£000	£000	£000	£000
<u>On-balance sheet:</u>								
Cash and balances at central banks	-	-	-	-	-	-	325,800	325,800
Loans and advances to banks	-	-	-	-	-	-	46,244	46,244
Debt securities at amortised cost	-	-	-	-	-	-	442,960	442,960
Derivative financial instruments	-	-	-	-	-	-	1,804	1,804
Loans and advances to customers (net of ECL)	579,267	527,620	306,044	102,888	75,871	7,352	11,511	1,610,553
Stage 1	509,720	505,518	306,044	100,981	75,871	7,352	11,511	1,516,997
Stage 2	43,491	22,079	-	755	-	-	-	66,325
Stage 3	26,056	23	-	1,152	-	-	-	27,231
Other assets	-	-	-	-	-	-	4,617	4,617
Financial investments	-	-	-	-	-	-	5,007	5,007
<u>Off-balance sheet:</u>								
Guarantees	2,610	3,791	-	-	-	-	-	6,401
Loan commitments and other credit related liabilities	88,226	47,372	-	-	53,494	972	-	190,064
At 31 December	670,103	578,783	306,044	102,888	129,365	8,324	837,943	2,633,450

Notes to the Consolidated Financial Statements

Group	2018							Total
	Private Banking	Commercial Banking	Mortgage Portfolios	RAF	ABL	ASFL	All Other Divisions	
Credit risk exposures (all stage 1, unless otherwise stated)	£000	£000	£000	£000	£000	£000	£000	£000
<u>On-balance sheet:</u>								
Cash and balances at central banks	-	-	-	-	-	-	405,204	405,204
Loans and advances to banks	-	-	-	354	-	-	53,806	54,160
Debt securities at amortised cost	-	-	-	-	-	-	342,691	342,691
Derivative financial instruments	-	-	-	-	-	-	1,846	1,846
Loans and advances to customers (net of ECL)	605,918	443,108	64,546	85,957	25,128	-	11,500	1,236,157
Stage 1	553,941	431,630	64,546	84,275	25,128	-	11,500	1,171,020
Stage 2	20,033	11,478	-	1,180	-	-	-	32,691
Stage 3	31,944	-	-	502	-	-	-	32,446
Other assets	-	-	-	443	-	-	2,527	2,970
Financial investments	-	-	-	-	-	-	16,038	16,038
<u>Off-balance sheet:</u>								
Guarantees	435	1,309	-	-	-	-	-	1,744
Loan commitments and other credit related liabilities	51,950	15,930	-	-	-	-	18,122	86,002
At 31 December	658,303	460,347	64,546	86,754	25,128	-	851,734	2,146,812

Notes to the Consolidated Financial Statements

Company	2019							Total
	Private Banking	Commercial Banking	Mortgage Portfolios	RAF	ABL	ASFL	All Other Divisions	
Credit risk exposures (all stage 1, unless otherwise stated)	£000	£000	£000	£000	£000	£000	£000	£000
<u>On-balance sheet:</u>								
Cash and balances at central banks	-	-	-	-	-	-	325,800	325,800
Loans and advances to banks	-	-	-	-	-	-	44,938	44,938
Debt securities at amortised cost	-	-	-	-	-	-	442,960	442,960
Derivative financial instruments	-	-	-	-	-	-	1,804	1,804
Loans and advances to customers (net of ECL)	579,267	527,620	306,044	-	-	-	186,298	1,599,229
Stage 1	509,720	505,518	306,044	-	-	-	186,298	1,507,580
Stage 2	43,491	22,079	-	-	-	-	-	65,570
Stage 3	26,056	23	-	-	-	-	-	26,079
Other assets	-	-	-	-	-	-	10,227	10,227
Financial investments	-	-	-	-	-	-	5,007	5,007
<u>Off-balance sheet:</u>								
Guarantees	2,610	3,791	-	-	-	-	-	6,401
Loan commitments and other credit related liabilities	88,226	47,372	-	-	-	-	-	135,598
At 31 December	670,103	578,783	306,044	-	-	-	1,017,034	2,571,964

Company	2018							Total
	Private Banking	Commercial Banking	Mortgage Portfolios	RAF	ABL	ASFL	All Other Divisions	
Credit risk exposures (all stage 1, unless otherwise stated)	£000	£000	£000	£000	£000	£000	£000	£000
<u>On-balance sheet:</u>								
Cash and balances at central banks	-	-	-	-	-	-	405,204	405,204
Loans and advances to banks	-	-	-	-	-	-	54,160	54,160
Debt securities at amortised cost	-	-	-	-	-	-	342,691	342,691
Derivative financial instruments	-	-	-	-	-	-	1,846	1,846
Loans and advances to customers (net of ECL)	605,918	443,108	64,546	-	-	-	116,542	1,230,114
Stage 1	553,941	431,630	64,546	-	-	-	116,542	1,166,659
Stage 2	20,033	11,478	-	-	-	-	-	31,511
Stage 3	31,944	-	-	-	-	-	-	31,944
Other assets	-	-	-	-	-	-	2,493	2,493
Financial investments	-	-	-	-	-	-	16,038	16,038
Guarantees	435	1,309	-	-	-	-	-	1,744
Loan commitments and other credit related liabilities	51,950	15,930	-	-	-	-	-	67,880
At 31 December	658,303	460,347	64,546	-	-	-	938,974	2,122,170

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

Notes to the Consolidated Financial Statements

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

2019

Group & Company	Private Banking		Commercial Banking		Mortgage Portfolios		Total	
	Loan Balance	Collateral	Loan Balance	Collateral	Loan Balance	Collateral	Loan Balance	Collateral
	£000	£000	£000	£000	£000	£000	£000	£000
Less than 60%	294,018	678,051	300,510	634,912	93,454	318,010	687,982	1,630,973
Stage 1	266,706	620,496	299,642	631,792	93,454	318,010	659,802	1,570,298
Stage 2	17,785	35,150	868	3,120	-	-	18,653	38,270
Stage 3	9,527	22,405	-	-	-	-	9,527	22,405
60%-80%	197,907	302,202	204,798	320,687	46,333	67,372	449,038	690,261
Stage 1	178,117	273,038	194,442	304,127	46,333	67,372	418,892	644,537
Stage 2	18,132	26,565	10,356	16,560	-	-	28,488	43,125
Stage 3	1,658	2,599	-	-	-	-	1,658	2,599
80%-100%	32,209	36,435	6,299	6,670	56,967	66,421	95,475	109,526
Stage 1	20,670	23,340	4,871	4,920	56,967	66,421	82,508	94,681
Stage 2	8,434	9,800	1,428	1,750	-	-	9,862	11,550
Stage 3	3,105	3,295	-	-	-	-	3,105	3,295
Greater than 100%*	25,150	12,512	1,250	740	108,276	69,235	134,676	82,487
Stage 1	5,133	2,410	1,250	740	108,276	69,235	114,659	72,385
Stage 2	4,775	2,000	-	-	-	-	4,775	2,000
Stage 3	15,242	8,102	-	-	-	-	15,242	8,102
Total	549,284	1,029,200	512,857	963,009	305,030	521,038	1,367,171	2,513,247

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

Notes to the Consolidated Financial Statements

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

Group & Company	2018							
	Private Banking		Commercial Banking		Mortgage Portfolios		Total	
	Loan Balance £000	Collateral £000	Loan Balance £000	Collateral £000	Loan Balance £000	Collateral £000	Loan Balance £000	Collateral £000
Less than 60%	300,807	632,854	249,446	559,271	11,671	65,767	561,924	1,257,892
Stage 1	286,003	593,883	238,071	532,671	11,671	65,767	535,745	1,192,321
Stage 2	8,701	25,830	11,375	26,600	-	-	20,076	52,430
Stage 3	6,103	13,141	-	-	-	-	6,103	13,141
60%-80%	204,689	281,487	165,954	259,917	20,093	27,842	390,736	569,246
Stage 1	191,644	261,152	165,954	259,917	20,093	27,842	377,691	548,911
Stage 2	9,458	14,535	-	-	-	-	9,458	14,535
Stage 3	3,587	5,800	-	-	-	-	3,587	5,800
80%-100%	31,397	48,119	6,540	9,400	33,252	38,029	71,189	95,548
Stage 1	19,716	35,540	6,540	9,400	33,252	38,029	59,508	82,969
Stage 2	531	550	-	-	-	-	531	550
Stage 3	11,150	12,029	-	-	-	-	11,150	12,029
Greater than 100%*	25,124	24,222	8,918	7,614	3,404	2,825	37,446	34,661
Stage 1	13,250	15,607	8,918	7,614	3,404	2,825	25,572	26,046
Stage 3	11,874	8,615	-	-	-	-	11,874	8,615
Total	562,017	986,682	430,858	836,202	68,420	134,463	1,061,295	1,957,347

*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.

Notes to the Consolidated Financial Statements

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

Group	2019					
	Private Banking		Commercial Banking		Total	
	Loan Balance	Collateral	Loan Balance	Collateral	Loan Balance	Collateral
	£000	£000	£000	£000	£000	£000
Less than 60%	63,934	185,639	19,583	193,616	83,517	379,255
60%-80%	7,821	12,143	3,808	5,810	11,629	17,953
80%-100%	1,587	1,623	-	-	1,587	1,623
Greater than 100%	282	235	676	592	958	827
Total	73,624	199,640	24,067	200,018	97,691	399,658

Group	2018					
	Private Banking		Commercial Banking		Total	
	Loan Balance	Collateral	Loan Balance	Collateral	Loan Balance	Collateral
	£000	£000	£000	£000	£000	£000
Less than 60%	30,289	83,603	14,880	32,097	45,169	115,700
60%-80%	15,467	23,295	1,050	1,615	16,517	24,910
Total	45,756	106,898	15,930	33,712	61,686	140,610

Renegotiated loans and forbearance

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

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

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

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

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

Notes to the Consolidated Financial Statements

Generally, forbearance is a qualitative indicator of a SICR (see note 3.4).

As at 31 December 2019, loans for which forbearance measures were in place totalled 3.04% (2018: 2.20%) of total value of loans to customers for the Group.

These are set out in the following tables:

Group	2019		2018	
	Number	Loan Balance £000	Number	Loan Balance £000
Transfer to interest only	-	-	1	175
Assistance with property sale	4	231	-	-
Move historic arrears to capital	1	1,719	-	-
Covenant waived	6	7,473	-	-
Term extension	18	32,780	17	25,814
Payment holiday	32	6,795	16	1,189
Total forbearance	61	48,998	34	27,178

Company	2019		2018	
	Number	Loan Balance £000	Number	Loan Balance £000
Transfer to interest only	-	-	1	175
Assistance with property sale	4	231	-	-
Move historic arrears to capital	1	1,719	-	-
Covenant waived	6	7,473	-	-
Term extension	18	32,780	17	25,814
Payment holiday	5	4,833	6	597
Total forbearance	34	47,036	24	26,586

Notes to the Consolidated Financial Statements

Concentration risk

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

Group	Loans and advances to customers		Loan Commitments	
	2019	2018	2019	2018
	£000	£000	£000	£000
Concentration by collateral type				
Asset Based Lending	75,871	25,128	53,494	18,122
Asset finance	103,193	85,958	972	-
Cash collateralised	23,026	16,880	1,781	-
Commercial lending	269,590	248,042	3,941	4,806
Investment portfolio secured	40,127	45,182	2,984	3,136
Residential mortgages	1,035,395	713,095	93,749	54,346
Mixed collateral*	45,432	91,167	17,282	4,867
Unsecured	17,919	10,705	15,861	725
At 31 December	1,610,553	1,236,157	190,064	86,002

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

Concentration by location				
East Anglia	39,997	32,960	10	294
London	565,683	467,068	77,960	28,096
Midlands	108,635	69,686	4,392	3,538
North East	53,294	18,448	641	1,050
North West	111,500	59,045	1,826	1,275
Northern Ireland	9,061	2,813	-	-
Scotland	28,197	10,793	1,064	-
South East	224,915	219,890	7,188	15,522
South West	169,343	140,560	4,513	9,201
Wales	18,493	7,521	98	426
Overseas	11,150	30,486	-	1,400
Non-property collateral	270,285	176,887	92,372	25,200
At 31 December	1,610,553	1,236,157	190,064	86,002

Notes to the Consolidated Financial Statements

Company	Loans and advances to customers		Loan Commitments	
	2019	2018	2019	2018
	£000	£000	£000	£000
Concentration by collateral type				
Asset Based lending	71,905	24,412	-	-
Asset Finance	95,835	80,631	-	-
Cash collateralised	23,026	16,880	1,781	-
Commercial Lending	269,590	248,042	3,941	4,806
Investment portfolio secured	40,127	45,182	2,984	3,136
Mixed Collateral*	45,432	91,167	17,282	4,867
Residential mortgages	1,035,395	713,095	93,749	54,346
Unsecured	17,919	10,705	15,861	725
At 31 December	1,599,229	1,230,114	135,598	67,880

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

Concentration by location				
East Anglia	39,997	32,960	10	294
London	565,683	467,068	77,960	28,096
Midlands	108,635	69,686	4,392	3,538
North East	53,294	18,448	641	1,050
North West	111,500	59,045	1,826	1,275
Northern Ireland	9,061	2,813	-	-
Scotland	28,197	10,793	1,064	-
South East	224,915	219,890	7,188	15,522
South West	169,343	140,560	4,513	9,201
Wales	18,493	7,521	98	426
Overseas	11,150	30,486	-	1,400
Non-property collateral	258,961	170,844	37,906	7,078
At 31 December	1,599,229	1,230,114	135,598	67,880

(b) Operational risk (unaudited)

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

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

Compliance with Group standards is supported by a programme of periodic reviews undertaken by Internal Audit.

