



SAMPLE REPORT – ILLUSTRATIVE FIGURES

Northgate Joinery Limited is a fictional entity created to show the format and contents of a Lease Rater report. Every figure in this document is illustrative. It is not advice, it does not describe a real company, and it must not be used to support an accounting estimate.

OBTAINABLE BORROWING RATE (OBR)

FRS 102 Section 20 Accounting-Support Report

Prepared using user-supplied information, market references and standardised assumptions

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FRS 102 SUPPORT REPORT

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LEASE RATER OBR REPORT

OBR v4

Report ID: 00000000-0000-4000-8000-000000005a3e | Generated: 29 Sep 2026 10:00 | FRS 102 support output

COMPANY: **Northgate Joinery Limited**

LEASE: **Ten-year lease of a trade counter and warehouse unit**

COMPANY NUMBER: **SAMPLE-0000000**

REPORT ID: **00000000-0000-4000-8000-000000005a3e**

GENERATED: **29 Sep 2026 10:00**

RECOMMENDED OBTAINABLE BORROWING RATE

10.96%

DEFENSIBLE RANGE 9.46% — 12.46%

SONIA Base Rate (10 years)	4.92%	—
Total Credit Spread	6.05%	(605 bps)
RECOMMENDED OBR	10.96%	—

Credit Spread Components

Financial health (weight 45%) +184.5 bps	Security / structure (weight 30%) +320.4 bps
Sector & size (weight 15%) +64.3 bps	Exposure (weight 10%) +35.3 bps

Note: The pillar percentages are the weights applied to each pillar's raw score, not target shares of the spread: each contribution is the pillar's raw basis points multiplied by its weight, so its share of the total depends on how it scored, and a contribution can be negative. The total spread is the sum of the four contributions, held within this report's sanity range of 300–1,600 bps (unsecured) (where that limit applies, the total shown is the limit, not the sum). The minimum depends on the security type. Figures are rounded for display only. See Methodology for details.

Overall Credit Assessment

Fair

How the spread is built

How to read this. Each line shows which way an input moved the credit spread: Reduces, No adjustment, Adds, or Adds significantly (one of the items that account for a large share of what its pillar adds). Only the pillar totals are shown in basis points; they add up to the total spread before any sanity-range adjustment.

Financial health +184.5 bps 45% weight	Security / structure +320.4 bps 30% weight	Sector & size +64.3 bps 15% weight	Exposure +35.3 bps 10% weight
Total credit spread			+604.5 bps
FINANCIAL HEALTH			+184.5 BPS · 45% WEIGHT
EBITDA Margin	Fair		Adds
EBIT Margin	Fair		Adds
Return on Equity (ROE)	Excellent		Adds
Current Ratio	Satisfactory		Adds
Quick Ratio	Fair		Adds
Cash Ratio	Satisfactory		Adds
Total Debt / TNW	Strong		Adds
Total Debt / EBITDA	Satisfactory		Adds
Net Debt / EBITDA	Satisfactory		Adds
Interest Coverage Ratio	Strong		Adds
Fixed Charge Coverage	Strong		Adds
Free Cash Flow	Strong		Adds
FCF / Total Debt	Strong		No adjustment
Cash Buffer	Fair		Adds
SECURITY / STRUCTURE			+320.4 BPS · 30% WEIGHT
Security			Adds significantly
Payment profile			Adds
Rent deposit			No adjustment
Years trading			No adjustment
Credit rating			Adds
SECTOR & SIZE			+64.3 BPS · 15% WEIGHT
Sector			Adds
Credit size band			Adds
EXPOSURE			+35.3 BPS · 10% WEIGHT
Lease cost to EBITDA			Adds
Lease cost to revenue			Adds
Lease cost to tangible net worth			Adds

The coloured label on a financial line is the assessment shown on its metric card. The marker shows only which way the item moved the spread. The two can differ: a metric assessed Excellent can still add to the spread, because no financial metric ever takes anything off it — the best readings add least and the weakest add most, and each is priced against a scale rather than a pass mark. The same holds for the lines with no label: a favourable input can still add to the spread, just less than the alternatives would.

Financial Analysis & Credit Metrics

!

