ARBUTHNOT BANKING GROUP PLC

2020 Year-end Results

24 March 2021

Bank of the Year

CityAM Awards 2019

Key Messages

Financial

- Reported loss before tax of £1.1m however the business broke even when acquisition costs are excluded
- Strong performance from new lending businesses drove a 41% increase in underlying profit before tax in FY20, to £8.2m (FY19: £5.8m)
- Period-end loan book of £1,588m, a decrease of 1%; lending discipline remained strong
- Client deposits increased to £2,365m at the period-end, representing loan-to-deposit ratio of 67.1%
- Assets Under Management £1,148m at the period-end, an increase of 4%
- Adjusted EPS growth of 74% to 57.2 pence per share
- Special dividend of 21 pence per share declared in Q1 2021 in respect of the dividend withdrawn in 2020 following guidance from the PRA

Key Indicators

- Gross yield of 4.7%
- Cost of funding remained low at 0.54%
- Net margin of 4.1%
- Return on deployed equity of (0.92%) versus 4.3% for FY19
- Underlying return on deployed equity of 6.9% versus 3.6% for FY19
- CET1 ratio of 15.4%
- Total Capital ratio of 18.7%
- Net assets per share 1,270p

Operational

- All staff successfully moved to remote working during the pandemic
- New Salesforce CRM Platform launched
- Payment Services extended to 24x7 faster payments
- New card app launched providing clients with functionality to manage their cards online
- Mobile Banking app upgraded
- New website launched to support the new branding and digital marketing

Strategic

- Agreed acquisition of Asset Alliance, an independent truck leasing business
- Continue to generate strong net interest margins, leveraging the low cost funding from deposits
- Focused on building loan book and profitability in new lending divisions
- Maintaining strong lending discipline and low cost of risk

Financial Highlights and KPIs

Key Performance Indicator	FY20	FY19	% Change
Net revenue margin	4.1%	4.5%	(7%)
Total cost income ratio	99%	97%	2%
Underlying PBT	£8.2m	£5.8m	41%
EPS (basic)	-8.9p	41.2p	(122%)
EPS (adjusted)	57.2p	32.8p	74%
Dividend per share*	0p	16p	(100%)
Annualised ROAE	(0.92%)	4.3%	(121%)
Period-end loan book	£1,588m	£1,599m	(1%)
Period-end deposits	£2,365m	£2,085m	13%
Loan-to-deposit ratio	67.1%	76.7%	(13%)
Lending (flow)	£320m	£430m	(26%)
Cost of risk	0.18%	0.05%	260%
Cost of funding	0.54%	0.69%	(22%)
CET1 ratio	15.4%	14.4%	7%