The results of the Internal Audit reviews are discussed with senior management, with summaries submitted to the Arbuthnot Latham Audit Committee.

Cyber risk

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

Notes to the Consolidated Financial Statements

Conduct risk

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

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

(c) Market risk

Price risk

The Company and Group are exposed to price risk from equity investments and derivatives held by the Group and classified in the Consolidated Statement of Financial Position either as fair value through other comprehensive income or at fair value through the profit and loss. The Group is not exposed to commodity price risk.

Based upon the financial investment exposure in Note 23, a severe decline of 10% (2018: 10%) in market prices, would result in a £16k (2018: £17k) decrease in the Company and Group's income and a decrease of £500k (2018: £1.6m) in the Company and Group's equity. The Group considers a 10% decline scenario appropriate after taking the current values and historic data into account.

Currency risk

The Group and Company take on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. This is managed through the Group entering into forward foreign exchange contracts. The Board sets limits on the level of exposure for both overnight and intra-day positions, which are monitored daily. The table below summarises the Group's exposure to foreign currency exchange rate risk at 31 December 2019. Included in the table below are the Group's assets and liabilities at carrying amounts, categorised by currency.

	GBP (£)	USD (\$)	Euro (€)	Other	Total
At 31 December 2019	£000	£000	£000	£000	£000
ASSETS					
Cash and balances at central banks	325,844	20	41	3	325,908
Loans and advances to banks	5,350	10,028	18,892	11,974	46,244
Debt securities at amortised cost	336,079	106,881	-	-	442,960
Derivative financial instruments	1,713	1	3	87	1,804
Loans and advances to customers	1,587,938	7,957	14,672	(14)	1,610,553
Other assets	4,618	-	-	-	4,618
Financial investments	3,201	1,637	169	-	5,007
	2,264,743	126,524	33,777	12,050	2,437,094
LIABILITIES					
Deposits from banks	230,421	-	-	-	230,421
Derivative financial instruments	233	-	2	84	319
Deposits from customers	1,925,151	126,220	49,049	11,777	2,112,197
Other liabilities	2,504	-	-	-	2,504
Debt securities in issue	24,239	-	-	-	24,239
	2,182,548	126,220	49,051	11,861	2,369,680
Net on-balance sheet position	82,194	304	(15,274)	189	67,414
Credit commitments	190,064	-	-	-	190,064

Notes to the Consolidated Financial Statements

The table below summarises the Group's exposure to foreign currency exchange risk at 31 December 2018:

At 31 December 2018	GBP (£) £000	USD (\$) £000	Euro (€) £000	Other £000	Total £000
ASSETS					
Cash and balances at central banks	405,244	30	47	4	405,325
Loans and advances to banks	8,843	13,794	19,714	11,809	54,160
Debt securities held-to-maturity	243,680	99,011	-	-	342,691
Derivative financial instruments	1,655	4	3	184	1,846
Loans and advances to customers	1,194,229	16,122	25,806	-	1,236,157
Other assets	2,855	-	115	-	2,970
Financial investments	14,906	954	178	-	16,038
	1,871,412	129,915	45,863	11,997	2,059,187
LIABILITIES					
Deposits from banks	232,675	-	-	-	232,675
Derivative financial instruments	3	4	1	180	188
Deposits from customers	1,556,385	130,061	46,068	11,534	1,744,048
Other liabilities	1,527	-	-	-	1,527
	1,790,590	130,065	46,069	11,714	1,978,438
Net on-balance sheet position	80,822	(150)	(206)	283	80,749
Credit commitments	67,880	-	-	-	67,880

Notes to the Consolidated Financial Statements

Derivative financial instruments (see note 19) are in place to mitigate foreign currency risk on net exposures for each currency. A 10% strengthening of the pound against the US dollar would lead to a £30k decrease (2018: a £8k increase) in the Group's profits, while a 10% weakening of the pound against the US dollar would lead to the same increase in the Bank's profits. Additionally, the Group holds £7.6m of properties as held for sale, while £7.8m has been classified as inventory. These properties are located in the EU and relate to Euro denominated loans where the properties were repossessed and are either held for sale or are being developed with a view to sell. Including these Euro assets, the net Euro exposure is positive £127k for the Group.

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

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

Notes to the Consolidated Financial Statements

The table below summarises the Company's exposure to foreign currency exchange risk at 31 December 2018:

	GBP (£)	USD (\$)	Euro (€)	Other	Total
At 31 December 2018	£000	£000	£000	£000	£000
ASSETS					
Cash and balances at central banks	405,244	30	47	4	405,325
Loans and advances to banks	8,036	13,794	19,714	11,809	53,353
Debt securities held-to-maturity	243,680	99,011	-	-	342,691
Derivative financial instruments	1,655	4	3	184	1,846
Loans and advances to customers	1,188,598	15,848	25,668	-	1,230,114
Other assets	2,378	-	115	-	2,493
Financial investments	14,906	954	178	-	16,038
	1,864,497	129,641	45,725	11,997	2,051,860
LIABILITIES					
Deposits from banks	232,675	-	-	-	232,675
Derivative financial instruments	3	4	1	180	188
Deposits from customers	1,556,872	129,717	45,925	11,534	1,744,048
Other liabilities	2,370	-	-	-	2,370
	1,791,920	129,721	45,926	11,714	1,979,281
Net on-balance sheet position	72,577	(80)	(201)	283	72,579
Credit commitments	67,880	-	-	-	67,880

Notes to the Consolidated Financial Statements

Interest rate risk

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

Interest rate risk is measured throughout the maturity bandings of the book on a parallel shift scenario for a 200 basis points movement. Interest rate risk is managed to limit value at risk to be less than £1.5m. The current position of the balance sheet is such that it results in a favourable impact on the economic value of equity of £3.1m (2018: £1.4m) for a positive 200bps shift and an adverse impact of £1.2m (2018: £0.5m) for a negative 200bps movement capped at the Bank of England base rate (75bps).

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

Group	Within 3 months	More than 3 months but less than 6 months	More than 6 months but less than 1 year	More than 1 year but less than 5 years	More than 5 years	Non interest bearing	Total
As at 31 December 2019	£000	£000	£000	£000	£000	£000	£000
ASSETS							
Cash and balances at central banks	325,908	-	-	-	-	-	325,908
Loans and advances to banks	45,822	188	234	-	-	-	46,244
Debt securities at amortised cost	287,608	151,555	3,797	-	-	-	442,960
Derivative financial instruments	105	-	-	1,699	-	-	1,804
Loans and advances to customers	1,363,049	11,101	25,963	209,811	629	-	1,610,553
Other assets*	-	-	-	-	-	158,046	158,046
Financial investments	-	-	-	-	-	5,007	5,007
	2,022,492	162,844	29,994	211,510	629	163,053	2,590,522
LIABILITIES							
Deposits from banks	230,421	-	-	-	-	-	230,421
Derivative financial instruments	319	-	-	-	-	-	319
Deposits from customers	1,431,022	233,716	211,956	235,503	-	-	2,112,197
Other liabilities**	-	-	-	-	-	19,478	19,478
Debt securities in issue	-	-	-	-	24,239	-	24,239
Equity	-	-	-	-	-	203,868	203,868
	1,661,762	233,716	211,956	235,503	24,239	223,346	2,590,522
Impact of derivative instruments	25,530	-	-	(25,530)	-	-	-
Interest rate sensitivity gap	386,260	(70,872)	(181,962)	(49,523)	(23,610)	(60,293)	
Cumulative gap	386,260	315,388	133,426	83,903	60,293	-	

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

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

Notes to the Consolidated Financial Statements

Group	Within 3 months	More than 3 months but less than 6 months	More than 6 months but less than 1 year	More than 1 year but less than 5 years	More than 5 years	Non interest bearing	Total
As at 31 December 2018	£000	£000	£000	£000	£000	£000	£000
ASSETS							
Cash and balances at central banks	405,325	-	-	-	-	-	405,325
Loans and advances to banks	54,102	-	58	-	-	-	54,160
Debt securities held-to-maturity	269,026	27,846	41,896	3,923	-	-	342,691
Derivative financial instruments	304	-	-	1,542	-	-	1,846
Loans and advances to customers	1,043,252	5,881	17,115	169,703	206	-	1,236,157
Other assets*	-	-	-	-	-	114,488	114,488
Financial investments	-	-	-	-	-	16,038	16,038
	1,772,009	33,727	59,069	175,168	206	130,526	2,170,705
LIABILITIES							
Deposits from banks	232,675	-	-	-	-	-	232,675
Derivative financial instruments	188	-	-	-	-	-	188
Deposits from customers	1,285,250	197,785	95,868	165,145	-	-	1,744,048
Other liabilities**	-	-	-	-	-	16,752	16,752
Equity	-	-	-	-	-	177,042	177,042
	1,518,113	197,785	95,868	165,145	-	193,794	2,170,705
Impact of derivative instruments	25,762	-	-	(25,762)	-	-	-
Interest rate sensitivity gap	279,658	(164,058)	(36,799)	(15,739)	206	(63,268)	-
Cumulative gap	279,658	115,600	78,801	63,062	63,268	-	-

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

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

Notes to the Consolidated Financial Statements

Company	Within 3 months	More than 3 months but less than 6 months	More than 6 months but less than 1 year	More than 1 year but less than 5 years	More than 5 years	Non interest bearing	Total
As at 31 December 2019	£000	£000	£000	£000	£000	£000	£000
ASSETS							
Cash and balances at central banks	325,908	-	-	-	-	-	325,908
Loans and advances to banks	44,516	188	234	-	-	-	44,938
Debt securities at amortised cost	287,608	151,555	3,797	-	-	-	442,960
Derivative financial instruments	105	-	-	1,699	-	-	1,804
Loans and advances to customers	1,453,305	1,676	5,640	138,608	-	-	1,599,229
Other assets*	-	-	-	-	-	159,069	159,069
Financial investments	-	-	-	-	-	5,007	5,007
	2,111,442	153,419	9,671	140,307	-	164,076	2,578,915
LIABILITIES							
Deposits from banks	230,421	-	-	-	-	-	230,421
Derivative financial instruments	319	-	-	-	-	-	319
Deposits from customers	1,526,619	233,716	211,956	139,672	-	-	2,111,963
Other liabilities**	-	-	-	-	-	10,610	10,610
Debt securities in issue	-	-	-	-	24,239	-	24,239
Equity	-	-	-	-	-	201,363	201,363
	1,757,359	233,716	211,956	139,672	24,239	211,973	2,578,915
Impact of derivative instruments	25,530	-	-	(25,530)	-	-	-
Interest rate sensitivity gap	379,613	(80,297)	(202,285)	(24,895)	(24,239)	(47,897)	
Cumulative gap	379,613	299,316	97,031	72,136	47,897	-	

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

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

Notes to the Consolidated Financial Statements

Company	Within 3 months	More than 3 months but less than 6 months	More than 6 months but less than 1 year	More than 1 year but less than 5 years	More than 5 years	Non interest bearing	Total
As at 31 December 2018	£000	£000	£000	£000	£000	£000	£000
ASSETS							
Cash and balances at central banks	405,325	-	-	-	-	-	405,325
Loans and advances to banks	53,295	-	58	-	-	-	53,353
Debt securities held-to-maturity	269,026	27,846	41,896	3,923	-	-	342,691
Derivative financial instruments	304	-	-	1,542	-	-	1,846
Loans and advances to customers	1,115,035	-	471	114,608	-	-	1,230,114
Other assets	-	-	-	-	-	119,465	119,465
Financial investments	-	-	-	-	-	16,038	16,038
	1,842,985	27,846	42,425	120,073	-	135,503	2,168,832
LIABILITIES							
Deposits from banks	232,675	-	-	-	-	-	232,675
Derivative financial instruments	188	-	-	-	-	-	188
Deposits from customers	1,361,801	197,785	95,868	88,594	-	-	1,744,048
Other liabilities**	-	-	-	-	-	16,623	16,623
Equity	-	-	-	-	-	175,298	175,298
	1,594,664	197,785	95,868	88,594	-	191,921	2,168,832
Impact of derivative instruments	25,762	-	-	(25,762)	-	-	-
Interest rate sensitivity gap	274,083	(169,939)	(53,443)	5,717	-	(56,418)	
Cumulative gap	274,083	104,144	50,701	56,418	56,418	-	

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

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

Notes to the Consolidated Financial Statements

(d) Liquidity risk

Liquidity risk is the risk that the Group, although solvent, either does not have sufficient financial resources to enable it to meet its obligations as they fall due, or can only secure such resources at excessive cost.