Fair

EBITDA Margin

12.4%

EBITDA ÷ revenue.

!

Fair

EBIT Margin

8.6%

EBIT ÷ revenue.

✓✓

Excellent

Return on Equity (ROE)

27.2%

Net income ÷ TNW × 100.

✓

Satisfactory

Current Ratio

1.56×

Current assets ÷ current liabilities.

!

Fair

Quick Ratio

1.10×

(CA - Inventory) ÷ CL.

✓

Satisfactory

Cash Ratio

0.21×

Cash ÷ current liabilities.

✓

Strong

Total Debt / TNW

1.29×

Total debt ÷ Tangible net worth.

✓

Satisfactory

Total Debt / EBITDA

1.88×

Total debt ÷ EBITDA.

✓

Satisfactory

Net Debt / EBITDA

1.62×

(Total debt - Cash) ÷ EBITDA.

✓

Strong

Interest Coverage Ratio

3.92×

EBIT ÷ interest expense.



Strong

Fixed Charge Coverage

2.17×

EBITDA ÷ (Interest + Capex).



Strong

Free Cash Flow

£218,000

EBITDA - Capex - Tax - Interest.



Strong

FCF / Total Debt

22.2%

Free Cash Flow ÷ Total debt.



Fair

Cash Buffer

0.14×

Cash ÷ Total debt.



Not scored

Tax Paid

£62,000

User provided.



Not scored

Capital Expenditure (Capex)

£148,000

User provided.

Present Value (Lease Liability)

LEASE LIABILITY (PRESENT VALUE)

£382,552

Undiscounted Total: £620,000 • Implicit Discount: £237,448 (38.3%)

Calculation Method

Formula: Present Value of Lease Payments (Discounted Cash Flow)

$$PV = \sum \text{payment} \div (1 + \text{OBR} \div 12)^m$$

Every contractual payment is discounted from the month it falls in, where *m* is the number of months from commencement; a payment in advance in the first month has *m* = 0. The OBR is a nominal annual rate compounded monthly, so a quarter compounds as $(1 + \text{OBR} \div 12)^3$ and not as $1 + \text{OBR} \div 4$. Discounting at the reported rate on this basis reproduces the lease liability shown above, to within rounding of the printed rate.

Annual Payment:	£62,000	Lease Term:	10.0 years
Payment Frequency:	Quarterly in advance	Payment Dates:	40
Payment Amount:	£15,500.00	Discount Rate (OBR):	10.96%
Monthly Discount Rate:	0.9135%		

Iteration Audit Trail

✓ Converged in 3 iterations

Iteration stops when the rate stops moving — a change of less than **0.05 of a basis point** between passes — or when the rate is found to be alternating across an exposure band boundary, where the lower of the two is reported. Either way, at most **8 passes**. **The test is on the rate alone:** the ΔPV column is part of the audit trail and takes no part in it, so the PV can still move on the final pass, because the lease liability is re-discounted at the final rate.

Iteration	OBR Used	PV Calculated	New OBR	ΔOBR (bps)	ΔPV (%)
1	4.92%	£493,012	11.06%	—	—
2	11.06%	£381,076	10.96%	9.8	29.37%
3	10.96%	£382,552	10.96%	0.0	0.39%

Sensitivity Analysis

Impact of OBR range on lease liability:

Scenario	OBR	Present Value	Δ from Mid	Δ (%)
Low OBR	9.46%	£406,258	+£23,707	+6.20%
Recommended OBR	10.96%	£382,552	—	—
High OBR	12.46%	£360,880	−£21,671	−5.66%

FRS 102 Section 20 Compliance Note

This is the lease liability to record in accounts, calculated as the present value of lease payments discounted at the Obtainable Borrowing Rate (OBR), in accordance with FRS 102 Section 20 requirements. The iterative convergence method ensures the OBR and PV values are mutually consistent and stable, providing a robust and defensible valuation for audit purposes.