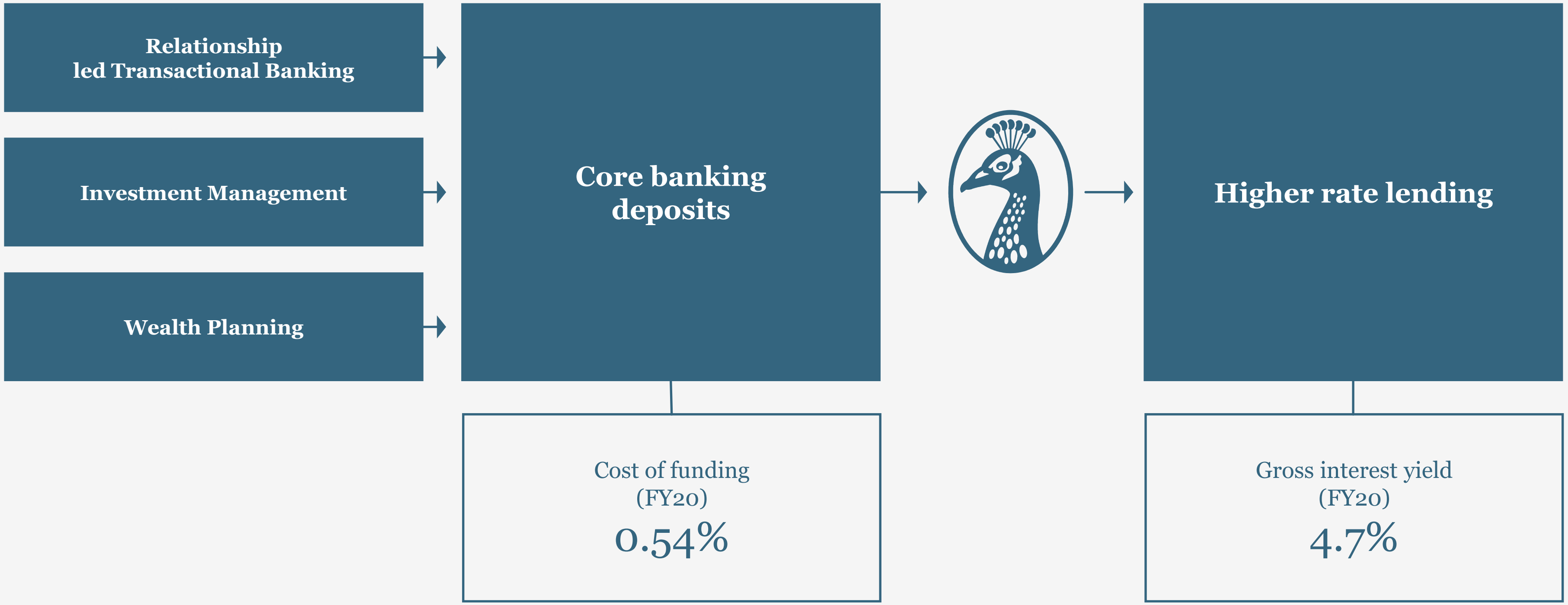
Commentary

- Net margin reduction to 4.1% driven by reduction in Bank of England Base Rate
- No dividend for 2020 but a special dividend of 21 pence per share declared in lieu of the dividend withdrawn in 2020
- (1%)/(£11m) loan book decrease driven by pay down in acquired mortgage portfolios and tightening of credit appetite in Q2/Q3 in response to the pandemic
- Loan to deposit ratio 67.1%, down from 76.7% in 2019 due to reduced lending and continued strategy to raise low-cost deposits for future diversification and growth
- Cost of risk 0.18% up from 0.05% in 2020 due in part to incremental IFRS9 provisions as a result of Covid-19
- Cost of funding decreased in 2020 following the BoE base rate reduction. December 2020 annualised cost of funds stands at 0.46%
- CET1 Ratio 15.4%, up from 14.4% in 2019, largely due to the suspension of regulatory buffers

- * Special dividend of 21 pence per share declared in Q1 2021 in respect of the dividend withdrawn in 2020 following guidance from the PRA

Group Strategic Overview

Business model



Strategic "Future State" vision

Division	Loans £ bn	Risk Weighting	Risk Weighted Assets £m	Capital £m	Gross Margin	Cost : Income Ratio	Return on Capital Employed
Core Bank	1.5	40%	600	76	3-5%	85%	14%
Renaissance Asset Finance	0.2	80%	160	20	8-9%	40-50%	29%
Asset Based Lending	0.3	75%	225	28	8-9%	35-45%	33%
Specialist Finance	0.1	120%	120	15	8-10%	35-45%	23%
Asset Alliance	0.45	100%	450	57	7-9%	45-55%	25%
Other assets	1.55	14%	210	27			n/a
Group Costs							(4.5%)
Total	**4.1**		**1,765**	**223**			**15%**

- The numbers set out above represent, in broad terms, the way the Group currently anticipates allocating capital among its businesses in the medium term. The potential scenario is not a forecast.

Banking Overview

Private Banking

Current accounts, deposit accounts, overdrafts, loans and foreign exchange services

Wealth Management

Financial Planning

Estate and tax planning, pensions and wealth preservation and generation

Investment Management

Developing tailored investment strategies through Discretionary Investment Management

Overview of the business

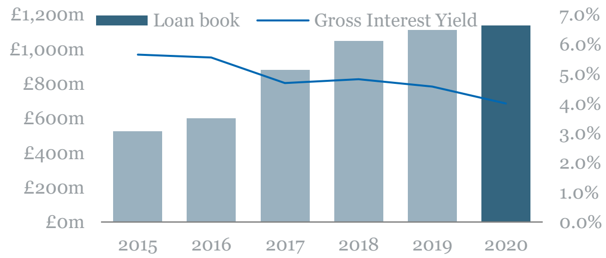
Private Bank since 1833, focussed on low risk sustainable growth. Provide a high quality private banking service to our clients. Sector focus on Media, Sports, Real Estate, Professionals, Executives, Entrepreneurs and International clients. Relationship led proposition delivered by Private Bankers in London, Dubai and UK regional offices, working with Wealth Planners & Investment Managers. Focus on recruiting experienced, established Private Bankers to support growth. Award winning private banking service and voted City AM Bank of the Year 2019/20. Private Banking Net Promoter Score of 45% 2020.

Business Model / Strategy

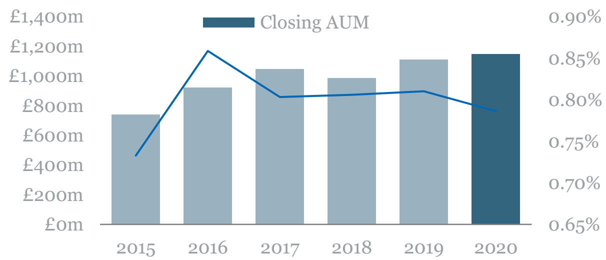
Building sustainable long term relationships with criteria clients. Relationship driven service. Typically win business from other private & retail banks, on flexibility, service, breadth of our proposition. Grow client numbers and broaden wallet share with existing clients.

- Wide range of high net worth clients from sectors including Real Estate, Media, Professionals, International
- Over 90% secured against UK property with an average LTV <60%, with the majority of the remainder also secured against Investment Assets and Cash
- Relationship driven
- Based on modern technology

Banking Loan book growth and gross interest yield



Assets under Management and revenue yield



Private Banking operating metrics

	FY 2020	FY 2019
Gross interest yield	4.0%	4.5%
Bad debt / impairment %	(0.32%)	(0.08%)
Private Bank as a % of loan book	36%	36%
Average loan size at period end	£0.62m	£0.76m
Typical loan maturity	52.3 months	51.6 months

Banking Overview

Commercial Banking

Current accounts, deposits, overdrafts, guarantees and charge cards. Clients have a dedicated Banker who is key to managing the relationship

Property Finance

Tailored lending to enable funding of both property investments and developments

Other Finance

Individual secured lending which is designed around the needs of each commercial client