The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal conditions and in the event of a severe economic decline, without incurring unacceptable losses or risking damage to the Group's reputation. The liquidity requirements of the Group are met through withdrawing funds from its Bank of England reserve account to cover any short-term fluctuations and longer term funding to address any structural liquidity requirements.

The Group has formal governance structures in place to manage and mitigate liquidity risk on a day to day basis. The Board sets and approves the liquidity risk management strategy. The Assets and Liabilities Committee ("ALCO"), comprising senior executives of the Group, monitors liquidity risk. Key liquidity risk management information is reported by the finance teams and monitored by the Chief Executive Officer, Finance Director and Deputy CEO on a daily basis. The ALCO meets monthly to review liquidity risk against set thresholds and risk indicators including early warning indicators, liquidity risk tolerance levels and Internal Liquidity Adequacy Assessment Process ("ILAAP") metrics.

The PRA requires the Board to ensure that the Group has adequate levels of liquidity resources and a prudent funding profile and that it comprehensively manages and controls liquidity and funding risks. The Group maintains deposits placed at the Bank of England, and highly liquid unencumbered assets that can be called upon to create sufficient liquidity to meet liabilities on demand.

The Group has a Board approved ILAAP, and maintains liquidity buffers in excess of the minimum requirements. The ILAAP is embedded in the risk management framework of the Group and is subject to ongoing updates and revisions when necessary. At a minimum, the ILAAP is updated annually. The Liquidity Coverage Ratio ("LCR") regime has applied to the Group from 1 October 2015, requiring management of net 30 day cash outflows as a proportion of high quality liquid assets. The actual LCR of 269% (2018: 282%) has significantly exceeded the regulatory minimum of 100% throughout the year.

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

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

Notes to the Consolidated Financial Statements

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

	Carrying amount £000	Gross nominal inflow/ (outflow) £000	Not more than 3 months £000	More than 3 months but less than 1 year £000	More than 1 year but less than 5 years £000	More than 5 years £000
At 31 December 2019						
Financial liability by type						
Non-derivative liabilities						
Deposits from banks	230,421	(230,421)	(230,421)	-	-	-
Deposits from customers	2,112,197	(2,132,970)	(1,270,626)	(550,128)	(312,216)	-
Other liabilities	2,504	(2,504)	(2,504)	-	-	-
Debt securities in issue	24,239	(25,375)	-	-	-	(25,375)
Issued financial guarantee contracts	-	(6,401)	(6,401)	-	-	-
Unrecognised loan commitments	-	(190,064)	(190,064)	-	-	-
	2,369,361	(2,587,735)	(1,700,016)	(550,128)	(312,216)	(25,375)
Derivative liabilities						
Risk management:	319					
- Outflows		(319)	(319)	-	-	-
	319	(319)	(319)	-	-	-
At 31 December 2019						
Financial asset by type						
Non-derivative assets						
Cash and balances at central banks	325,908	325,908	325,908	-	-	-
Loans and advances to banks	46,244	46,256	45,830	426	-	-
Debt securities at amortised cost	442,960	447,424	141,897	197,811	107,716	-
Loans and advances to customers	1,610,553	1,775,991	348,715	168,224	1,117,246	141,807
Other assets	4,617	4,617	4,617	-	-	-
Financial investments	5,007	5,007	5,007	-	-	-
	2,435,289	2,605,203	871,974	366,461	1,224,962	141,807
Derivative assets						
Risk management:	1,804					
- Inflows		1,804	-	-	-	1,804
	1,804	1,804	-	-	-	1,804

Notes to the Consolidated Financial Statements

The tables below show the undiscounted contractual cash flows of the Group's financial liabilities and assets as at 31 December 2018:

	Carrying amount	Gross nominal 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 2018	£000	£000	£000	£000	£000	£000
Financial liability by type						
Non-derivative liabilities						
Deposits from banks	232,675	(232,675)	(232,675)	-	-	-
Deposits from customers	1,744,048	(1,749,362)	(1,303,952)	(355,512)	(89,898)	-
Other liabilities	1,527	(1,527)	(1,527)	-	-	-
Issued financial guarantee contracts	-	(1,744)	(1,744)	-	-	-
Unrecognised loan commitments	-	(86,002)	(86,002)	-	-	-
	1,978,250	(2,071,310)	(1,625,900)	(355,512)	(89,898)	-
Derivative liabilities						
Risk management:	188					
- Outflows		(188)	(188)	-	-	-
	188	(188)	(188)	-	-	-

	Carrying amount	Gross nominal 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 2018	£000	£000	£000	£000	£000	£000
Financial asset by type						
Non-derivative assets						
Cash and balances at central banks	405,325	405,325	405,325	-	-	-
Loans and advances to banks	54,160	54,160	54,102	58	-	-
Debt securities held-to-maturity	342,691	346,694	129,604	101,449	115,641	-
Loans and advances to customers	1,236,157	1,394,358	58,147	173,077	1,038,465	124,669
Other assets	2,970	2,970	2,970	-	-	-
Financial investments	16,038	16,038	16,038	-	-	-
	2,057,341	2,219,545	666,186	274,584	1,154,106	124,669
Derivative assets						
Risk management:	1,846					
- Inflows		1,846	-	-	-	1,846
	1,846	1,846	-	-	-	1,846

Notes to the Consolidated Financial Statements

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

	Carrying amount	Gross nominal inflow/ (outflow)	Not more than 3 months	More than 3 months but less than 1 year	More than 1 year but less than 5 years	More than 5 years
	£000	£000	£000	£000	£000	£000
At 31 December 2019						
Financial liability by type						
Non-derivative liabilities						
Deposits from banks	230,421	(230,421)	(230,421)	-	-	-
Deposits from customers	2,111,963	(2,132,736)	(1,438,128)	(550,128)	(144,480)	-
Other liabilities	1,977	(1,977)	(1,977)	-	-	-
Debt securities in issue	24,239	(25,375)	-	-	-	(25,375)
Issued financial guarantee contracts	-	(6,401)	(6,401)	-	-	-
Unrecognised loan commitments	-	(135,598)	(135,598)	-	-	-
	2,368,600	(2,532,508)	(1,812,525)	(550,128)	(144,480)	(25,375)
Derivative liabilities						
Risk management:	319					
- Outflows		(319)	(319)	-	-	-
	319	(319)	(319)	-	-	-
	Carrying amount	Gross nominal inflow/ (outflow)	Not more than 3 months	More than 3 months but less than 1 year	More than 1 year but less than 5 years	More than 5 years
	£000	£000	£000	£000	£000	£000
At 31 December 2019						
Financial asset by type						
Non-derivative assets						
Cash and balances at central banks	325,908	325,908	325,908	-	-	-
Loans and advances to banks	44,938	44,950	44,524	426	-	-
Debt securities at amortised cost	442,960	447,424	141,897	197,811	107,716	-
Loans and advances to customers	1,599,229	1,746,441	456,028	128,087	1,023,188	139,138
Other assets	10,227	10,227	10,227	-	-	-
Financial investments	5,007	5,007	5,007	-	-	-
	2,428,269	2,579,957	983,591	326,324	1,130,904	139,138
Derivative assets						
Risk management:	1,804					
- Inflows		1,804	-	-	-	1,804
	1,804	1,804	-	-	-	1,804

Notes to the Consolidated Financial Statements

The tables below show the undiscounted contractual cash flows of the Company's financial liabilities and assets as at 31 December 2018:

	Carrying amount	Gross nominal inflow/ (outflow)	Not more than 3 months	More than 3 months but less than 1 year	More than 1 year but less than 5 years	More than 5 years
	£000	£000	£000	£000	£000	£000
At 31 December 2018						
Financial liability by type						
Non-derivative liabilities						
Deposits from banks	232,675	(232,675)	(232,675)	-	-	-
Deposits from customers	1,744,048	(1,749,362)	(1,303,952)	(355,512)	(89,898)	-
Other liabilities	2,370	(2,370)	(2,370)	-	-	-
Issued financial guarantee contracts	-	(1,744)	(1,744)	-	-	-
Unrecognised loan commitments	-	(67,880)	(67,880)	-	-	-
	1,979,093	(2,054,031)	(1,608,621)	(355,512)	(89,898)	-
Derivative liabilities						
Risk management:	188					
- Outflows		(188)	(188)	-	-	-
	188	(188)	(188)	-	-	-
	Carrying amount	Gross nominal inflow/ (outflow)	Not more than 3 months	More than 3 months but less than 1 year	More than 1 year but less than 5 years	More than 5 years
	£000	£000	£000	£000	£000	£000
At 31 December 2018						
Financial asset by type						
Non-derivative assets						
Cash and balances at central banks	405,325	405,325	405,325	-	-	-
Loans and advances to banks	53,353	53,353	53,295	58	-	-
Debt securities held-to-maturity	342,691	346,694	129,604	101,449	115,641	-
Loans and advances to customers	1,230,114	1,387,185	143,094	147,148	972,480	124,463
Other assets	2,493	2,493	2,493	-	-	-
Financial investments	16,038	16,038	16,038	-	-	-
	2,050,014	2,211,088	749,849	248,655	1,088,121	124,463
Derivative assets						
Risk management:	1,846					
- Inflows		1,846	-	-	-	1,846
	1,846	1,846	-	-	-	1,846

Notes to the Consolidated Financial Statements

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

	31 December 2019		31 December 2018	
	Amount	Fair value	Amount	Fair value
	£000	£000	£000	£000
Liquidity reserves				
Cash and balances at central banks	325,908	325,908	405,325	405,325
Loans and advances to banks	46,244	46,244	54,160	54,160
Debt securities at amortised cost	442,960	442,926	342,691	344,001
	815,112	815,078	802,176	803,486

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

	31 December 2019		31 December 2018	
	Amount	Fair value	Amount	Fair value
	£000	£000	£000	£000
Liquidity reserves				
Cash and balances at central banks	325,908	325,908	405,325	405,325
Loans and advances to banks	44,938	44,938	53,353	53,353
Debt securities at amortised cost	442,960	442,926	342,691	344,001
	813,806	813,772	801,369	802,679

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 2019 were £259m (2018: £308.9m). Assets are encumbered due to the Term Funding Scheme (note 29).

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

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

Fiduciary activities

The Group provides investment management and advisory services to third parties, which involve the Group making allocation and purchase and sale decisions in relation to a wide range of financial instruments. Assets under management that are held in a fiduciary capacity are not included in these financial statements. These services give rise to the risk that the Group may be accused of maladministration or underperformance. At the balance sheet date, the Group had investment management accounts amounting to approximately £1,107m (2018: £985m). Additionally, the Group provides investment advisory services.

Notes to the Consolidated Financial Statements

(e) Financial assets and liabilities

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

	Fair value through profit or loss	Fair value through other comprehensive income	Amortised cost	Total carrying amount	Fair value
	£000	£000	£000	£000	£000
At 31 December 2019					
ASSETS					
Cash and balances at central banks	-	-	325,908	325,908	325,908
Loans and advances to banks	-	-	46,244	46,244	46,244
Debt securities at amortised cost	-	-	442,960	442,960	442,926
Derivative financial instruments	1,804	-	-	1,804	1,804
Loans and advances to customers	-	-	1,610,553	1,610,553	1,578,215
Other assets	-	-	4,618	4,618	4,618
Financial investments	165	4,842	-	5,007	5,007
	1,969	4,842	2,430,283	2,437,094	2,404,722

LIABILITIES					
Deposits from banks	-	-	230,421	230,421	230,421
Derivative financial instruments	319	-	-	319	319
Deposits from customers	-	-	2,112,197	2,112,197	2,112,197
Other liabilities	-	2,504	-	2,504	2,504
Debt securities in issue	-	-	24,239	24,239	24,239
	319	2,504	2,366,857	2,369,680	2,369,680

	Fair value through profit or loss	Fair value through other comprehensive income	Amortised cost	Total carrying amount	Fair value
	£000	£000	£000	£000	£000
At 31 December 2018					
ASSETS					
Cash and balances at central banks	-	-	405,325	405,325	405,325
Loans and advances to banks	-	-	54,160	54,160	54,160
Debt securities held-to-maturity	-	-	342,691	342,691	344,001
Derivative financial instruments	1,846	-	-	1,846	1,846
Loans and advances to customers	-	-	1,236,157	1,236,157	1,198,909
Other assets	-	-	2,970	2,970	2,970
Financial investments	165	15,873	-	16,038	16,038
	2,011	15,873	2,041,303	2,059,187	2,023,249