Key Credit Drivers



6 positive factors identified | 3 risk factors identified

Overall: Fair

✓ Positive Drivers

- Interest cover of 3.92× demonstrates substantial debt service capacity; EBIT covers the interest bill with material headroom against earnings volatility and supporting low probability of covenant breach.
- Strong Total Debt/TNW; prudent gearing leaves an adequate equity buffer to absorb losses, supporting low loss-given-default.
- Leverage is satisfactory; debt burden is manageable relative to current earnings, though moderate gearing requires monitoring to ensure sustained debt service capacity through market cycles.
- Adequate liquidity; current assets provide reasonable cover for short-term liabilities, though modest headroom requires prudent management of debtor/creditor cycles.
- Cash ratio is satisfactory; cash holdings provide adequate immediate liquidity, though modest reserves require prudent treasury management to maintain adequacy.
- Premises lease reflects property-style duration and amortisation characteristics; long-term occupational commitment and stable depreciation profile support predictable cash flows, though exit value remains sensitive to commercial property market conditions at term.

⚠ Risk Factors

- Small enterprise scale constrains operational and financial resilience; limited management depth, narrow customer/supplier base, and restricted access to alternative funding increase vulnerability to trading disruption. Default probability is elevated relative to larger peers, requiring appropriate risk premium in pricing.
- Unsecured facility increases credit risk exposure; recovery prospects are entirely dependent on ongoing trading performance and ranking pari passu with other unsecured creditors. Loss-given-default is materially higher absent structural mitigants, requiring enhanced pricing to compensate for elevated risk.
- Quarterly payments concentrate the obligation into four larger instalments a year. The model treats that as higher timing risk than a monthly profile, and prices it above monthly in arrears, even though each quarter is paid in advance.



Overall Credit Assessment

Fair

The overall assessment is Fair. It reflects the total credit spread, which takes in security, structure, sector and size as well as the financials. No financial measure is assessed Weak or Vulnerable. The pillars adding most to the spread are Security / structure and Financial health.

Input Data Summary



Company Profile

Sector

Manufacturing – Wood & Furniture

Credit size band

Small (turnover £632k to £10.2m)

Derived from turnover. Not the Companies Act size category.

Credit Rating

BB

Years Trading

9.0



Financial Position

Revenue

£4,200,000

EBITDA

£520,000

EBIT

£361,000

Total Debt

£980,000

Current Assets

£1,060,000

Current Liabilities

£680,000

Inventory

£310,000

Tangible Net Worth

£760,000

Depreciation

£159,000

Capital Expenditure (CapEx)

£148,000

Annual Tax Paid

£62,000



Lease Structure

Asset Class

Property

Security Type

Unsecured, with no debenture or guarantee

Payment Profile

Quarterly in advance

Lease Term

10 years

Annual Lease Cost

£62,000

Rent Deposit

—

Base Rate Documentation

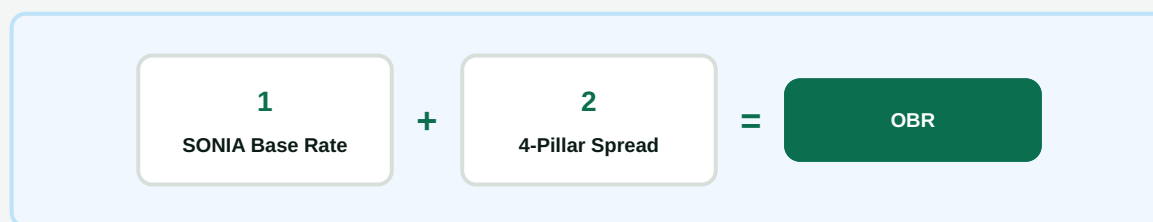
Source Bank of England published OIS (SONIA) zero-coupon spot yield curve	Curve Type BoE nominal OIS (SONIA) zero-coupon spot rates, 1Y– 25Y	Curve Valuation Date 2026-09-28
Retrieved 2026-09-29	Last Updated 2026-09-29	Update Frequency Quarterly
Stored Rate Convention Nominal annual, compounded monthly	Lease Term 10.0 years	Applied Base Rate 4.92%

The base rate is term-specific and reflects the current risk-free rate curve:

- **Published points:** Bank of England SONIA OIS zero-coupon spot rates at 1Y, 2Y, 3Y, 5Y, 7Y, 10Y, 15Y, 20Y, and 25Y
- **Interpolation:** Intermediate lease terms are linearly interpolated between adjacent published points
- **Long leases:** Leases longer than 25 years use the 25-year rate as a conservative cap
- **Stored values:** Rates are stored as nominal annual, compounded monthly, after converting the Bank of England's continuously-compounded source figures

$r_{nom} = 12 * (\exp(r_{cc}/12) - 1)$ applied to all BoE CC rates before storage

Methodology & Calculation Framework



1. Regulatory Framework

Standard. FRS 102 Section 20, as revised by the Financial Reporting Council's Periodic Review 2024, applies to accounting periods beginning on or after 1 January 2026. Lease liabilities are measured at the present value of the lease payments, discounted using the interest rate implicit in the lease where that rate can be readily determined. Where it cannot, paragraph 20.49 permits the lessee to choose, on a lease-by-lease basis, between its incremental borrowing rate (IBR) and its obtainable borrowing rate (OBR). Both are permitted. Neither is compulsory, and the OBR does not replace or stand in for the IBR. This report estimates an obtainable borrowing rate; the choice to apply it to a given lease remains management's.

The rate this report estimates. FRS 102 defines the obtainable borrowing rate as the rate of interest the lessee would have to pay to borrow, over a similar term, an amount similar to the total undiscounted lease payments included in the measurement of the lease liability. Security is referenced in the definition of the incremental borrowing rate, not the obtainable borrowing rate. It still informs the estimate, because a lender pricing that borrowing would price its structure, which is why the security position is assessed below.

Implicit rate. In practice a lessee rarely holds what is needed to determine the implicit rate, because it depends on the lessor's initial direct costs and residual value assumptions, which are commercially sensitive and not usually disclosed. For most SME property, vehicle and equipment leases the question therefore moves to the second step of the hierarchy.

2. Base Rate Determination

SONIA Anchor. The OBR is anchored to the Sterling Overnight Index Average (SONIA) term structure, which reflects the risk-free rate for sterling borrowing. Lease Rater uses the Bank of England's published SONIA OIS zero-coupon spot curve as the risk-free base.

Term Matching. Risk-free base rates are the Bank of England SONIA OIS zero-coupon spot rates, used from 1Y through 25Y, with linear interpolation between published points. Leases longer than 25 years use the 25-year rate as a conservative cap.

Rate Updates. Risk-free rates are updated quarterly. The report discloses the curve valuation date, retrieval date, source, and applied base rate so the calculation can be tied back to the exact curve snapshot used.

3. Credit Spread Framework

Four-Pillar Model. A market-reflective credit spread is added to the base rate, derived from four independent risk drivers:

- **Financial Health (45% weight):** Assesses creditworthiness through 14 industry-standard metrics across 6 categories:
 - **Profitability (3 metrics):** EBITDA margin, EBIT margin, Return on Equity (ROE)
 - **Liquidity (3 metrics):** Current ratio, quick ratio, cash ratio
 - **Leverage (3 metrics):** Total Debt/TNW, Total Debt/EBITDA, Net Debt/EBITDA
 - **Coverage (2 metrics):** Interest coverage ratio (ICR), fixed charge coverage (FCC)
 - **Cash Flow (2 metrics):** Free cash flow (FCF), FCF/total debt ratio
 - **Balance Sheet (1 metric):** Cash buffer

Each metric is scored using 6-band risk classification (Excellent → Strong → Satisfactory → Fair → Weak → Vulnerable). Tax paid estimated at 19% of EBIT when not provided; capex estimated using depreciation or 3% of revenue fallback.