Overview of the business

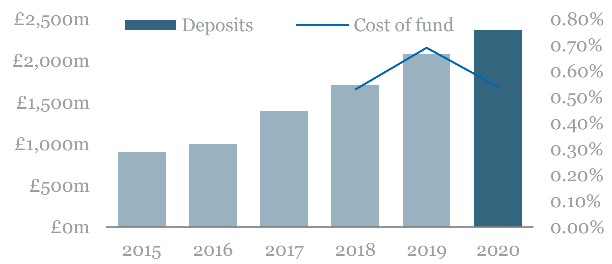
Founded in 2015. Provide a high quality banking service to our clients, typically owner-managed, independent businesses. Sector focus on Media, Real Estate, Trading Businesses, Law Firms, Credit Unions. Relationship led proposition delivered by Commercial Bankers in London and UK regional offices. Voted City AM Bank of the Year 2019/20. Commercial Banking Net Promoter Score of 65% 2020

Business Model / Strategy

Building sustainable long term relationships with Criteria clients. Relationship driven service. Typical win business from other banks, competing on flexibility, service, speed and complexity.

- Over 90% secured against UK property with an average LTV <60%
- Relationship driven

Deposit growth and interest expense rate



Commercial Banking operating metrics

	FY 2020	FY 2019
Gross interest yield	4.3%	4.7%
Bad debt / impairment %	0.05%	(0.07%)
Commercial Bank as a % of loan book	35%	33%
Average loan size at period end	£0.96m	£1.26m
Typical loan maturity	49.1 months	47.7 months

Renaissance Asset Finance (RAF)

A specialist asset finance provider, making funding facilities available, both direct and via premium brokers, to the UK market.

Overview of the business

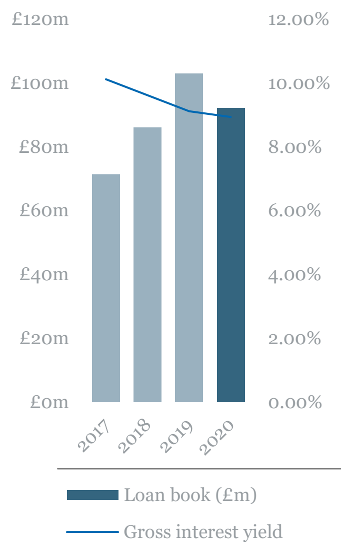
Acquired in April 2017, the subsidiary is based in Basildon with a sales team giving UK wide coverage

Principal products are Hire Purchase, Finance Leases and Refinance facilities for a range of assets, including: motor vehicles, plant & machinery, engineering and manufacturing equipment and business critical soft assets

Business Model / Strategy

- Secured against relevant assets and further mitigated by a large number of guarantees
- Relationship led, via a number of key broker connections combined with expansion into direct relationship management and cross-selling into the AL client base
- Ranging from 7% to 12% with an average rate in 2020 of 8.9%
- Average tenor of 3 years
- Average loan size is £133k

RAF Loan book growth



2020
£92m

2019
£103m

2018
£86m

2017
£71m

Divisional operating metrics

	FY 2020	FY 2019
Gross interest yield	8.9%	9.1%
Bad debt / impairment %	(1.18%)	(0.75%)
RAF as a % of loan book	6.4%	6.4%
Average loan size at period end	£0.133m	£0.118m
Typical loan maturity	49.7 months	45.9 months

Arbuthnot Commercial Asset Based Lending (ACABL)

Growth

Tailored refinance and corporate restructuring facilities, providing additional headroom for growth

Acquisitions

Bespoke funding structures in support of buy-and-build acquisitions, management buyouts and management buyins

Corporate Carve Outs

Financing carve outs of portfolio businesses, following the corporate divestiture of non-core assets

Overview of the business

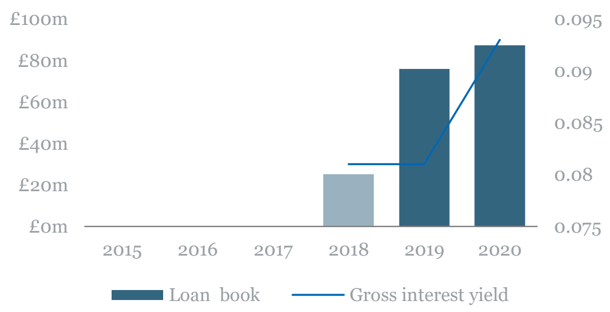
Established in January 2018. Commenced trading in May 2018
Based in Gatwick, employing 22 staff. Nationwide presence
Backing SMEs and lower mid-market corporates

Business Model / Strategy

A specialist asset-based lender, focused on delivering facilities to UK family owned / Private Equity backed SME and mid-tier businesses. Provides a full suite of asset-based lending facilities including, invoice discounting, stock finance, property, plant & machinery and cashflow loans

- Event-driven transactions, supporting businesses with working capital and acquisition finance. CBILS loans also available
- Introducer-led via corporate finance advisers and accountancy firms as well as private equity sponsors
- Commitment to lasting client relationships post-transaction, founded on a combination of personal service and advanced front-end technology
- Access to senior team; focus on quantum, speed and certainty
- Lending rates ranging from 2.25% to 4.95% with additional service fees contributing to an overall average rate in 2020 of 9.3% (including facility/transaction fees)
- Average tenor of 3 years
- Average loan size is £1.67m

ACABL Loan book growth & gross interest yield



Divisional operating metrics

	FY 2020	FY 2019
Gross interest yield	9.3%	8.1%
Bad debt / impairment %	0.00%	(0.02%)
ACABL as a % of loan book	5.5%	4.7%
Average loan size at period end	£1.67m	£2.13m
Typical length of facility	3 years	3 years

Arbuthnot Specialist Finance Limited (ASFL)

Arbuthnot Specialist Finance provides a full range of property finance solutions including purchase, refinance, light and heavy refurbishment and construction finance.