LIABILITIES					
Deposits from banks	-	-	232,675	232,675	232,675
Derivative financial instruments	188	-	-	188	188
Deposits from customers	-	-	1,744,048	1,744,048	1,744,048
Other liabilities	-	1,527	-	1,527	1,527
	188	1,527	1,976,723	1,978,438	1,978,438

Notes to the Consolidated Financial Statements

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

	Fair value through profit or loss	Fair value through other comprehensive income	Amortised cost	Total carrying amount	Fair value
At 31 December 2019	£000	£000	£000	£000	£000
ASSETS					
Cash and balances at central banks	-	-	325,908	325,908	325,908
Loans and advances to banks	-	-	44,938	44,938	44,938
Debt securities at amortised cost	-	-	442,960	442,960	442,926
Derivative financial instruments	1,804	-	-	1,804	1,804
Loans and advances to customers	-	-	1,599,229	1,599,229	1,566,891
Other assets	-	-	10,227	10,227	10,227
Financial investments	165	4,842	-	5,007	5,007
	1,969	4,842	2,423,262	2,430,073	2,397,701
LIABILITIES					
Deposits from banks	-	-	230,421	230,421	230,421
Derivative financial instruments	319	-	-	319	319
Deposits from customers	-	-	2,111,963	2,111,963	2,111,963
Other liabilities	-	-	1,977	1,977	1,977
Debt securities in issue	-	-	24,239	24,239	24,239
	319	-	2,368,600	2,368,919	2,368,919
	Fair value through profit or loss	Fair value through other comprehensive income	Amortised cost	Total carrying amount	Fair value
At 31 December 2018	£000	£000	£000	£000	£000
ASSETS					
Cash and balances at central banks	-	-	405,325	405,325	405,325
Loans and advances to banks	-	-	53,353	53,353	53,353
Debt securities held-to-maturity	-	-	342,691	342,691	344,001
Derivative financial instruments	1,846	-	-	1,846	1,846
Loans and advances to customers	-	-	1,230,114	1,230,114	1,192,866
Other assets	-	-	2,493	2,493	2,493
Financial investments	165	15,873	-	16,038	16,038
	2,011	15,873	2,033,976	2,051,860	2,015,922
LIABILITIES					
Deposits from banks	-	-	232,675	232,675	232,675
Derivative financial instruments	188	-	-	188	188
Deposits from customers	-	-	1,744,048	1,744,048	1,744,048
Other liabilities	-	-	2,370	2,370	2,370
	188	-	1,979,093	1,979,281	1,979,281

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

Notes to the Consolidated Financial Statements

Fair value

Valuation of financial instruments

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

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

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

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

Group At 31 December 2019	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
ASSETS				
Derivative financial instruments	-	1,804	-	1,804
Financial investments	3,204	-	1,803	5,007
Investment property	-	-	6,763	6,763
	3,204	1,804	8,566	13,574
LIABILITIES				
Derivative financial instruments	-	319	-	319
Contingent consideration	-	-	1,528	1,528
	-	319	1,528	1,847

Notes to the Consolidated Financial Statements

Company At 31 December 2019	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
ASSETS				
Derivative financial instruments	-	1,804	-	1,804
Financial investments	3,204	-	1,803	5,007
	3,204	1,804	1,803	6,811
LIABILITIES				
Derivative financial instruments	-	319	-	319
Contingent consideration	-	-	1,528	1,528
	-	319	1,528	1,847
Group At 31 December 2018	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
ASSETS				
Derivative financial instruments	-	1,846	-	1,846
Financial investments	14,910	-	1,128	16,038
Investment property	-	-	67,081	67,081
	14,910	1,846	68,209	84,965
LIABILITIES				
Derivative financial instruments	-	188	-	188
Contingent consideration	-	-	3,643	3,643
	-	188	3,643	3,831
Company At 31 December 2018	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
ASSETS				
Derivative financial instruments	-	1,846	-	1,846
Financial investments	14,910	-	1,128	16,038
Investment property	-	-	60,831	60,831
	14,910	1,846	61,959	78,715
LIABILITIES				
Derivative financial instruments	-	188	-	188
Contingent consideration	-	-	3,643	3,643
	-	188	3,643	3,831

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

There were no transfers between level 1 and level 2 during the year for the Group or the Company.

Notes to the Consolidated Financial Statements

The following tables reconcile the Group and the Company's movement in level 3 financial instruments measured at fair value (financial investments) during the year:

Group	2019	2018
Movement in level 3	£000	£000
At 1 January	68,209	68,405
Purchases	3,083	1,042
Distribution received	-	(1,403)
Transfer to inventory	(63,219)	-
Movements recognised in other comprehensive income	502	-
Movements recognised in the profit and loss	(9)	135
At 31 December	8,566	68,179

Company	2019	2018
Movement in level 3	£000	£000
At 1 January	61,446	61,642
Purchases	3,083	1,042
Distribution received	-	(1,403)
Transfer to inventory	(63,219)	-
Movements recognised in other comprehensive income	502	135
Movements recognised in the profit and loss	(9)	30
At 31 December	1,803	61,446

Notes to the Consolidated Financial Statements

Secure Trust bank investment

Arbuthnot Latham currently holds equity shares in Secure Trust Bank plc, valued at £3.2m (2018: £14.9m). In 2018, the parent company of Arbuthnot Latham transferred 1.25m shares of their investment in Secure Trust Bank to the Company, by way of a capital contribution. The shares were recognised at fair value using quoted prices on the London Stock Exchange. This is classified as a level one investment.

In 2019 the Group disposed of 1.05m shares in Secure Trust Bank at market value.

Visa Inc. investment

Arbuthnot Latham currently holds preference shares in Visa Inc., valued at £1.2m (2018: £863k) as at 31 December 2019. These shares have been valued at their future conversion value into Visa Inc. common stock. The valuation includes a 31% haircut, comprising 25% due to a contingent liability disclosed in Visa Europe's accounts in relation to litigation and 6% based on a liquidity discount.

Investment in overseas property company

Arbuthnot Latham currently holds a debt and equity investment classified as FVTPL in a property company which owns an office building through its 100% owned subsidiary. During 2018 the subsidiary company was sold. Under the terms of the sale agreement the buyer agreed to purchase 100% of the share capital and reimburse all outstanding loans. The proceeds of the sale have been distributed to the investors, except for the amount withheld for the general and specific warranties (which will be released in three instalments at 18 month intervals) included as a condition of the sale agreement. A loss of £8k (2018: 75k gain) has been recognised in profit or loss during the year. The investment has been valued at £156k as at 31 December 2019 (2018: £165k). The investment has been valued as the discounted consideration outstanding less 11% hair cut for the warranties.

Hetz Ventures, L.P.

Arbuthnot Latham currently holds an equity investment in Hetz Ventures, L.P. which was launched in January 2018. The primary objective was to generate attractive risk-adjusted returns for its Partners, principally through long-term capital appreciation, by making, holding and disposing of equity and equity-related investments in early stage revenue generating Israeli technology companies, primarily in cyber, fin-tech and the disruptive software sectors. The company has committed to a capital contribution of USD \$1.0m of the total closing fund capital of USD\$55.0m. At 31 December 2019 the company had made capital contributions into the Fund of \$394k (2018: \$168k).

The investment is classified as FVOCI and is valued at fair value by Hetz Ventures, L.P. at £0.5m as at 31 December 2019 (2018: £0.1m). As at year end the fair value is deemed to be cost less management fees due to the immature stage of investments that have been made by the Fund.

Notes to the Consolidated Financial Statements

The tables below analyse financial instruments not measured at fair value by the level in the fair value hierarchy:

Group At 31 December 2019	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
ASSETS				
Cash and balances at central banks	-	325,908	-	325,908
Loans and advances to banks	-	46,244	-	46,244
Debt securities at amortised cost	-	442,960	-	442,960
Loans and advances to customers	-	1,296,427	314,126	1,610,553
Other assets	-	-	4,618	4,618
	-	2,111,539	318,744	2,430,283
LIABILITIES				
Deposits from banks	-	230,421	-	230,421
Deposits from customers	-	2,112,197	-	2,112,197
Other liabilities	-	-	2,504	2,504
Debt securities in issue	-	-	24,239	24,239
	-	2,342,618	26,743	2,369,361
Group At 31 December 2018	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
ASSETS				
Cash and balances at central banks	-	405,325	-	405,325
Loans and advances to banks	-	54,160	-	54,160
Debt securities held-to-maturity	-	342,691	-	342,691
Loans and advances to customers	-	996,198	239,959	1,236,157
Other assets	-	-	2,970	2,970
	-	1,798,374	242,929	2,041,303
LIABILITIES				
Deposits from banks	-	232,675	-	232,675
Deposits from customers	-	1,744,048	-	1,744,048
Other liabilities	-	-	1,527	1,527
	-	1,976,723	1,527	1,978,250

Notes to the Consolidated Financial Statements

Company At 31 December 2019	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
ASSETS				
Cash and balances at central banks	-	325,908	-	325,908
Loans and advances to banks	-	44,938	-	44,938
Debt securities at amortised cost	-	442,960	-	442,960
Loans and advances to customers	-	1,296,427	302,802	1,599,229
Other assets	-	-	10,227	10,227
	-	2,110,233	313,029	2,423,262
LIABILITIES				
Deposits from banks	-	230,421	-	230,421
Deposits from customers	-	2,111,963	-	2,111,963
Other liabilities	-	-	1,977	1,977
Debt securities in issue	-	-	24,239	24,239
	-	2,342,384	26,216	2,368,600
Company At 31 December 2018	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
ASSETS				
Cash and balances at central banks	-	405,325	-	405,325
Loans and advances to banks	-	53,353	-	53,353
Debt securities held-to-maturity	-	342,691	-	342,691
Loans and advances to customers	-	996,198	233,916	1,230,114
Other assets	-	-	2,493	2,493
	-	1,797,567	236,409	2,033,976
LIABILITIES				
Deposits from banks	-	232,675	-	232,675
Deposits from customers	-	1,744,048	-	1,744,048
Other liabilities	-	-	2,370	2,370
	-	1,976,723	2,370	1,979,093

Notes to the Consolidated Financial Statements

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

Cash and balances at central banks

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

At the end of each year, the fair value of cash and balances at central banks was calculated to be equivalent to their carrying value.

Loans and advances to banks

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

Loans and advances to customers

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

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

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

Debt securities

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

Derivatives

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

Deposits from banks

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

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

Deposits from customers

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

Financial liabilities

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

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

Subordinated liabilities

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

Notes to the Consolidated Financial Statements

7. Capital management (unaudited)

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

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

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

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

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

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

Notes to the Consolidated Financial Statements

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

	2019 £000	2018 £000
Common Equity Tier 1 Capital		
Share capital	15,000	15,000
Retained earnings*	47,077	44,163
Fair value reserve	950	(3,133)
Capital contribution reserve	121,012	121,012
IFRS 9 transitional arrangement	1,108	1,986
Deduction for goodwill	(8,935)	(8,935)
Deduction for other intangibles	(14,875)	(11,329)
Deduction for deferred tax assets that do not arise from temporary differences	(1,224)	(1,022)
Deduction for prudent valuation	(7)	(25)
Common Equity Tier 1 capital resources	160,106	157,717
Subordinated debt	24,239	-
Total Tier 2 capital	24,239	-
Own Funds (sum of Tier 1 and Tier 2)	184,345	157,717
Common Equity Tier 1 capital ratio (Common Equity Tier 1 capital/Total Risk Exposure)*	13.1%	15.7%
Total Capital Ratio (Own Funds/Total Risk Exposure)*	15.1%	15.7%

* Includes year end verified profit

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

Notes to the Consolidated Financial Statements

8. Net interest income

Accounting for interest income and expense

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

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

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

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

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

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

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

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

	2019	2018
	£000	£000
Cash and balances at central banks	3,112	2,264
Loans and advances to banks	418	2,703
Debt securities at amortised cost	5,265	3,303
Loans and advances to customers	68,075	57,020
Total interest income	76,870	65,290
Deposits from banks	(2,121)	(1,517)
Deposits from customers	(14,351)	(8,119)
Total interest expense	(16,472)	(9,636)
Net interest income	60,398	55,654

Notes to the Consolidated Financial Statements

9. Fee and commission income

Accounting for fee and commission income

Fee and commission income which is integral to the EIR of a financial asset are included in the effective interest rate. (See Note. 8)

All other fee and commission income is recognised as the related services are performed, under IFRS 15, Revenues from Contracts with Customers. Fee and commission income is reported in the below segments.