- **Security / Structure (30% weight):** Evaluates the lender's recovery position through the security a lender would require on the borrowing — a debenture carrying fixed and floating charges, a fixed charge over a specific asset, or an unsecured position — together with the payment profile, any rent deposit, the residual or balloon element, years trading and any external credit rating. Security type is by far the largest of these: a fixed charge over a named asset prices well inside a debenture, and an unsecured position well outside it.
- **Sector & Size (15% weight):** Reflects sector-specific risk and the credit size band — a Lease Rater turnover band (under £632k / to £10.2m / to £36m / above), derived from the turnover entered rather than the Companies Act size category. Certain sectors (e.g., construction, hospitality) carry higher default risk than others (e.g., healthcare, education), and larger companies generally receive lower spreads than micro and small ones. Size is priced on a sliding scale by turnover, so companies near a band boundary are priced close to their neighbours in the next band. Years trading is scored in the Security / Structure pillar, not here.
- **Exposure (10% weight):** Scores the lease liability against EBITDA, revenue and tangible net worth, and averages the three. A lease that is large relative to the business increases lender concentration risk and widens the spread.

Weighting & Reconciliation. The four pillars are weighted by predictive power: Financial Health 45% (most predictive of default), Security/Structure 30% (loss mitigation), Sector & Size 15% (external context), Exposure 10% (concentration risk). The total spread is then held within the model's sanity range: a minimum of 300 bps (3.0%) for debenture or unsecured borrowing, or 150 bps (1.5%) for a fixed charge over a specific asset, and a maximum of 1,600 bps, which is what keeps the result inside realistic UK SME lending bounds.

Which way a reading can move the rate. Strong financial metrics never reduce the rate: no financial reading, however good, takes anything off the spread. The best readings add least and the weakest add most. Other features of the transaction can reduce it — a rent deposit, payment in advance, a long trading record, an external rating, company size, and a lower-risk sector — because each of those is a genuine reduction in what a lender stands to lose, or in how likely a loss is.

Weights, not target shares. The four percentages are the weights applied to each pillar's raw score. Each contribution is that pillar's raw basis points multiplied by its weight, so its share of the total depends on how it scored and will differ from the weight unless all four pillars happen to score alike. There is no per-pillar cap or floor, and no normalisation or rescaling between pillars. The total spread is the sum of the four contributions, held within the model's sanity range: a minimum of 300 bps (3.0%) for debenture or unsecured borrowing, or 150 bps (1.5%) for a fixed charge over a specific asset, and a maximum of 1,600 bps; where that limit applies, the total shown is the limit rather than the sum. Figures are rounded for display only. A pillar's contribution can also be NEGATIVE, reducing the total spread: Sector & Size, for example, nets a size credit against a sector premium, so a large company in a higher-risk sector can show a small negative contribution.

4. Risk Guards & Stability Controls

Extreme ratios. Coverage and leverage ratios are scored on their actual value. The six risk bands have an outer bound at each end, so a ratio far beyond the weakest threshold falls in the weakest band and stays there rather than pushing the rate higher without limit. No ratio is capped or rounded before scoring, and the figure shown in this report is the ratio as calculated.

Financial distress. Where tangible net worth is nil or negative, or a metric cannot be calculated from the information supplied, the metric is never treated as favourable: it is scored at the weak end of its range or excluded and disclosed as unavailable, with the reason stated beside it. Distress therefore raises the rate rather than lowering it. The total credit spread is then held within a published sanity range so that no single input can drive the result outside realistic UK SME lending bounds.

5. Defensible Range

Range Construction. A defensible range (low / mid / high) is provided around the recommended OBR midpoint, at a fixed **±150 basis points**. The width is a stated parameter of this methodology and is the same on every report: it is **not** varied by credit quality, security, payment profile or sector. It is there to give the preparer room for judgement, not to express the model's confidence in one case over another.

Professional Judgment. Preparers may select any point within the disclosed range based on their specific circumstances, relationship banking considerations, or other entity-specific factors. The midpoint represents the model's best estimate, but the range acknowledges legitimate variability in credit pricing.

Understanding the Defensible Range

The core OBR of **10.96%** represents the most likely borrowing rate for this entity based on observable market data and the company's financial profile. The rate is an estimate, and FRS 102 leaves its selection to management's judgement. The defensible range of **±150 basis points** is a stated parameter of this methodology, set to allow accountants to adjust for company-specific factors; it is explained in full below.

This range does not represent calculation uncertainty. It reflects the reality that two similar companies may obtain different borrowing rates based on factors beyond standard financial metrics. Selecting a point within it, and recording why, remains management's judgement.

Why ±150 Basis Points?