Lending is tailored rather than through set products which can be structured and designed around clients' needs.

Overview of the business

ASFL acts as a specialist lender operating in the niche markets of short term 'bridging' and development finance. The business aims to be a top tier bridge lender based on a relationship driven model via direct borrowers and intermediaries. The goal is to achieve sustainable and organic growth of a quality loan book that provides profit to its stakeholders and an above average return on the Bank's capital.

Business Model / Strategy

Short term lending secured against properties in England, Wales and Scotland. Lending typically funds refurbishment projects or acquisition of buy to let / other investment properties.

The short term industry is a growing market fuelled by a lack of appetite from high street banks in the property development/ refurbishment and auction finance markets. Many of the challenger banks have added short term lending and development/refurbishment bridging to their product portfolio, enabling a healthy growth in profits and retention of borrowers through the complete loan cycle of short term to longer term debt.

- First charge lending
- Strong security coverage
- Extensive underwriting experience focused on:
    - Property
    - Exit
    - Borrower creditworthiness
- Robust collections and recovery processes in place
- Over 90% secured against UK property with an average LTV <70%
- Relationship led, via a number of key broker connections and cross-selling into the AL client base
- Ranging from 6% to 12% with an average rate in 2020 of 9.6%
- Average tenor of 12-24 months

Divisional operating metrics

	FY 2020	FY 2019
Gross interest yield	9.6%	7.9%
Bad debt / impairment %	(0.06%)	(0.11%)
ASFL as a % of loan book	0.4%	0.5%
Average loan size at period end	£0.37m	£0.31m
Typical loan maturity	19.8 months	12.4 months

Summarised Income Statement & Balance Sheet

Income statement (£m)

	Financial Year 2020	Financial Year 2019	% Change
Interest income	75.08	76.87	(2%)
Interest expense	(17.02)	(18.23)	7%
Net interest income	58.06	58.64	(1%)
Net fees and commission income	14.44	13.83	4%
Operating income	72.50	72.47	0%
Net impairment loss	(2.85)	(0.87)	(228%)
Other income	0.68	5.60	(88%)
Operating expenses	(71.42)	(70.19)	(2%)
Profit before tax	(1.09)	7.01	(116%)
Tax	(0.24)	(0.84)	71%
Profit for the year	(1.33)	6.18	(122%)
Profit / (loss) from discontinued operations	0	0	0%
Reported profit for the year	(1.33)	6.18	(122%)

Balance sheet (£m)

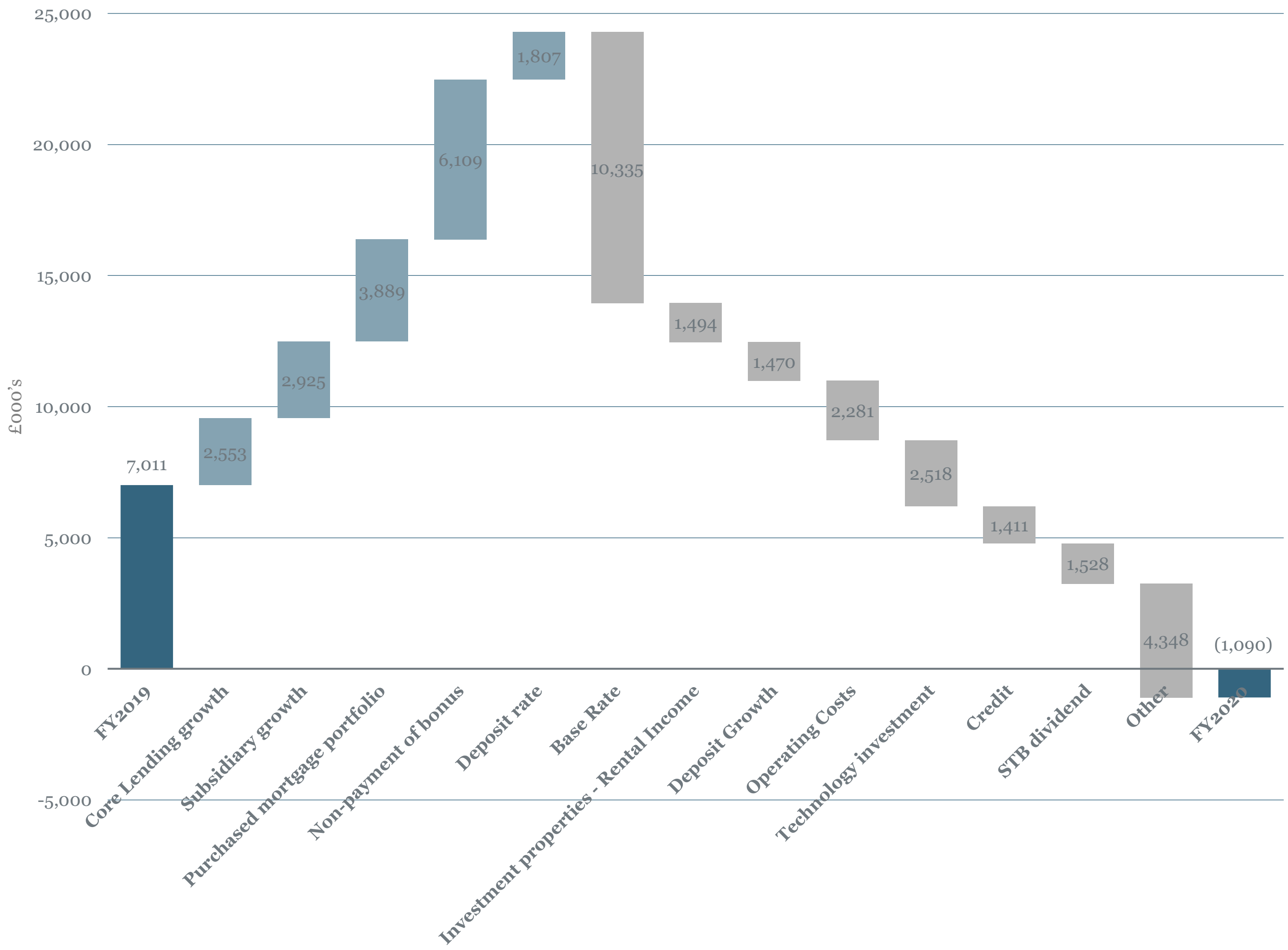
	Financial Year 2020	Financial Year 2019	% Change
Cash & balances at central banks	637	326	95%
Customer loans	1,588	1,599	(1%)
Other assets	629	670	(6%)
Total assets	2,854	2,595	10%
Customer deposits	2,365	2,085	13%
Deposits from banks	230	230	0%
Other liabilities	65	72	(10%)
Total liabilities	2,660	2,387	11%
Total equity	194	208	(7%)
Total equity and liabilities	2,854	2,595	10%