Types of fee	Description
Banking commissions	- Banking Tariffs are charged monthly for services provided.
Investment management fees	- Annual asset management fees relate to a single performance obligation that is continuously provided over an extended period of time.
Wealth planning fees	- Provision of bespoke, independent Wealth Planning solutions to Arbuthnot Latham's clients to help them achieve their long-term financial goals.
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	Private Banking	Commercial Banking	RAF	ABL	ASFL	Other	Total
At 31 December 2019	£000	£000	£000	£001	£000	£001	£000
Banking commissions	716	820	219	1,380	1	-	3,136
Foreign exchange fees	494	342	-	-	-	444	1,280
Investment management fees	8,474	-	-	-	-	-	8,474
Wealth planning Fees	1,043	-	-	-	-	2	1,045
Total fee and commission income	10,727	1,162	219	1,380	1	446	13,935

Group	Private Banking	Commercial Banking	RAF	ABL	ASFL	Other	Total
At 31 December 2018	£000	£000	£000	£001	£000	£001	£000
Banking and services fees	747	617	151	220	-	-	1,735
Foreign exchange fees	558	232	-	-	-	537	1,327
Investment management Fees	8,177	-	-	-	-	1	8,178
Wealth planning Fees	1,404	-	-	-	-	312	1,716
Total fee and commission income	10,886	849	151	220	-	850	12,956

Notes to the Consolidated Financial Statements

10. Impairment of financial assets

Accounting for impairment of financial assets

(a) Assets carried at amortised cost

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

Credit loss allowances are measured as an amount equal to lifetime ECL, except for the following assets, for which they are measured as 12 month ECL:

- Financial assets determined to have a low credit risk at the reporting date. The assets to which the low credit risk exemption applies, include cash and balances at central banks (note 15), loans and advance to banks (note 16) and debt securities at amortised cost (note 17). These assets are all considered investment grade.
- Financial assets which have not experienced a significant increase in credit risk since their initial recognition.

Impairment model

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

- Stage 1: 12-month ECL applies to all financial assets that have not experienced a significant increase in credit risk ("SICR") since origination and are not credit impaired. The ECL will be computed based on the probability of default events occurring over the next 12 months. Stage 1 includes the current performing loans (up to date and in arrears of less than 10 days) and those within Heightened Business Monitoring ("HBM"). Accounts requiring HBM are classified as a short-term deterioration in financial circumstances and are tightly monitored with additional proactive client engagement, but not deemed SICR.
- Stage 2: When a financial asset experiences a SICR subsequent to origination, but is not in default, it is considered to be in Stage 2. This requires the computation of ECL based on the probability of all possible default events occurring over the remaining life of the financial asset. The Stage 2 lifetime ECL is the difference between the value of the recoverable amount (which is equal to the expected future cash flows discounted at the loan's original effective interest rate), and its carrying amount. Provisions are higher in this stage (except where the value of charge against the financial asset is sufficient to enable recovery in full) because of an increase in credit risk and the impact of a longer time horizon being considered (compared to 12 months in Stage 1).

Evidence that a financial asset has experienced a SICR includes the following considerations:

- A loan is in arrears between 31 and 90 days;
- Forbearance action has been undertaken;

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

Evidence that a financial asset is within Stage 3 includes the following data:

- A loan is in arrears in excess of 90 days;
- Breach of terms of forbearance;
- Recovery action is in hand; or
- Bankruptcy proceedings or similar insolvency process of a client, or director of a company.

The credit risk of financial assets that become credit impaired are not expected to improve such that they are no longer considered credit impaired.

A borrower will move back into Stage 1 conditional upon both a minimum of 6 months' good account conduct and the improvement of the Client's situation to the extent that the credit risk has receded sufficiently and full repayment of the loan, without recourse to the collateral, is likely.

Presentation of allowance for ECL in the statement of financial position

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

Notes to the Consolidated Financial Statements

Write-off

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

(b) Renegotiated loans

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

(c) Forbearance

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

(d) Assets classified as financial investments

Equity instruments at fair value through other comprehensive income

Equity investments are not subject to impairment charges recognised in the income statement. Any fair value gains and losses are recognised in OCI which are not subject to reclassification to the income statement on derecognition.

Debt instruments at FVOCI

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

	2019 £000	2018 £000
Net impairment losses on loans and advances to customers	867	2,731
Of which:		
Stage 1	(1,099)	821
Stage 2	37	-
Stage 3	1,929	1,910
	867	2,731

During the year, the Bank recovered £103k (2018: £41k) of loans which had previously been written-off.

11. Other income

Other income includes a fair value adjustment of £1.5m (2018: £2.6m), to the contingent consideration for the acquisition of Renaissance Asset Finance Ltd. The fair value adjustment is based on management's assessment of the underlying performance of the business and reflects a reduction in the estimated future liability payable under the sale and purchase agreement.

Accounting for rental income

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

Rental income from the investment property (see note 28) of £2.1m (2018: £2.6m), re-charges to the Arbuthnot Banking Group for the shared use of premises and information technology infrastructure of £1.0m (2018: £0.9m).

Notes to the Consolidated Financial Statements

12. Operating expenses

	2019	2018
	£000	£000
Operating expenses comprise:		
Staff costs, including Directors:		
Wages, salaries and bonuses	33,588	31,815
Social security costs	3,542	3,467
Pension costs	1,841	1,704
Amortisation of intangibles (note 25)	2,007	1,751
Depreciation (note 26)	1,417	1,098
Expenses relating to short-term leases	368	3,143
Operating expenses for investment property	-	282
Parent company management charge	10,545	1,200
Other administrative expenses	19,459	14,569
Total operating expenses from continuing operations	72,767	59,029
	2019	2018
	£000	£000
Remuneration of the auditor and its associates, including VAT, was as follows:		
Fees payable to the Group's auditor for the audit of the Group's annual accounts	240	253
Fees payable to the Group's auditor and its associates for other services:		
Audit of the accounts of subsidiaries	102	70
Audit related assurance services	120	148
Other assurance services*	-	10
Other non-audit services	-	10
Total fees payable	462	491

*Other assurance services include regulatory assessments.

The 2019 fee is payable to Mazars LLP and 2018 fee is payable to KPMG LLP.

13. Income tax expense

Accounting policy for current taxation

Current income tax which is payable on taxable profits is recognised as an expense in the period in which the profits arise. Income tax recoverable on tax allowable losses is recognised as an asset only to the extent that it is regarded as recoverable by offset against current or future taxable profits.

	2019	2018
	£000	£000
United Kingdom corporation tax at 19% (2018: 19.25%)		
Current taxation		
Corporation tax charge - current year	258	522
Corporation tax charge - adjustments in respect of prior years	15	39
	273	561
Deferred taxation		
Origination and reversal of temporary differences	(103)	(178)
Adjustments in respect of prior years	68	13
	(35)	(165)
Income tax expense	238	396

Notes to the Consolidated Financial Statements

Tax reconciliation

Profit before tax	5,611	13,374
Tax at 19% (2018: 19.25%)	1,066	2,541
Tax transfer pricing	(729)	(2,085)
Group relief	-	187
Permanent differences	(182)	(299)
Adjustments in respect of prior years	83	52
Corporation tax charge for the year	238	396

On 26 October 2015 the Government substantively enacted a reduction in the UK corporation tax rate from 20% to 19% (effective from 1 April 2017). An additional reduction to 17% (effective from 1 April 2020) was substantively enacted on 6 September 2016. This will reduce the Bank's future current tax charge accordingly. The deferred tax asset at 31 December 2019 has been calculated based on the rate of 19%.

14. Average number of employees

	2019	2018
Private banking	134	135
Commercial banking	57	46
Renaissance Asset Finance	31	26
Operations and support staff	229	182
	451	389

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.

Notes to the Consolidated Financial Statements

15. Cash and balances at central banks

	Group & Company	
	2019	2018
	£000	£000
Cash and balances at central banks	325,908	405,325

ECL has been assessed to be immaterial.

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

16. Loans and advances to banks

	Group		Company	
	2019	2018	2019	2018
	£000	£000	£000	£000
Placements with banks included in cash and cash equivalents (note 38)	46,244	54,160	44,938	53,353

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

	Group		Company	
	2019	2018	2019	2018
	£000	£000	£000	£000
Aaa	-	709	-	256
Aa3	30,834	42,230	30,834	42,230
A1	300	8,874	300	8,874
A2	13,961	1,907	12,655	1,553
A3	20	10	20	10
Baa1	393	430	393	430
Baa2	736	-	736	-
	46,244	54,160	44,938	53,353

None of the loans and advances to banks are past due (2018: £nil).

ECL has been assessed to be immaterial.

17. Debt securities at amortised cost/held to maturity

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

	Group & Company	
	2019	2018
	£000	£000
At 1 January	342,691	227,019
Exchange difference	(3,133)	4,783
Additions	823,139	467,772
Redemptions	(719,737)	(356,883)
At 31 December	442,960	342,691

Notes to the Consolidated Financial Statements

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

	Group & Company	
	2019	2018
	£000	£000
Aaa	163,788	76,281
Aa1	11,390	84,218
Aa2	205,812	32,325
Aa3	50,238	56,046
A1	11,732	75,657
A2	-	18,164
	442,960	342,691

ECL has been assessed to be immaterial.

None of the debt securities at amortised cost are past due. (2018: £nil)

18. Assets classified as held for sale

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

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

- Management is committed to a plan to sell
- The asset is available for immediate sale
- An active programme to locate a buyer is initiated
- The sale is highly probable, within 12 months of classification as held for sale
- The asset is being actively marketed for sale at a sale price reasonable in relation to its fair value

Current assets held for sale are measured at the lower of their carrying amount and fair value less costs to sell except where measurement and remeasurement is outside the scope of IFRS 5. Where investments that have initially been recognised as current assets held for sale, because the Group has been deemed to hold a controlling stake, are subsequently disposed of or diluted such that the Group's holding is no longer deemed a controlling stake, the investment will subsequently be reclassified as fair value through profit or loss or fair value through other comprehensive income investments in accordance with IFRS 9. Subsequent movements will be recognised in accordance with the Group's accounting policy for the newly adopted classification.

Once classified as held for sale, intangible assets and property, plant and equipment are no longer amortised or depreciated.

	Group & Company	
	2019	2018
	£000	£000
Reposessed property held for sale	7,617	8,002
	7,617	8,002

Reposessed property held for sale

In 2017, a property in Spain held as collateral on a loan was reposessed. At the time of repossession, it was expected that the property would be sold in 12 months and so it was recognised as held for sale. A sale was not possible within the year due to factors outside of the Group's control; however, as a sale is assessed to be probable within 12 months, it has been recognised as held for sale with a carrying value of £3.0m (2018: £3.1m)

Notes to the Consolidated Financial Statements

In 2018, a further property in Spain held as collateral on a loan, valued in 2019 at £4.6m (2018: £4.9m) was repossessed. The Group's policy is to pursue timely realisation of the collateral in an orderly manner. The property is recognised as an asset held for sale.

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

Seed capital investments held for sale

The Group considers itself a sponsor of an investment fund when it facilitates the establishment of a fund in which the Group is the investment manager. The Group ordinarily provides seed capital in order to provide initial scale and facilitate marketing of the funds to third-party investors. The fund is then financed through the issue of units to investors. Aggregate interests held by the Group include seed capital, management fees and performance fees. The Group generates management and performance fee income from managing the assets on behalf of third-party investors.

19. Derivative financial instruments

Accounting for derivative financial instruments

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

Group & Company	2019			2018		
	Contract/ notional amount	Fair value assets	Fair value liabilities	Contract/ notional amount	Fair value assets	Fair value liabilities
	£000	£000	£000	£000	£000	£000
Currency swaps	8,671	105	101	4,929	192	188
Interest rate swaps	25,530	-	218	25,762	112	-
Structured notes	1,644	1,699	-	1,607	1,542	-
	35,845	1,804	319	32,298	1,846	188

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

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

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

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

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

	Group		Company	
	2019	2018	2019	2018
	£000	£000	£000	£000
A1	35,837	29,601	35,837	29,601
A2	8	2,635	8	2,635
Baa1	-	62	-	62
	35,845	32,298	35,845	32,298

Notes to the Consolidated Financial Statements

20. Loans and advances to customers

	2019				
	Stage 1	Stage 2	Stage 3	Total	
	£000	£000	£000	£000	
Group loans and advances to customers					
At 31 December 2018	1,172,625	32,700	37,407	1,242,732	
Originations and (repayments)	147,410	(12,845)	(11,134)	123,431	
Write-offs	(49)	-	(2,927)	(2,976)	
Acquired portfolio	252,156	-	-	252,156	
Transfer to Stage 1	3,659	(3,659)	-	-	
Transfer to Stage 2	(50,489)	50,489	-	-	
Transfer to Stage 3	(7,788)	(313)	8,101	-	
At 31 December 2019	-	1,517,524	66,372	31,447	1,615,343
Less allowances for ECLs (see note 21)	-	(526)	(47)	(4,217)	(4,790)
Net loans and advances at 31 December 2019	-	1,516,998	66,325	27,230	1,610,553

	2018				
	Stage 1	Stage 2	Stage 3	Total	
	£000	£000	£000	£000	
Group loans and advances to customers					
At 31 December 2017	1,003,752	29,502	28,877	1,062,131	
Originations and (repayments)	191,936	(8,809)	(2,348)	180,779	
Write-offs	-	-	(178)	(178)	
Transfer to Stage 1	7,975	(7,975)	-	-	
Transfer to Stage 2	(27,929)	28,975	(1,046)	-	
Transfer to Stage 3	(3,109)	(8,993)	12,102	-	
At 31 December 2018	1,172,625	32,700	37,407	1,242,732	
Less allowances for ECLs (see note 21)	-	(1,606)	(8)	(4,961)	(6,575)
Net loans and advances at 31 December 2018	-	1,171,019	32,692	32,446	1,236,157

*Originations include further advances and drawdowns on existing commitments.

