ARBUTHNOT BANKING GROUP PLC

14 October 2020

Arbuthnot Banking Group PLC

Third Quarter Trading Update

Arbuthnot Banking Group PLC ("Arbuthnot", "ABG" or "the Group") today issues an update on trading for the three months to 30 September 2020.

Highlights

- The Group remains profitable year to date despite the ongoing public health restrictions and the related supressed economic activity
- Continued good progress operationally, with a new CRM system increasing efficiency and the launch of a brand evolution and a new website to enable more effective digital marketing
- Customer loan balances up 3% on the prior year at £1.60bn.
    - Issued loans totalling £9.6m under the Bounce Back Loan Scheme and £11.5m under Coronavirus Business Interruption Loan Scheme to date
- Deposit balances up 14% compared to the prior year at £2.23bn
- Investment Management gross inflows increased 24% on the prior year, with Assets Under Management up 4%
- New divisions continue to make progress
- Over £60m of surplus capital and excess liquidity of £489m above the £349m minimum requirement

Commenting on the third quarter trading, Sir Henry Angest, Chairman and Chief Executive of Arbuthnot, said:

"The Group continues to perform resiliently despite the challenges posed by the pandemic's impact on economic activity and the historically low interest rates. We went into the current crisis with strong financial resources and having made important operational progress following investment in our platforms and proposition. We continue to concentrate on supporting existing clients through the current uncertainty, and we remain well positioned to benefit from the new opportunities we expect to arise upon the resumption of more normal business activity."

Group Performance

Despite the ongoing public health restrictions, the Group has continued to operate efficiently, with all staff following the Government's guidance and working remotely.

The Group reported a small profit before tax for the first six months of 2020, however, the Group traded at a marginal loss in the third quarter but remains profitable year to date. Arbuthnot Latham remains profitable and has reported a profit before tax and group recharges for the nine months to September of £7.2m. However, revenues continue to be impacted by the reduction in base rates and lower demand for lending. Despite this, the Group showed progress in several areas. Virtually the whole Bank was required to be involved in a multiyear project to implement our new Customer Relationship Management ("CRM") system supplied by Salesforce. This new platform was successfully delivered in July and has already brought about operating efficiency savings across the Bank. Soon after this, the business continued along its journey of brand evolution with the launch of the redesigned branding to acknowledge that Arbuthnot Latham is now a Private and Commercial bank. Alongside this, the website was overhauled to allow client leads to be generated via digital marketing campaigns, the first of which will be launched in the fourth quarter of 2020.

At the end of the quarter, the customer loan balance closed at £1.60bn which is 3% higher than the same point in the prior year £20m lower than the balance at 30 June 2020. Much of the decline has been due to the reduced demand in the lending markets that we operate in, but also as a result of the reduction in credit appetite that we introduced at the start of the lockdown in early spring. However, given the increased confidence in residential property markets, we have now restored lending appetites to the pre-COVID-19 levels, which still remain conservative.

We continued to attract a good flow of customer deposits with balances increasing by £23m from 30 June 2020 to close the quarter at £2.23bn. This represents an increase of 14% compared to 30 September 2019.

During the third quarter we have noted that housing indices have recorded increased valuation levels, which contrasts with the economic scenarios that we modelled for the purposes of IFRS9 within the recent interim results. At the time of the interims, the modelling resulted in a blended decline in residential valuations of 8.6%. The resultant provisions that were required remain in place at the end of the third quarter despite the higher valuations levels, as we prefer to see how the unwinding of the Government support packages impacts the valuations before concluding this is a consistent trend.

During, the quarter the first FCA mandated payment holiday periods came to an end and the potential of a second holiday period was offered. This had a positive impact on the number of customers requiring further forbearance. In the core bank, the levels of balances with customers requiring payment holidays fell from 10% to 3%. The acquired mortgage portfolios saw a decline from 26% to 5% of customers who were in receipt of COVID-19 related forbearance. Finally, the level of balances with customers requiring further forbearance in our asset finance business fell from 70% to 39%.

At the end of the quarter, the Group remained in a strong position with regards to its key regulatory measures. The Group in excess of £60m of surplus capital as compared to capital deployed of approximately £140m. Also, the Bank had excess liquidity of £489m above the minimum requirement of £349m.

Currently, the Group remains on track to meet the forecast market expectations of a small overall loss for the year. This remains dependent on no significant declines in the valuations of the Group's investment and repossessed properties and also the continued credit trends in the lending portfolios.

The Board is monitoring the recent dividend declarations of other banks and also the fact that the PRA will review its guidance on banks paying dividends during the fourth quarter. The Board will therefore consider the outcome of this to guide its dividend strategy in 2021.

Business Division Highlights

Private Bank

The strategy of the Private Bank continues to focus on developing existing relationships as well as acquiring new criteria clients. Where appropriate, we have selectively met clients and new clients, face to face, while complying with all the social distancing guidelines, which has augmented the previous seamless client experience provided by both the relationship teams and our technology platforms.