Commentary

- Interest income down 2% due the BoE base rate reduction, offset by subsidiary and Core growth
- Interest expense decreased despite significant deposit growth due to the reduction in cost of funds
- Impairment loss increased £2m due to Covid-19 stresses in IFRS9 models
- Operating expenses down 2% year-on-year with non-payment of bonuses and Covid-19 reduced discretionary spend offset by investment in technology/infrastructure, operational resilience and business growth

- (1%)/(£11m) loan book decrease driven by pay down in acquired mortgage portfolios and tightening of credit appetite in Q2/Q3 in response to the pandemic
- 13%/£280m deposit book growth, predominately from Commercial clients
- Other liabilities – £7m lower, mainly due to non-accrual of annual bonuses
- Equity (7%)/(£14m) lower, due to the reduction in STB share price

Profit Before Tax Progression in FY20



Commentary

- 2020 PBT (£1.1m), down from £7.0m in 2019
- Core lending growth £2.6m [higher year-on-year average lending balances]
- Incremental subsidiary contribution primarily asset based lending £2.9m.
- Revenue from the portfolio acquired in 2019 £3.9m [2019: 5 months, 2020: 12 months]
- Non payment of annual bonuses £6.1m
- Reduction in Deposit Rates £1.8m
- Base Rate impact on income (£10.3m)
- Main tenant in King St vacated the building in Q4-19, making way for a c£8m refurbishment which is due to complete mid 2021 (£1.5m)
- Deposit growth (£1.5m)
- Operating Costs (£2.3m). (£3.2m) incremental staff costs offset by £0.9m of Covid-19 related reductions
- Technology Investment: CRM/other investments (£1.0m), Investment in resilience, growth and client experience (£1.5m).
- Credit driven by the impact of the pandemic on IFRS9 (£1.4m)
- STB dividend not paid in 2020 (£1.5m)
- Other (£4.3m). Asset alliance costs (£1.0m), RAF deferred consideration (£1.4m) [2019: £1.5m, 2020: £0.1m], Full year cost of Tier 2 capital (£0.8m), other (£1.1m)

Summary Financials - Operating Segments

	Financial Year 2020	Financial Year 2019	% Change
Banking	£0.48m	£10.21m	(95%)
Mortgage Portfolios	£4.21m	£3.31m	27%
RAF	£2.10m	£1.86m	13%
ACABL	£2.01m	£0.02m	9,950%
ASFL	(£1.01m)	(£1.21m)	17%
All Other Divisions	£0.54m	£1.97m	(73%)
Group Centre	(£9.41m)	(£9.15m)	(3%)

Commentary

- Banking (95%)/(£9.7m) lower due to the impact of the BoE base rate on loan yield and investment in technology and staff for growth, operational resilience and client experience, partially offset by the non-payment of annual bonuses
- Mortgage Portfolio profit £0.9/27% higher due to the full year impact of a £265m portfolio acquired in August 2019
- RAF 13%/£0.2m higher primarily due to the non-payment of annual bonuses
- ACABL £2m/9,950% higher due to the full year impact loan growth
- ASFL 17%/£0.2m better due to the full year impact of the existing loan book
- Other Divisions – reduction in RAF deferred consideration and lower rental income, partially offset by the non-payment of annual bonuses
- Group Centre costs (3%)/(£0.3m) higher due to full year cost of subordinated debt and non payment of STB dividend partially offset by the non-payment of discretionary bonuses