The range is a stated parameter of this methodology, set at ±150 basis points either side of the central estimate. It is not derived from the entity's figures and it is not a confidence interval: it is the band within which management may select and justify a rate, given that two comparable companies can borrow at materially different rates for reasons no model observes. Where a rate other than the midpoint is used, the basis for selecting it should be documented alongside this report.

Factors That May Support a Lower Rate (within the range)

- Long-term contractual revenue with established clients
- Low customer concentration across a diversified client base
- Blue-chip client base or public sector contracts
- Strong covenant headroom and improving financial ratios
- Mission-critical asset importance (essential to ongoing operations)
- Sector leadership or dominant market position
- Robust governance, internal controls, and experienced management team
- Parent company guarantee or group support structure
- Long trading history with consistent profitability

Factors That May Support a Higher Rate (within the range)

- High customer concentration in one or a few clients
- Recent covenant breach, financial restructuring, or losses
- Sector experiencing structural decline, regulatory change, or high volatility
- Limited collateral beyond the leased asset itself
- Material regulatory, planning, or legal compliance risks
- Short trading history or inconsistent cash flow patterns
- Significant foreign exchange or commodity price exposure
- Weak governance, control environment, or management turnover
- Asset-light business model with minimal tangible security

Guidance for Accountants and Auditors

When selecting a rate within the defensible range, accountants should document the specific company factors that justify any adjustment from the core OBR. This documentation should be retained for audit review. Auditors will assess whether the selected rate is reasonable given observable market data and the entity's specific circumstances. It is recommended to discuss significant adjustments with auditors during planning or interim review stages.

6. Audit Considerations

Documentation. The PDF report provides supporting documentation including methodology, assumptions, input data, risk drivers and rate metadata. It is intended to support management's discount rate estimate under FRS 102 §20.49.

Consistency. The methodology is applied consistently across all calculations, ensuring audit quality control for entities with multiple leases or recurring OBR requirements.

Transparency. The framework is published in full: the four pillars and their weights (45/30/15/10), the 14 financial metrics and the six categories they sit in, the six-band scoring scale, and the base rate source and how it is term-matched. This report discloses the inputs used, the calculated ratios, each pillar's assessment and its post-weight contribution to the spread in basis points, and the curve snapshot the base rate came from. The individual basis-point values assigned within each band, and the thresholds between bands, are proprietary and are not disclosed. The spread ranges used are informed by the author's professional experience in UK SME commercial lending and credit risk pricing, in the absence of a published market dataset for this asset class.

Updates. As market conditions evolve, SONIA rates and calibration parameters are updated to maintain accuracy. Each report is timestamped and version-controlled for audit trail purposes.

7. Limitations & Disclaimers

No Guarantee. The OBR is an estimate based on market data and entity-specific inputs. It does not constitute a binding loan offer or guarantee that the lessee could obtain financing at the calculated rate.

Professional Judgment Required. Management and auditors should evaluate whether the OBR is appropriate for the specific lease and entity circumstances. Alternative approaches (e.g., actual loan rates for similar debt, third-party valuations) may be warranted in complex cases.

FRS 102 context. Lease Rater is designed to support accounting work under FRS 102, but the output should still be reviewed in the context of the full accounting standard and, where necessary, with additional professional advice.

Example Calculation (This Report)

SONIA Base (10 years)	4.92%
Financial health	+184.5 bps
Security / structure	+320.4 bps
Sector & size	+64.3 bps
Exposure	+35.3 bps
Sanity range (300–1,600 bps (unsecured))	Within range — no adjustment
RECOMMENDED OBR	10.96%

Legal & Use Disclaimer

1. Purpose & Scope. This report has been prepared by Lease Rater, operated by Lease Rater Limited, to support management's estimate of an obtainable borrowing rate for accounting purposes under FRS 102. It is an accounting-support report, not a valuation, credit rating or audit opinion, and it does not replace the professional judgement of preparers or advisers.

2. Not a Loan Offer. The OBR presented in this report does not constitute an offer of credit or a guarantee that financing is available at the stated rate. Actual borrowing costs depend on lender-specific criteria, market conditions, credit appetite, and relationship factors not captured in this model.