As with the wider Private Bank, the Wealth and Investment Management businesses have benefited significantly from the Group's IT infrastructure enabling them to continue a high level of personal client contact aiding a seamless transition to servicing our clients on a virtual basis. The Wealth Management teams have taken a proactive approach with our clients, discussing their personal and financial situation changes to support them appropriately in the current climate.

The Investment Management division generated gross inflows at an annualised rate of 11%, an increase of 24% compared to the same period last year. Assets Under Management closed the quarter at £1.1bn, representing an increase of 4% compared to the prior year.

Commercial Bank

The Commercial Bank has concentrated on supporting existing clients, as well as selectively winning new relationships. Where certain commercial clients were impacted negatively by the pandemic, payment deferrals have been provided, which has allowed them to overcome short-term difficulties. During the quarter, the majority of those payment deferrals came to an end and repayments are returning to pre-pandemic levels.

The Commercial Bank successfully applied to the British Business Bank to be an accredited lender for the Coronavirus Business Interruption Loan Scheme ("CBILs") and Bounce Bank Loan Scheme ("BBLs"). We commenced lending under these schemes on 23 June 2020 and have seen good take-up; so far, we have issued loans totalling £9.6m for BBLs. With the recently announced extension of the schemes, we plan to continue to support existing clients, as well use these facilities as a route to acquire new criteria clients.

Mortgage Portfolios

The Mortgage Portfolios continued to provide forbearance to their borrowers as required. However, as the first payment holiday period came to an end many of the borrowers returned to making repayments. The largest portfolio "Santiago" saw the level of payment holidays reduce from the peak of 29% to 8% at the end of September. Similarly, the second portfolio, "Tay", experienced a reduction in the level of payment holidays from 17% to 3%.

The portfolios are being closely monitored as we approach the end of the second payment holiday period and the start of the unwinding of the job support schemes, at the end of October.

Renaissance Asset Finance ("RAF")

Forbearance measures are still being offered albeit greatly reduced from 70% of loan balances at its peak to 39%.

Specific sectors such as the London Taxi Market, to which RAF supplies asset finance, remain subdued. London taxis form a large part of RAF's forbearance portfolio; however, a significant portion of the book has been refinanced with other lenders via the Government's borrowing schemes. However, we still have £17m of lending in forbearance against London taxis. All these loans remain well secured with the vehicles acting as security along with personal guarantees.

Overall, the credit quality of new business originations has increased due to a combination of a tighter credit appetite and reduced competition from non-bank backed asset finance lenders.

Industry statistics indicate a recovering trend of new business originations since June, albeit reduced compared with the prior year. This and the combination of lower investment by SME's in vehicles and capital equipment and RAF's tightened approach to risk has resulted in continued reductions in the loan book.

Arbuthnot Commercial Asset Based Lending ("ACABL")

During the quarter ACABL reached a significant milestone as it reached an overall breakeven point, which means that the Group has now recouped its investment in start-up losses, giving a sixteen-month payback period.

New facilities written in the third quarter totalled £40m, increasing the available book limits to £204m with the book growing to 46 clients spread across 25 different sectors. The business has seen clients continue to operate with good levels of undrawn facilities, with drawn balances ending the quarter at £82m, £15m higher than at 30 June 2020. As borrowers' business activities return, it is expected that the balances will start to return to pre-lockdown levels.

ACABL has a strong reputation within the private equity community as introducers of new business. Due to corporate divestments and distressed businesses that previously enjoyed sound operating models coming to market, ACABL is benefitting from these relationships, as they are seeing an increasing number of opportunities arising.

Following the accreditation of the Bank by the British Business Bank in June to provide CBILs and BBLs loans, ACABL has written 11 CBILs loans totalling £11.5m.

Arbuthnot Specialist Finance Limited ("ASFL")

ASFL has experienced slow lending activity since lockdown began and the property market effectively closed for a few months. Since the easing of lockdown began in June, the business has seen an uptake in enquiries as it continues with a cautious approach during the uncertain climate.

The business's operating platform nCino launched in July and has proved efficient with operating efficiencies emerging. The nCino broker portal is expected to be launched during the next quarter along with a broker training program.

Operations & Technology

After a period of lower client activity in April, May and June, the relaxation of lock down measures over the summer saw volumes return to more normal levels. Non-card payments, in excess of 25,000 in July and August, mirrored the levels seen for the same period in 2019, although card payments remained lower at circa 75% of the level seen before the pandemic.

Client engagement remains a key focus, with full telephony support available for clients, although the level of client calls remains lower, with calls over the period April to August at 75% of those received previously. The new CRM Platform was launched as planned in July 2020 and good progress is being made with plans to extend the current faster payment model to 24/7 payment processing, which will bring the Bank's services in line with the larger retail banks.

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

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