Loan Portfolio Analysis - key metrics

£349k Average loan amount

89% secured at an average LTV of 47%

50% LTV average for the Core property book

47% LTV norm - a maximum 70% LTV permitted

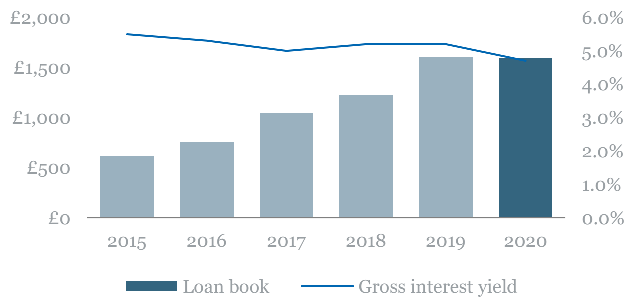
4.7% Gross interest yield in 2020 (5.2% in 2019)

4.1% Net interest margin (4.5% in 2019)

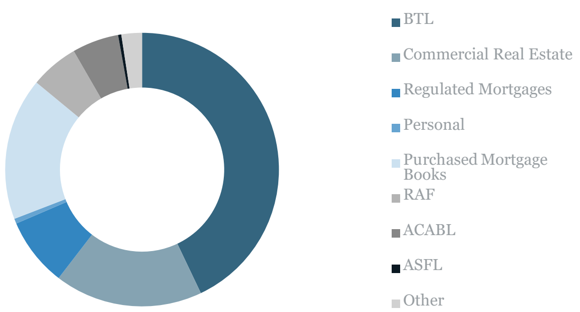
2.5% Non-performing loans (1.7% in 2019)

High quality, well diversified loan book

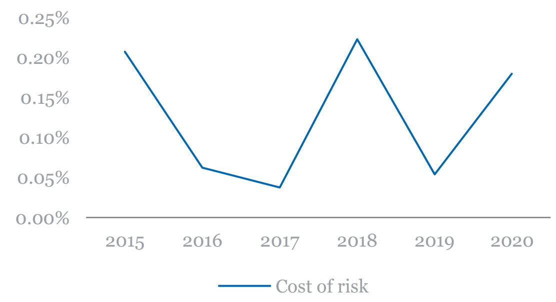
Loan Book and Average Gross Interest Yield