3. Professional Review. Management remains responsible for the accounting judgements applied to the lease. Auditors and other advisers should consider whether the inputs, assumptions and methodology are appropriate for the specific entity and lease, including whether alternative approaches are needed.

4. Inputs and Judgement. The output is derived from client inputs and publicly available or market-reference information. Lease Rater does not independently verify the accuracy of financial data or entity-specific inputs. Users remain responsible for ensuring that input data is complete, accurate and appropriate for the entity.

5. Use, Sharing and Liability. This report may be retained in the entity's internal records and shared confidentially with directors, group finance functions, auditors, accountants, tax advisers, legal advisers and regulators or authorities where reasonably required. It must not be sold as a standalone product, publicly published, used to imply lender availability, represented as a credit rating or audit opinion, or used to reverse engineer Lease Rater's proprietary methodology. Liability in relation to this report is governed by the Lease Rater Terms of Use, including the liabilities that cannot lawfully be excluded and the agreed liability cap.

6. Intellectual Property & Confidentiality. This report and the underlying methodology, calibration parameters and proprietary algorithms are the intellectual property of Lease Rater. Internal copies and the permitted professional sharing described above are allowed, but proprietary methodology and non-public thresholds remain confidential.

Glossary of Terms

Obtainable Borrowing Rate (OBR)

The rate of interest that a lessee would have to pay to borrow, over a similar term, an amount similar to the total undiscounted lease payments included in the measurement of the lease liability. Under FRS 102 Section 20 (Periodic Review 2024) the OBR is one of two rates the lessee may choose between, lease by lease, where the interest rate implicit in the lease cannot be readily determined; the other is the incremental borrowing rate. Security is not part of this definition.

SONIA (Sterling Overnight Index Average)

The Bank of England's preferred risk-free reference rate for sterling, replacing LIBOR. SONIA represents the cost of overnight unsecured borrowing in the sterling wholesale market.

Credit Spread

The additional interest rate charged above the risk-free base rate (SONIA) to compensate lenders for credit risk, security position, sector exposure, and other borrower-specific factors.

EBITDA (Earnings Before Interest, Tax, Depreciation, and Amortisation)

A measure of a company's operating profitability before the impact of financing, tax, and non-cash accounting charges. Used to assess credit quality and calculate leverage ratios.

EBIT (Earnings Before Interest and Tax)

A measure of operating profit that excludes financing costs and tax. Used in interest coverage calculations to assess a company's ability to service debt.

Tangible Net Worth (TNW)

Total equity less intangible assets (e.g., goodwill). Represents the 'hard' net asset value available to creditors in a liquidation scenario and is a key measure of financial resilience.

Interest Coverage

The ratio of EBIT to interest expense, measuring how many times a company can cover its interest obligations from operating profit. Higher ratios indicate lower credit risk.

Leverage Ratio

A measure of a company's debt burden relative to its earnings or equity. Common leverage ratios include Total Debt/TNW, Net Debt/TNW, and Net Debt/EBITDA. Higher ratios indicate higher financial risk.

Current Ratio

Current assets divided by current liabilities. Measures a company's ability to meet short-term obligations. A ratio above 1.0 indicates the company has sufficient liquid resources to cover near-term liabilities.

Quick Ratio

$(\text{Current Assets} - \text{Inventory}) / \text{Current Liabilities}$. A more conservative liquidity measure than the current ratio, as it excludes inventory which may not be quickly convertible to cash.

Cash Ratio

$\text{Cash} / \text{Current Liabilities}$. The most conservative liquidity measure - shows immediate cash available to pay short-term obligations without relying on inventory or receivables collection.

Return on Equity (ROE)

$\text{Net Income} / \text{Tangible Net Worth} \times 100$. Measures profitability relative to shareholders' equity. Higher ROE indicates more efficient use of shareholder capital.

Fixed Charge Coverage (FCC)

$\text{EBITDA} / (\text{Interest Expense} + \text{Capex})$. Measures ability to cover both interest and capital expenditure from operating cash flow. More comprehensive than interest coverage as it accounts for capex requirements.