Notes to the Consolidated Financial Statements

	2019				
	Stage 1	Stage 2	Stage 3	Total	
	£000	£000	£000	£000	
Company loans and advances to customers					
At 31 December 2018	1,168,116	31,520	36,514	1,236,150	
Originations and (repayments)	139,992	(12,384)	(10,155)	117,453	
Write-offs	-	-	(2,319)	(2,319)	
Acquired portfolio	252,156	-	-	252,156	
Transfer to Stage 1	2,810	(2,810)	-	-	
Transfer to Stage 2	(49,579)	49,579	-	-	
Transfer to Stage 3	(5,595)	(289)	5,884	-	
At 31 December 2019	-	1,507,900	65,616	29,924	1,603,440
Less allowances for ECLs (see note 21)	-	(319)	(46)	(3,846)	(4,211)
Net loans and advances at 31 December 2019	-	1,507,581	65,570	26,078	1,599,229

	2018				
	Stage 1	Stage 2	Stage 3	Total	
	£000	£000	£000	£000	
Company loans and advances to customers					
At 31 December 2017	1,001,951	29,502	28,136	1,059,589	
Originations and (repayments)	186,997	(8,809)	(1,604)	176,584	
Write-offs	-	-	(23)	(23)	
Transfer to Stage 1	8,820	(8,820)	-	-	
Transfer to Stage 2	(26,749)	27,795	(1,046)	-	
Transfer to Stage 3	(2,903)	(8,148)	11,051	-	
At 31 December 2018	1,168,116	31,520	36,514	1,236,150	
Less allowances for ECLs (see note 21)	-	(1,458)	(8)	(4,570)	(6,036)
Net loans and advances at 31 December 2018	-	1,166,658	31,512	31,944	1,230,114

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

Notes to the Consolidated Financial Statements

Group Loans and advances to customers by division (net of ECL)	2019							Total
	Private Banking	Commercial Banking	Mortgage Portfolio	RAF	ABL	ASFL	Other	
	£000	£000		£000	£000	£000	£000	£000
Stage 1	509,720	505,518	306,044	100,981	75,871	7,352	11,511	1,516,997
Stage 2	43,491	22,079	-	755	-	-	-	66,325
Stage 3	26,056	23	-	1,152	-	-	-	27,231
At 31 December	579,267	527,620	306,044	102,888	75,871	7,352	11,511	1,610,553

Group Loans and advances to customers by division (net of ECL)	2018							Total
	Private Banking	Commercial Banking	Mortgage Portfolio	RAF	ABL	ASFL	Other	
	£000	£000	£000	£000	£000	£000	£000	£000
Stage 1	549,763	431,630	68,723	84,276	25,341	-	11,286	1,171,019
Stage 2	20,034	11,478	-	1,180	-	-	-	32,692
Stage 3	31,944	-	-	502	-	-	-	32,446
At 31 December	601,741	443,108	68,723	85,958	25,341	-	11,286	1,236,157

Company

Loans and advances to customers split by division (net of ECL)	2019				Total
	Private Banking	Commercial Banking	Mortgage portfolios	Other	
	£000	£000	£000	£000	£000
Stage 1	509,720	505,518	306,044	186,298	1,507,580
Stage 2	43,491	22,079	-	-	65,570
Stage 3	26,056	23	-	-	26,079
At 31 December	579,267	527,620	306,044	186,298	1,599,229

Company

Loans and advances to customers split by division (net of ECL)	2018				Total
	Private Banking	Commercial Banking	Mortgage portfolios	Other	
	£000	£000	£000	£000	£000
Stage 1	549,763	431,630	68,723	116,542	1,166,658
Stage 2	20,034	11,478	-	-	31,512
Stage 3	31,944	-	-	-	31,944
At 31 December	601,741	443,108	68,723	116,542	1,230,114

For a maturity profile of loans and advances to customers, refer to note 5.

Loans and advances to customers have increased significantly during the year, due to the acquisition of a loan book.

Notes to the Consolidated Financial Statements

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

Group loans and advances in arrears	2019							Total
	Private Banking	Commercial Banking	Mortgage portfolios	RAF	ABL	ASFL	All Other Divisions	
	£000	£000	£000	£000	£000	£000	£000	
Up to 30 days	16,911	15,872	5,196	1,608	-	-	-	39,587
Stage 1	13,525	15,864	5,196	1,395	-	-	-	35,980
Stage 2	3,386	8	-	1	-	-	-	3,395
Stage 3	-	-	-	212	-	-	-	212
30 - 60 days	1,899	35	2,404	526	-	-	-	4,864
Stage 1	-	35	2,404	151	-	-	-	2,590
Stage 2	1,899	-	-	203	-	-	-	2,102
Stage 3	-	-	-	172	-	-	-	172
60 - 90 days	70	-	1,688	342	-	-	-	2,100
Stage 1	-	-	1,688	110	-	-	-	1,798
Stage 2	70	-	-	128	-	-	-	198
Stage 3	-	-	-	104	-	-	-	104
Over 90 days	42,567	19,306	21,516	1,333	-	-	-	84,722
Stage 1	-	-	21,516	69	-	-	-	21,585
Stage 2	19,705	8,959	-	258	-	-	-	28,922
Stage 3	22,862	10,347	-	1,006	-	-	-	34,215
At 31 December	61,447	35,213	30,804	3,809	-	-	-	131,273

Group loans and advances in arrears	2018							Total
	Private Banking	Commercial Banking	Mortgage portfolios	RAF	ABL	ASFL	All Other Divisions	
	£000	£000	£000	£000	£000	£000	£000	
Up to 30 days	47,766	20,784	-	2,519	-	-	-	71,069
Stage 1	47,766	20,784	-	2,078	-	-	-	70,628
Stage 2	-	-	-	154	-	-	-	154
Stage 3	-	-	-	287	-	-	-	287
30 - 60 days	662	2,300	-	775	-	-	-	3,737
Stage 2	662	2,300	-	565	-	-	-	3,527
Stage 3	-	-	-	210	-	-	-	210
60 - 90 days	385	4,177	-	297	-	-	-	4,859
Stage 2	385	4,177	-	175	-	-	-	4,737
Stage 3	-	-	-	122	-	-	-	122
Over 90 days	49,415	-	-	546	-	-	-	49,961
Stage 2	12,901	-	-	272	-	-	-	13,173
Stage 3	36,514	-	-	274	-	-	-	36,788
At 31 December	98,228	27,261	-	4,137	-	-	-	129,626

Notes to the Consolidated Financial Statements

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

	Private Banking	Commercial Banking	2019		Total
			Mortgage portfolios	Other	
	£000	£000	£000	£000	£000
Company loans and advances in arrears					
Up to 30 days	16,911	15,872	5,196	-	37,979
Stage 1	13,525	15,864	5,196	-	34,585
Stage 2	3,386	8	-	-	3,394
30 - 60 days	1,899	35	2,404	-	4,338
Stage 1	-	35	2,404	-	2,439
Stage 2	1,899	-	-	-	1,899
60 - 90 days	70	-	1,688	-	1,758
Stage 1	-	-	1,688	-	1,688
Stage 2	70	-	-	-	70
Over 90 days	42,567	19,306	21,516	-	83,389
Stage 1	-	-	21,516	-	21,516
Stage 2	19,705	8,959	-	-	28,664
Stage 3	22,862	10,347	-	-	33,209
At 31 December	61,447	35,213	30,804	-	127,464

	Private Banking	Commercial Banking	2018		Total
			Mortgage portfolios	Other	
	£000	£000	£000	£000	£000
Company loans and advances in arrears					
Up to 30 days	47,766	20,784	-	-	68,550
Stage 1	47,766	20,784	-	-	68,550
30 - 60 days	662	2,300	-	-	2,962
Stage 2	662	2,300	-	-	2,962
60 - 90 days	385	4,177	-	-	4,562
Stage 2	385	4,177	-	-	4,562
Over 90 days	49,415	-	-	-	49,415
Stage 2	12,901	-	-	-	12,901
Stage 3	36,514	-	-	-	36,514
At 31 December	98,228	27,261	-	-	125,489

Notes to the Consolidated Financial Statements

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

	Group		Company	
	2019	2018	2019	2018
	£000	£000	£000	£000
Gross investment in finance lease receivables:				
- No later than 1 year	40,696	36,608	-	-
- Later than 1 year and no later than 5 years	78,013	62,541	-	-
- Later than 5 years	676	214	-	-
	119,385	99,363	-	-
Unearned future finance income on finance leases	(16,497)	(13,406)	-	-
Net investment in finance leases	102,888	85,957	-	-
The net investment in finance leases may be analysed as follows:				
- No later than 1 year	32,818	30,657	-	-
- Later than 1 year and no later than 5 years	69,441	55,095	-	-
- Later than 5 years	629	205	-	-
	102,888	85,957	-	-

(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 (2018: £nil).

(c) Collateral held

Collateral is measured at fair value less costs to sell.

Most of the loans are secured by property. The fair value of collateral held against loans and advances in Stage 3 is £38.6m (2018: £43.0m), against loans (net of ECL) of £26.0m (2018: £37.4m). The average loan-to-value of loans and advances in Stage 3 is 75% (2018: 72.9%).

Notes to the Consolidated Financial Statements

21. Allowances for impairment of loans and advances

Group	Stage 1 £000	Stage 2 £000	Stage 3 £000	Total £000
Loans and advances to customers	527	47	4,216	4,790
At 31 December 2019	527	47	4,216	4,790

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

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

* The ECL model and assumptions were reviewed resulting in a revised basis for estimating LGD after taking account collateral values, this has resulted in a release of ECL provision of £1.3m in Stage 1 and an increase in ECL provision in Stage 3 of £0.2m.

Company	Stage 1 £000	Stage 2 £000	Stage 3 £000	Total £000
Loans and advances to customers	319	46	3,846	4,211
At 31 December 2019	319	46	3,846	4,211

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

Company	Stage 1 £000	Stage 2 £000	Stage 3 £000	Total £000
Balance as at 1 January 2019	1,458	8	4,570	6,036
Transfer to Stage 2	(1)	1	-	-
Current year charge	222	41	267	530
Adjustment due to variation in expected future cash flows	-	-	134	134
Change in assumptions	(1,360)	-	223	(1,137)
Financial assets that have been derecognised	-	-	(853)	(853)
Repayments and write-offs	-	(4)	(495)	(499)
At 31 December	319	46	3,846	4,211

* The ECL model and assumptions were reviewed resulting in a revised basis for estimating LGD after taking account collateral values, this has resulted in a release of ECL provision of £1.3m in Stage 1 and an increase in ECL provision in Stage 3 of £0

Notes to the Consolidated Financial Statements

22. Other assets

	Group		Company	
	2019	2018	2019	2018
	£000	£000	£000	£000
Trade receivables	4,618	2,970	3,861	2,493
Inventory	75,221	4,058	71,003	4,058
Prepayments and accrued income	6,483	5,640	6,135	5,542
Amount due from group companies	-	-	6,366	-
	86,322	12,668	87,365	12,093

As allowed by IFRS 9, the Group utilises the practical expedient for the stage allocation of particular financial instruments which are deemed 'low credit risk'. This practical expedient permits the Group to assume, without more detailed analysis, that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have 'low credit' at the reporting date.

The low credit risk exemption is applied to Trade receivables. ECL has been assessed to be immaterial.

Accounting for inventory

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

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

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.

During the year two properties were reclassified from investment property to inventory due to being under development with a view to sale, at 31 December 2019 they were valued at cost of £63.2m.

A further property in Spain, held as collateral on a loan was repossessed. The Group's intention is to develop and sell the property within 12 months and this has therefore been recognised as inventory.

Notes to the Consolidated Financial Statements

23. Financial investments

	Group & Company	
	2019	2018
	£000	£000
Designated at fair value through profit or loss		
- Debt securities	156	165
Designated at fair value through other comprehensive income		
- Listed securities	3,204	14,910
- Unlisted securities	1,647	963
Total financial investments	5,007	16,038

Listed securities

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

In 2018, AL received shares in a listed investment of Secure Trust Bank plc, which were transferred by the parent company, Arbuthnot Banking Group. They were designated as FVOCI for strategic purposes. The carrying value at year end is £3.2m (2018: £14.9m). During the year 1.0m shares were disposed of at market value through a placing. A dividend of £168k (2018: £nil) was received in the year.