Loans by Type £m

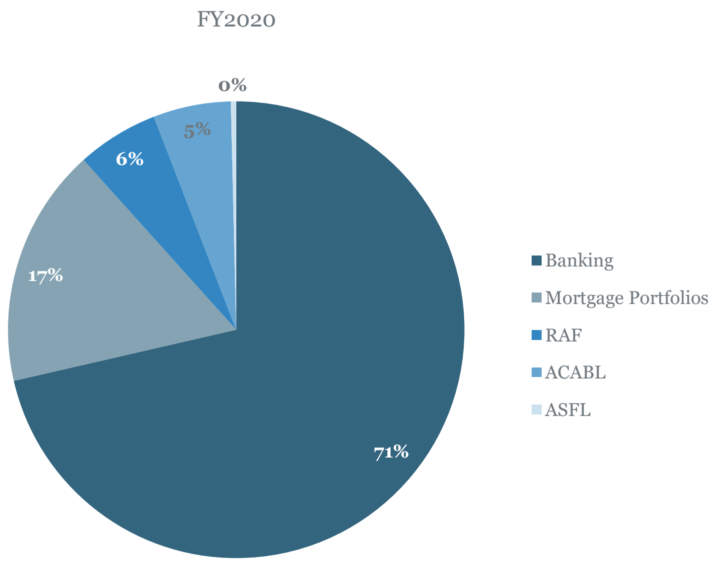


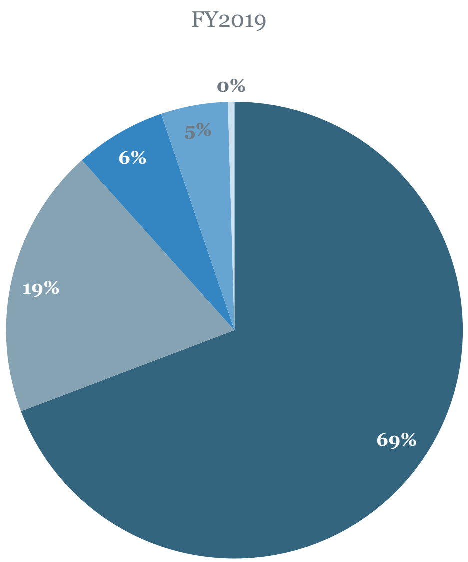
P&L Provision Charge / Total Loan Book



Loan Book Development in 2020

Decrease of £11m (0.7%) year on year





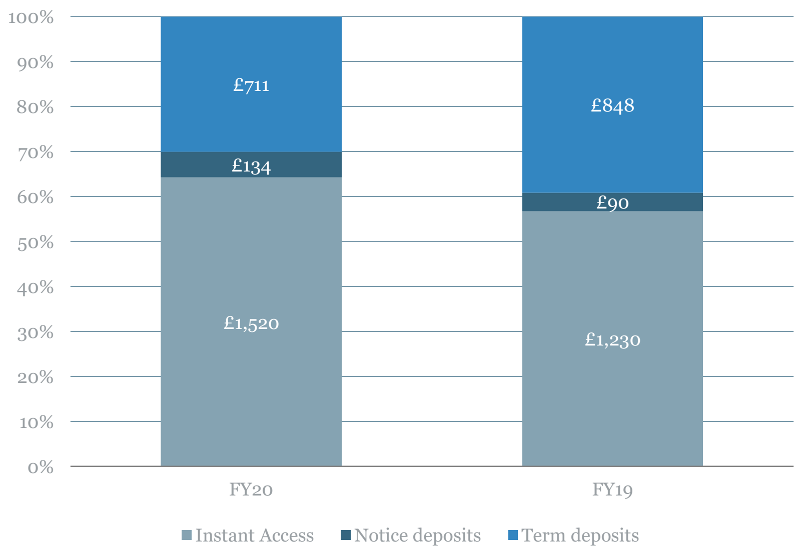
Commentary

- Banking growth of c£27m
- Acquired mortgage portfolio continued pay down £37m
- Net zero subsidiary movement with modest ABABL growth offset by RAF pay down

Customer Deposit Analysis - key metrics

19.2 Month Average term (original) (15.1 Months in 2019)	0.46% Average deposit interest rate (0.78% in 2019)	0.54% FY20 cost of funding (0.69% in 2019)	£662m Notice and Time inflows	£375m Call and Current Net Flow	£2,365m Customer deposits at 31 December 2020

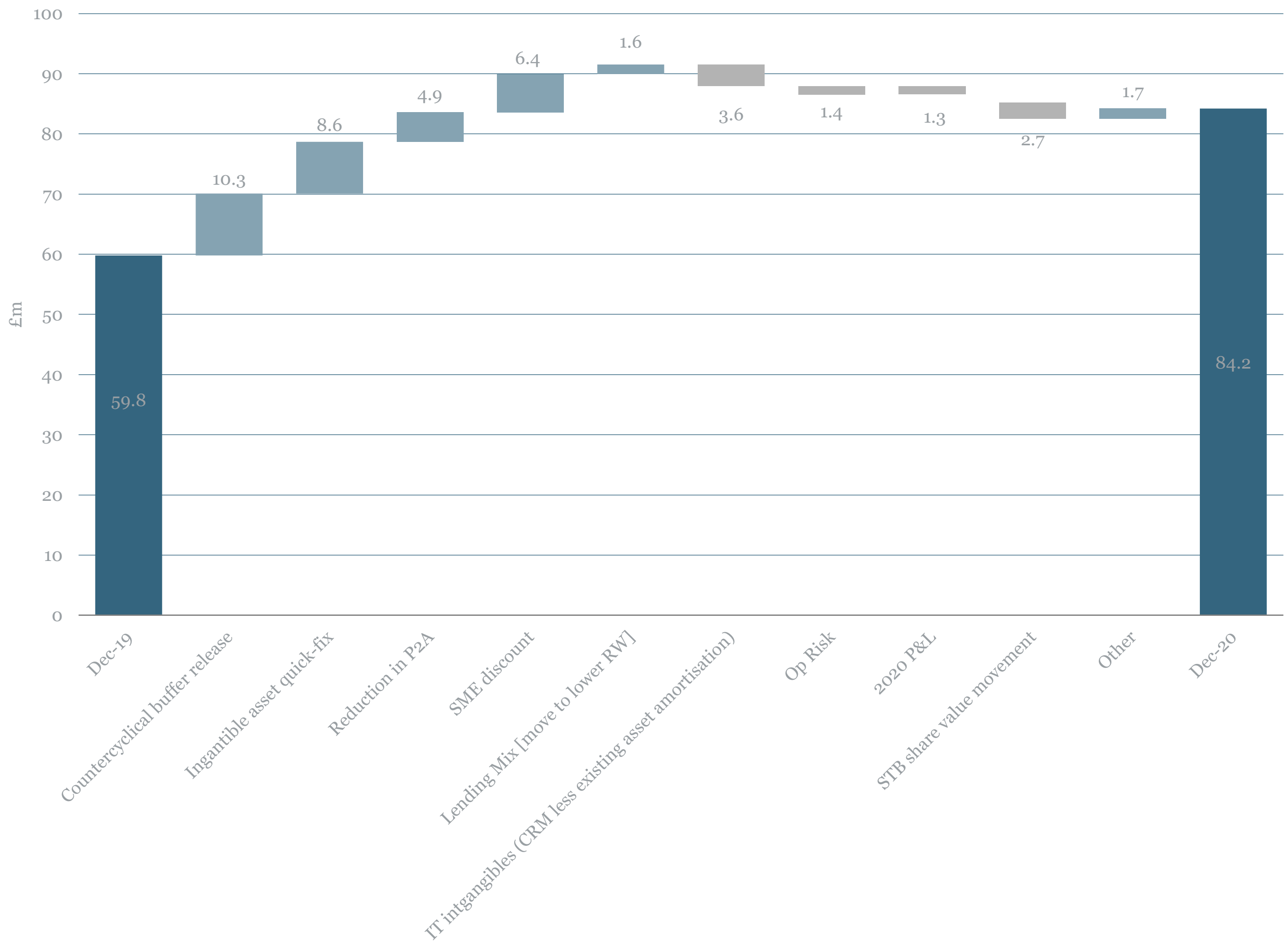
Breakdown of Customer Deposits (£m)