Free Cash Flow (FCF)

$\text{EBITDA} - \text{Interest} - \text{Tax} - \text{Capex}$. Measures cash available after all operating obligations and capital investment. Represents true discretionary cash available for debt repayment, dividends, or reinvestment.

Cash Buffer

$\text{Cash} / \text{Total Debt}$. Measures liquidity cushion relative to total borrowings. Higher ratios indicate greater resilience to disruptions and ability to weather downturns.

Total Debt / TNW

Total Debt divided by Tangible Net Worth. Measures balance sheet leverage - how much debt the company carries relative to its equity base. Lower ratios indicate stronger financial structure and less reliance on external financing.

Total Debt / EBITDA

Total Debt divided by EBITDA. Measures debt burden relative to cash generation, expressed in years to repay. A ratio of 3.0× means it would take 3 years of EBITDA to repay all debt (assuming no other uses of cash). Lower ratios indicate better debt servicing capacity.

Net Debt / EBITDA

$(\text{Total Debt} - \text{Cash}) / \text{EBITDA}$. Similar to Total Debt/EBITDA but accounts for cash on hand, providing a net leverage view. Companies with significant cash reserves show lower net leverage than gross leverage.

FCF / Total Debt Ratio

Free Cash Flow divided by Total Debt, expressed as a percentage. Measures debt repayment capacity from discretionary cash flow. Higher percentages indicate stronger ability to reduce debt organically.

Defensible Range

The professionally acceptable variance around the calculated OBR within which an accountant may select a final discount rate based on company-specific factors. For this analysis, the defensible range is ± 150 basis points (1.5 percentage points). It is a stated parameter of this methodology rather than a figure derived from the entity's own numbers, and it is not a confidence interval. Selection within the range requires professional judgment and documented rationale.

Security Type

The security a lender would require on the borrowing. The three positions the model prices are a debenture carrying fixed and floating charges, which is a general charge over the company's assets; a fixed charge over a specific asset; and an unsecured position with no debenture or guarantee. The question is what security the entity's own lender would take on a facility of this size, not what security the lease itself carries. Stronger security reduces the lender's loss on default and lowers the spread.

Payment Profile

The timing and frequency of lease payments. Three profiles are offered. Monthly in advance scores best, monthly in arrears is neutral, and quarterly in advance scores worst. Quarterly in arrears is not offered. Payments in advance also give a slightly higher present value, because each one is discounted over a shorter time.

Professional Judgment

The application of relevant training, knowledge, and experience to make informed decisions about appropriate accounting treatments where standards provide flexibility. Under FRS 102, professional judgment is required when selecting discount rates for lease accounting. Auditors expect judgment to be evidence-based, documented, and consistent with observable market data and entity-specific circumstances.

Residual / Balloon

A lump-sum payment due at the end of the lease term, typically expressed as a percentage of the original asset cost. Higher residual values increase lender risk and may widen spreads.

FRS 102

The Financial Reporting Standard applicable in the UK and Republic of Ireland. The 2026 version introduces IFRS 16-aligned lease accounting for lessees: a lease liability is measured at the present value of the lease payments, discounted at the rate implicit in the lease where that can be readily determined. Where it cannot, para 20.49 lets the lessee choose, lease by lease, the incremental borrowing rate or the obtainable borrowing rate; neither replaces the other.

Incremental Borrowing Rate (IBR)

The rate of interest that a lessee would have to pay to borrow, over a similar term and with similar security, the funds necessary to obtain an asset of similar value to the right-of-use asset. This is the IBR definition, carried across from IFRS 16. Under FRS 102 para 20.49 the lessee may apply it, or the obtainable borrowing rate, where the implicit rate cannot be readily determined. The OBR is often easier to evidence because its reference amount, the total undiscounted lease payments, is already stated in the lease.

Implicit Rate

The rate of interest that causes the present value of lease payments and unguaranteed residual value to equal the fair value of the leased asset plus initial direct costs. Rarely disclosed by lessors in practice.

Basis Points (bps)

One hundredth of one percent (0.01%). Used to express interest rate differences. For example, 100 bps = 1.00%.

Accounting-support documentation for the named customer

Prepared for the named customer and its permitted professional recipients

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