Debt securities

The Group has made an investment in an unlisted special purpose vehicle, set up to acquire and enhance the value of a commercial property through its 100% owned subsidiary. During 2018 the subsidiary company was sold and under the terms of the sale agreement, the buyer agreed to purchase 100% of the share capital and reimburse all outstanding loans. The proceeds of the sale have been distributed to the investors, except for the amount withheld for the general and specific warranties (which will be released in three instalments at 18-month intervals included as a condition of the sale agreement.) A distribution of £-nil (2018: £1.6m) has been received and a loss of £9k (2018: £75k gain) has been recognised in profit or loss during the year. The investment has been valued at £156k (2018: £165k) as at 31 December 2019 (see note 6. (e)).

Unlisted securities

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

On 23 June 2016 Arbuthnot Latham received €1.3m cash consideration following Visa Inc.'s completion of the acquisition of Visa Europe. As part of the deal Arbuthnot Latham also received preference shares in Visa Inc., these have been valued at their future conversion value into Visa Inc. common stock. Management has assessed the fair value of the Group's investment as £1.2m (2018: £863k). This valuation includes a 31% haircut.

The Group has designated its investment in the security as FVOCI. Dividends received during the year amounted to £7k (2018: £7k).

A further investment in an unlisted venture capital investment vehicle was made in 2019. The carrying value at year end is £457k (2018: £100k) and no dividends were received in the year. The increase in value is due to additional contributions to the fund and the successful performance of the underlying investments.

24. Deferred taxation

Accounting for deferred tax

Deferred tax is provided in full on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax is not accounted for if it arises from the initial recognition of goodwill, the initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries to the extent that they probably will not reverse in the foreseeable future. Deferred tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the Statement of Financial Position date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

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Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to taxes levied by the same tax authority on the same taxable entity, or on different tax entities, when they intend to settle current tax liabilities and assets on a net basis or the tax assets and liabilities will be realised simultaneously.

The deferred tax asset comprises:

	Group		Company	
	2019	2018	2019	2018
	£000	£000	£000	£000
Accelerated capital allowances and other short-term timing differences	(270)	(70)	(385)	(177)
Movement in fair value of Financial investments at fair value through other comprehensive income	(160)	(66)	(160)	(66)
Unutilised tax losses	1,462	1,023	1,224	900
IFRS 9 adjustment	393	490	386	482
Deferred tax asset	1,425	1,377	1,065	1,139
At 1 January	1,377	886	1,139	864
Other Comprehensive Income	(94)	(26)	(94)	(26)
Profit and loss account - accelerated capital allowances and other short-term timing differences	(201)	(96)	(208)	(181)
Profit and loss account - tax losses	562	123	324	-
IFRS 9 adjustment	(219)	490	(96)	482
Deferred tax asset at 31 December	1,425	1,377	1,065	1,139

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

25. Intangible assets

Accounting for intangible assets

(a) Goodwill

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

The Group reviews the goodwill for impairment at least annually, or more frequently when events or changes in economic circumstances indicate that impairment may have taken place, and carries goodwill at cost less accumulated impairment losses. Assets are grouped together in the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit" or "CGU").

For impairment testing purposes goodwill cannot be allocated to a CGU that is greater than a reported operating segment. CGUs to which goodwill has been allocated are aggregated so that the level at which impairment is tested reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the synergies of the combination. The test for impairment involves comparing the carrying value of goodwill with the present value of pre-tax cash flows, discounted at a rate of interest that reflects the inherent risks of the CGU to which the goodwill relates, or the CGU's fair value if this is higher.

(b) Computer software

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

Costs associated with maintaining computer software programs are recognised as an expense as incurred.

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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.

(c) Other intangibles

Other intangibles include trademarks, customer relationships, broker relationships, technology and banking licences acquired. These costs are amortised on the basis of the expected useful lives (three to fourteen years).

Group	Goodwill £000	Computer software £000	Other intangibles £000	Total £000
Cost				
At 1 January 2018	8,935	11,106	2,561	22,602
Additions		2,287		2,287
At 31 December 2018	8,935	13,393	2,561	24,889
Additions	-	5,553	-	5,553
At 31 December 2019	8,935	18,946	2,561	30,442
Accumulated amortisation				
At 1 January 2018	-	(2,519)	(355)	(2,874)
Amortisation charge	-	(1,483)	(268)	(1,751)
At 31 December 2018	-	(4,002)	(623)	(4,625)
Amortisation charge	-	(1,761)	(246)	(2,007)
At 31 December 2019	-	(5,763)	(869)	(6,632)
Net book amount				
At 31 December 2018	8,935	9,391	1,938	20,264
At 31 December 2019	8,935	13,183	1,692	23,810

Significant management judgements are made in estimations, to evaluate whether an impairment of goodwill is necessary. Impairment testing is performed at CGU level and the following two items, with judgements surrounding them, have a significant impact on the estimations used in determining the necessity of an impairment charge:

- Future cash flows - Cash flow forecasts reflect management's view of future business forecasts at the time of the assessment. A detailed 3 year budget is done every year and management also uses judgement in applying a growth rate. The accuracy of future cash flows is subject to a high degree of uncertainty in volatile market conditions. During such conditions, management would perform impairment testing more frequently than annually to ensure that the assumptions applied are still valid in the current market conditions.
- Discount rate - Management also apply judgement in determining the discount rate used to discount future expected cash flows. The discount rate is derived from the cost of capital for each CGU.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. There are currently two CGUs (2018: two) with goodwill attached; the core Arbuthnot Latham CGU (£5.4m) and RAF CGU (£3.5m).

Management considers the value in use for the core Arbuthnot Latham CGU to be the discounted cash flows over 3 years with a terminal value (2018: 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 2022 as per the approved 3 year plan. A growth rate of 8.1% (2018: 8.9%) was used for income and 10.8% (2018: 6.9%) for expenditure from 2020 to 2022 (these rates were the best estimate of future forecasted performance), while a 3% (2018: 3%) growth rate for income and expenditure (a more conservative approach was taken for later years as these were not budgeted for in detail as per the 3 year plan approved by the Board of Directors) was used for cash flows after the approved 3 year plan.

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Management considers the value in use for the RAF CGU to be the discounted cash flows over 5 years with a terminal value. The 5 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% (2018: 3%) was used (this rate was the best estimate of future forecasted performance).

The growth rates used are above the forecast UK growth rate of 1.5% to reflect the Bank's current growth strategy enabled by capital available at parent level.

Cash flows were discounted at a pre-tax rate of 12% (2018: 12%) to their net present value. The discount rate of 12% is considered to be appropriate after evaluating current market assessments of the time value of money and the risks specific to the assets or CGUs.

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

Company	Goodwill £000	Computer software £000	Other intangibles £000	Total £000
Cost				
At 1 January 2018	5,415	11,106	213	16,734
Additions	-	2,219	-	2,219
At 31 December 2018	5,415	13,325	213	18,953
Additions	-	5,270	-	5,270
At 31 December 2019	5,415	18,595	213	24,223
Accumulated amortisation				
At 1 January 2018	-	(2,519)	(191)	(2,710)
Amortisation charge	-	(1,467)	(22)	(1,489)
At 31 December 2018	-	(3,986)	(213)	(4,199)
Amortisation charge	-	(1,733)	-	(1,733)
At 31 December 2019	-	(5,719)	(213)	(5,932)
Net book amount				
At 31 December 2018	5,415	9,339	-	14,754
At 31 December 2019	5,415	12,876	-	18,291

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

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26. Property, plant and equipment

Accounting for property, plant and equipment

Plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation is calculated using the straight-line method to allocate the cost to the residual values over the estimated useful lives, applying the following annual rates, which are subject to regular review:

Leasehold improvements	3 to 20 years
Office equipment	3 to 10 years
Computer equipment	3 to 5 years

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

Group	Leasehold improvements £000	Computer and other equipment £000	Total £000
Cost or valuation			
At 1 January 2018	5,015	2,828	7,843
Additions	1,764	624	2,388
At 31 December 2018	6,779	3,452	10,231
Additions	609	1,341	1,950
At 31 December 2019	7,388	4,793	12,181
Depreciation			
At 1 January 2018	(2,177)	(1,860)	(4,037)
Depreciation charge	(823)	(275)	(1,098)
At 31 December 2018	(3,000)	(2,135)	(5,135)
Depreciation charge	(778)	(639)	(1,417)
At 31 December 2019	(3,778)	(2,774)	(6,552)
Net book amount			
At 31 December 2018	3,779	1,317	5,096
At 31 December 2019	3,610	2,019	5,629

Included within the depreciation charge for the year is £nil (2018: £78k) of additional depreciation in relation to the early termination of a property lease.

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Company	Leasehold improvements £000	Computer and other equipment £000	Total £000
Cost or valuation			
At 1 January 2018	4,995	2,774	7,769
Additions	1,747	600	2,347
At 31 December 2018	6,742	3,374	10,116
Additions	603	1,341	1,944
At 31 December 2019	7,345	4,715	12,060
At 1 January 2018	(2,157)	(1,817)	(3,974)
Depreciation charge	(822)	(263)	(1,085)
At 31 December 2018	(2,979)	(2,080)	(5,059)
Depreciation charge	(776)	(630)	(1,406)
At 31 December 2019	(3,755)	(2,710)	(6,465)
Net book amount			
At 31 December 2018	3,763	1,294	5,057
At 31 December 2019	3,590	2,005	5,595

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27. Right-of-use assets

Accounting policy for leases

The Group has applied IFRS 16 using the modified retrospective approach from 1 January 2019 and has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard.

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.

As a lessee (policy applicable before 1 January 2019)

Rentals made under operating leases are recognised in the Statement of Comprehensive Income on a straight-line basis over the term of the lease.

Leases in which the Group assumes substantially all the risks and rewards of ownership of the leased asset are classified as finance leases. Leased assets by way of finance leases are stated at an amount equal to the lower of their fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation. Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

(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.

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The accounting policies applicable to the Group as a lessor in the comparative period were not different from IFRS 16.

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

Company	Investment property £000	Properties £000	Equipment £000	Total £000
At 1 January 2019	8,108	13,386	-	21,494
Additions	-	-	543	543
Amortisation	-	(2,583)	(89)	(2,672)
Transfers*	(8,108)	8,108	-	-
At 31 December 2019	-	18,911	454	19,365

*The leasehold investment properties were transferred to inventory during 2019 and as a result have been reclassified to properties within right-of-use assets.

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

28. Investment property

Accounting for investment property

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

If a change in use occurs and investment property is transferred to owner-occupied property, the property's deemed cost for subsequent reporting is its fair value at the date of change in use.

Group	2019 £000	2018 £000
Opening balance	67,081	59,439
Additions	2,901	879
Transfer	(63,219)	6,763
At 31 December	6,763	67,081

Company	2019 £000	2018 £000
Opening balance	60,318	59,439
Additions	2,901	879
Transfer	(63,219)	-
At 31 December	-	60,318

During the year, two properties were reclassified from investment property to inventory due to being under development with a view to sale, at 31 December 2019 they were valued at cost of £63.2m.

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Crescent Office Park, Bath

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

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

The Group recognised £0.5m (2018: £0.5m) rental income during the year and incurred £0.02m (2018: £0.02m) of direct operating expenses.

29. Deposits from banks

	2019	2018
Group & Company	£000	£000
Deposits from other banks	230,421	232,675

Deposits from banks include £225m (2018: £225m) obtained through the Bank of England Term Funding Scheme ("TFS"). For a maturity profile of deposits from banks, refer to Note 5.

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30. Deposits from customers

	2019	2018
Group	£000	£000
Current/demand accounts	1,161,315	974,326
Notice accounts	102,567	75,879
Term deposits	848,315	693,843
	2,112,197	1,744,048

	2019	2018
Company	£000	£000
Current/demand accounts	1,161,081	974,326
Notice accounts	102,567	75,879
Term deposits	848,315	693,843
	2,111,963	1,744,048

Included in customer accounts are deposits of £33.2m (2018: £24.5m) held as collateral for loans and advances. The fair value of these deposits approximates their carrying value.

For a maturity profile of deposits from customers, refer to Note 5.

31. Other liabilities

	Group		Company	
	2019	2018	2019	2018
	£000	£000	£000	£000
Trade payables	1,738	1,503	1,212	917
Amount due to Group companies	766	24	765	1,453
Accruals and deferred income	9,377	14,937	8,633	14,253
	11,881	16,464	10,610	16,623

Financial Services Compensation Scheme Levy

In common with all regulated UK deposit takers, AL pays levies to the Financial Services Compensation Scheme ("FSCS") to enable the FSCS to meet claims against the Scheme. The FSCS levy consists of two parts: a management expenses levy and a more significant compensation levy. The management expenses levy covers the costs of running the scheme and the compensation levy covers the amount of compensation and associated interest the Scheme pays, net of any recoveries it makes using the rights that have been assigned to it.

The Group's FSCS provision reflects market participation up to the reporting date and the accrual of £nil (2018: £nil) relates to the interest levy for the Scheme. This amount was calculated on the basis of the Group's share of protected deposits and the FSCS's estimate of total interest levies payable for each Scheme year.