Commentary

- Short term Time deposits fell away during 2020 as the BoE base rate cuts rendered rates unattractive to investors in relation to instant access deposit rates
- This was offset by strong inflows of Term deposits on terms of 1 year +
- Strong inflows into instant access deposits reflecting the shift away from 1-6 month Term deposits
- 2020 full year cost of funding fell to 0.54% in response to the BoE base rate cuts. The benefits of this will continue to materialise through 2021
- Average weighted cost of deposits 0.46% as at December 2020

Capital Surplus



Commentary

- Total capital position at year end of £218.2m, with surplus capital of £84.2m
- CET1 capital ratio at the period end of 15.4%
- Regulatory release of Countercyclical buffer £10.3m in response to the impact of the Covid-19 pandemic
- Implementation of a CRR 'quick fix' requirements in relation to the treatment of software intangible assets £8.6m
- Reduction in our P2A requirement from 1.00% to 0.58% of £4.9m
- Widening of SME supporting factor £6.4m
- Lending volume and mix reflecting shift to lower risk weighted lending £1.6m
- Movement in intangibles (investment in CRM offset by annual amortisation) reducing resources by £3.6m
- Incremental Operational Risk requirement of £1.4m
- 2020 loss of £1.3m
- Net impact of STB share price movement £2.7m
- Other £1.7m

Group Summary

- One of the oldest specialist banks in the UK, having served our clients since 1833
- Well capitalised with strong liquidity and low cost of funding from a deposit-based funding model
- Established Private and Commercial Bank and expanding into commercial lending sectors where management has proven capabilities
- Focus on underserved niche lending sectors of the market where Arbuthnot can establish a prominent position and generate attractive net interest margins
- Track record of developing profitable businesses, including Secure Trust Bank where the Group retains a 9.85% shareholding

Substantial Track Record of Value Creation

Overview

- Market capitalisation of £150 million[1]
- £77m cumulatively returned to shareholders since 2014
- A special dividend of 21 pence per share paid in March 2021
- Over the past nine years, net assets per share have risen over fourfold to £12.70 per share, even after the payment of two special dividends totalling 325p following the sale of Everyday Loans Group and a partial disposal of the holding in Secure Trust Bank

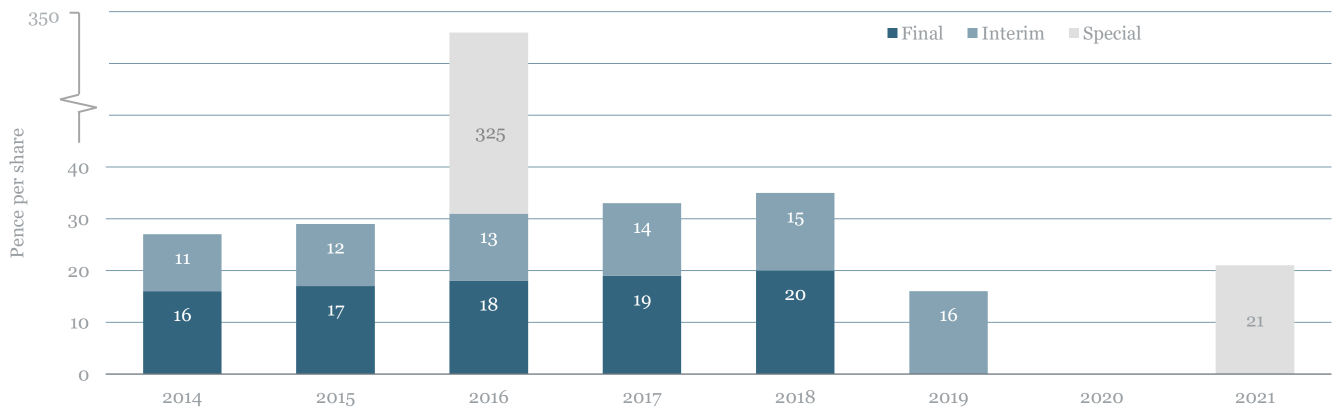
1 – as of 17/03/21

Share Price Performance & TSR

Major Shareholders

Sir Henry Angest	56.1%
Liontrust Asset Management Plc	9.8%
Slater Investments	3.9%
Mr R. Paston	3.6%
Unicorn Asset Management	3.3%
M&G Investment Management	3.2%

Dividend



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This document is a summary only of certain information contained in the announcement dated 25 March 2021 and should be read in conjunction with the full text of the announcement.

This document contains forward looking statements with respect to the business, strategy and plans of the Arbuthnot Banking Group and its current goals and expectations relating to its future financial condition and performance. Statements that are not historical facts, including statements about Arbuthnot Banking Group's or management's beliefs and expectations, are forward looking statements. By their nature, forward looking statements involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future. Arbuthnot Banking Group's actual future results may differ materially from the results expressed or implied in these forward looking statements as a result of a variety of factors, including UK domestic and global economic and business conditions, risks concerning borrower credit quality, market related risks such as interest rate risk and exchange rate risk in its banking businesses, inherent risks regarding market conditions and similar contingencies outside Arbuthnot Banking Group's control, any adverse experience in inherent operational risks, any unexpected developments in regulation or regulatory and other factors. The forward looking statements contained in this document are made as of the date hereof, and Arbuthnot Banking Group undertakes no obligation to update any of its forward looking statements.

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ARBUTHNOT BANKING GROUP PLC

Thank You

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