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32. Lease Liabilities

Accounting policy for lease liabilities

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Primarily, the Group uses its incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rates as at the commencement date;
- amounts expected to be payable under a residual value guarantee.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in the statement of comprehensive income if the carrying amount of the right-of-use asset has been reduced to zero.

Group	Investment property £000	Properties £000	Equipment £000	Total £000
At 1 January 2019	-	22,732	-	22,732
Additions	-	-	539	539
Interest expense	-	965	11	976
Lease payments	-	(3,677)	(139)	(3,816)
At 31 December 2019	-	20,020	411	20,431

Company	Investment property £000	Properties £000	Equipment £000	Total £000
At 1 January 2019	-	22,067	-	22,067
Additions	-	-	539	539
Interest expense	-	932	11	943
Lease payments	-	(3,584)	(139)	(3,723)
At 31 December 2019	-	19,415	411	19,826

Maturity analysis

	2019 £000
Less than one year	111
One to five years	11,569
More than five years	8,146
Total undiscounted lease liabilities at 31 December	19,826
Lease liabilities included in the statement of financial position at 31 December	19,826
Current	111
Non-current	19,715

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33. Debt securities in issue

Accounting policy for debt securities in issue

Issued financial instruments or their components are classified as liabilities where the contractual arrangement results in the Group having a present obligation to either deliver cash or another financial asset to the holder.

Financial liabilities, other than trading liabilities at fair value, are carried at amortised cost using the effective interest rate method as set out in policy 3.3.

	2019	2018
Group and Company	£000	£000
Subordinated loan notes	24,239	-

During the year the parent company of the Group obtained subordinated debt which after costs totalled £24.2m. As the loan was to aid the growth of the Group, a further agreement was undertaken with the parent company, Arbuthnot Banking Group, to pass down the debt on the same terms.

Interest on the loan is repaid back quarterly through an intercompany transaction.

Redemption of the loan is due to occur in 2029.

34. Contingent liabilities and commitments

Accounting for provisions and contingent liabilities

Provisions are recognised when the Group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic resources will be required from the Group and amounts can be reliably measured.

Onerous contract provisions are recognised for losses on contracts where the forecast costs of fulfilling the contract throughout the contract period exceed the forecast income receivable. In assessing the amount of the loss to provide on any contract, account is taken of the Group's forecast results which the contract is servicing. The provision is calculated based on discounted cash flows to the end of the contract.

Contingent liabilities are disclosed when the Group has a present obligation as a result of a past event, but the probability that it will be required to settle that obligation is more than remote, but not probable.

Contingent liabilities

The Group is subject to extensive regulation in the conduct of its business. A failure to comply with applicable regulations could result in regulatory investigations, fines and restrictions on some of the Group's business activities or other sanctions. The Group seeks to minimise this risk through the adoption and compliance with policies and procedures, continuing to refine controls over business practices and behaviour, employee training, the use of appropriate documentation, and the involvement of outside legal counsel where appropriate.

Capital commitments

At 31 December 2019, the Group had capital commitments of US\$642k (2018: \$653k) in respect of a contribution in an equity investment.

Credit commitments

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

	Group		Company	
	2019	2018	2019	2018
	£000	£000	£000	£000
Guarantees and other contingent liabilities	6,401	1,744	6,401	1,744
Commitments to extend credit:				
- Original term to maturity of one year or less	190,064	86,002	135,598	67,880
	196,465	87,746	141,999	69,624

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

Operating lease commitments

Where a Group company is the lessee, the future aggregate lease payments under non-cancellable operating leases are as follows:

	Group		Company	
	2019	2018	2019	2018
	£000	£000	£000	£000
Expiring:				
Within 1 year	215	2,995	215	2,903
Later than 1 year and no later than 5 years	-	11,446	-	11,075
Later than 5 years	-	2,213	-	1,843
	215	16,654	215	15,821

2018 has been restated to include an omitted lease identified during the implementation of IFRS 16.

On adoption of IFRS 16, the Group recognised a right-of-use asset and a corresponding liability in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases.

Arbuthnot Latham have utilised the practical expedient which allows for the accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases.

35. Share capital

Group and Company	Number of shares	Ordinary share capital £000
At 1 January 2018	15,000,000	15,000
At 31 December 2018 & December 2019	15,000,000	15,000

The Ordinary share capital is fully authorised and comprises £15m (2018: £15m) ordinary shares £1 per share.

36. Reserves and retained earnings

	Group		Company	
	2019	2018	2019	2018
	£000	£000	£000	£000
Retained earnings	47,077	44,163	44,574	42,419
Capital contribution reserve	121,012	121,012	121,013	121,012
Fair value reserve/Available-for-sale reserve	951	(3,133)	950	(3,133)
Total reserves at 31 December	169,040	162,042	166,537	160,298

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37. Share-based payment options

Company - cash settled

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

Under this Scheme, Mr. Salmon and Mr. Cobb were granted a phantom option to acquire 200,000 and 100,000 ordinary 1p shares respectively in the Company, which remained outstanding at 31 December 2019. The fair value of these options at the grant date was £1m. At 31 December 2019, the fair value of the options was £0.3m (2018: £0.1m).

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

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

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

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

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

The probability of pay-out has been assigned based on the likelihood of meeting the performance criteria, which is 100%. The Directors consider that there is some uncertainty surrounding whether the participants will all still be in situ and eligible at the vesting date. Therefore, the directors have assumed a 15% attrition rate for the share options vesting in June 2021. The attrition rate will increase by 3% per year until the vesting date.

38. Cash and cash equivalents

For the purposes of the Statement of Cash Flows, cash and cash equivalents comprises cash on hand and demand deposits, and cash equivalents are deemed highly liquid investments that are convertible into cash with an insignificant risk of changes in value with a maturity of three months or less at the date of recognition.

	Group		Company	
	2019	2018	2019	2018
	£000	£000	£000	£000
Cash and balances at central banks (Note 15)	325,908	405,325	325,908	405,325
Loans and advances to banks (Note 16)	46,244	54,160	44,938	53,353
	372,152	459,485	370,846	458,678

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39. Related party transactions

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

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

	Group		Company	
	2019	2018	2019	2018
	£000	£000	£000	£000
Loans with parent company and subsidiaries				
Loans outstanding at 1 January	11,499	11,499	111,491	80,382
Loans advanced during the year to the parent and subsidiaries	-	-	1,214,594	293,108
Loan repayments during the year from the parent and subsidiaries	-	-	(1,144,868)	(256,948)
Loans outstanding at 31 December	11,499	11,499	181,217	116,542
Interest income earned	208	193	4,352	1,656

	Group		Company	
	2019	2018	2019	2018
	£000	£000	£000	£000
Deposits on behalf of parent company and subsidiaries				
Deposits at 1 January	34,810	54,045	34,810	54,045
Deposits placed during the year from the parent company and subsidiaries	(24,649)	14,563	(24,649)	14,563
Deposits repaid during the year by the parent company and subsidiaries	29,210	(33,798)	29,210	(33,798)
Deposits at 31 December	39,371	34,810	39,371	34,810
Interest expense on deposits	99	113	99	113

	Group		Company	
	2019	2018	2019	2018
	£000	£000	£000	£000
Amounts recharged				
Amounts recharged to the parent company	1,005	840	1,005	840
Amounts recharged to fellow subsidiaries and associates	-	550	-	550
Amounts recharged from the parent company	10,545	1,200	10,545	937

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	Group		Company	
	2019	2018	2019	2018
	£000	£000	£000	£000
Intergroup balances				
Balances due from fellow subsidiaries and associates	-	-	6,366	544

	Group		Company	
	2019	2018	2019	2018
	£000	£000	£000	£000
Intergroup balances				
Balances due to the parent company	765	24	765	24

The Bank paid dividends of 16.04p per share (2018: 2p per share) during the year to Arbutnot Banking Group PLC.

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

	Group		Company	
	2019	2018	2019	2018
	£000	£000	£000	£000
Directors and Key Management				
Loans				
Loans outstanding at 1 January	517	3,725	517	3,725
Loans advanced during the year	141	303	141	303
Loan repayments during the year	(155)	(3,511)	(155)	(3,511)
Loans outstanding at 31 December	503	517	503	517
Interest income earned	16	15	16	15

	Group		Company	
	2019	2018	2019	2018
	£000	£000	£000	£000
Directors and Key Management				
Deposits				
Deposits at 1 January	8,030	6,830	8,030	6,830
Deposits placed during the year	6,410	27,740	6,410	27,740
Deposits repaid during the year	(10,846)	(26,540)	(10,846)	(26,540)
Deposits at 31 December	3,594	8,030	3,594	8,030
Interest expense on deposits	7	48	7	48

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 (2018: £nil).

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

	Group & Company	
	2019	2018
	£000	£000
Salary payments	4,351	2,654
Pension contributions	111	88
	4,462	2,742

Pension contributions are being accrued under money purchase schemes for 3 directors (2018: 3 directors) in respect of qualifying service. The emoluments of Sir Henry Angest, JR Cobb, and AA Salmon were paid by the Parent Company. Their total

Notes to the Consolidated Financial Statements

emoluments are disclosed in the financial statements of the Parent Company. An allocation of these costs are included in this disclosure to reflect the efforts incurred by these individuals in exercising their roles as executive directors of Arbuthnot Latham & Co., Limited.

Share based payments to Directors are disclosed in Note 37.

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

	Group & Company	
	2019	2018
	£000	£000
Salary payments	817	703
Pension contributions	35	31
	852	734

Other related party transactions

Sir Michael CG Peat is an independent non-executive board member of Deloitte LLP. During 2019 the Bank was invoiced £123k (2018: £255k) by Deloitte LLP in relation to professional fees. As at 31 December 2019, there were no payments outstanding.

40. Interests in subsidiaries

Company	Investment at cost £000	Impairment provisions £000	Net £000
At 1 January 2018	7,945	-	7,945
Capital contribution to Arbuthnot Real Estate Fund	6,657	-	6,657
Incorporation of Arbuthnot Commercial Asset Based Lending	3,500	-	3,500
At 31 December 2018	18,102	-	18,102
Capital contribution to Arbuthnot Specialist Finance Limited	1,500	-	1,500
At 31 December 2019	19,602	-	19,602

(a) List of subsidiaries

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

	% shareholding	Country of incorporation	Principal activity
Direct shareholding			
Arbuthnot Latham (Nominees) Limited	100.0%	UK	Dormant
Arbuthnot Securities Limited	100.0%	UK	Dormant
John K Gilliat & Co., Limited	100.0%	UK	Dormant
Arbuthnot Specialist Finance Limited	100.0%	UK	Specialist finance
Pinnacle Universal Limited	100.0%	UK	Property development
Pinnacle Universal	100.0%	BVI	Property development
Renaissance Asset Finance Limited	100.0%	UK	Asset finance
Arbuthnot Commercial Asset Based Lending Ltd	100.0%	UK	Asset based lending
Arbuthnot Latham Real Estate Holdings Ltd	100.0%	UK	Property investment
Arbuthnot Latham Real Estate Investors Ltd (Jersey)	100.0%	Jersey	Property investment
Arbuthnot Latham Real Estate Capital GPI Ltd (Jersey)	100.0%	Jersey	Property investment
Arbuthnot Latham Real Estate Capital Fund 1 LP (Jersey)	100.0%	Jersey	Property investment
Arbuthnot Latham Real Estate Holdco Ltd (Jersey)	100.0%	Jersey	Property investment
Arbuthnot Latham Real Estate PropCo 1 Ltd (Jersey)	100.0%	Jersey	Property investment

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

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

(b) Non-controlling interests in subsidiaries

There are no subsidiaries with non-controlling interests.

41. Country by Country Reporting

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

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

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

31 December 2018	Turnover	Number FTE	Profit/(loss)	Tax paid
Location	(£m)	employees	before tax (£m)	(£m)
Arbuthnot Latham Banking	68.0	406	16.3	0.8
Dubai - Branch	-	14	(2.9)	-

The Dubai branch income is booked through the UK; hence the turnover is nil in the above analysis. Offsetting this income against Dubai branch costs would result in a £1.6m profit (2018: £1.6m). No public subsidies were received during 2019 or 2018.

42. Ultimate controlling party

The Directors regard Arbuthnot Banking Group PLC, a company registered in England and Wales, as the ultimate parent company. Sir Henry Angest, the Group Chairman and CEO has a beneficial interest in 56.1% of the issued share capital of Arbuthnot Banking Group PLC and is regarded by the Directors as the controlling entity. A copy of the consolidated financial statements of Arbuthnot Banking Group PLC may be obtained from 7 Wilson Street, London, EC2M 2SN.

43. Non-adjusting events after the balance sheet date

The global economy has been significantly impacted by the spread of coronavirus, this has had a dramatic effect on financial markets around the world.

The Government along with the Bank of England have implemented a number of measures to boost the economy. The extent to which these prevent the emergence of credit impairments in the Group is unknown.