Classification: Confidential

20 October 2021

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 2021.

Highlights

- Momentum has continued in the Group's business, with customer loans and leased assets totalling £1,973m as at 30 September 2021, an increase of 24% year to date (31 Dec 2020: £1,588m) and a 6% increase since 30 June 2021
- Customer deposits of £2,806m at 30 September 2021, an increase of 19% in the first 9 months (31 Dec 2020: £2,365m) and an increase of 6% since 30 June 2021
- Assets Under Management £1,313m increased by 14% year to date (31 Dec 2020: £1,147m) and an increase of 7% since 30 June 2021
- The Group's employees have returned to fully operational offices

Group Performance

Following the relaxation of social distancing guidance in July the Group has now returned to fully operational offices. The business places a high value on the importance of face to face interactions and on the benefits it brings in building a strong business and the development of its staff. The Group is therefore pleased to welcome its staff back to the office while at same time embracing the new hybrid working practices.

In the third quarter the Group continued on its growth trajectory from the first half as market activity increased in late summer with new loan originations for the 9 months to 30 September totalling £541m.

At the end of the third quarter lending balances have grown to £1,973m from the previous year end balance of £1,588m and deposits have increased 19% since the year end to finish the quarter at £2,806m. Assets Under Management (AUM) finished the quarter at £1,313m, a 14% year to date increase from 31 December 2020.

The global microchip shortage remains a challenge that is slowing the rate of growth at both Asset Alliance and Renaissance Asset Finance as vehicle supply is constrained.

The Group is currently operating with strong levels of capital and liquidity, and along with a workforce that delivered high performance over the previous 18 months with no staff furloughed, means the Group is positioned well to capitalise on opportunities across all of its businesses.

As previously noted while profitability levels are being restored the Group continues to be hampered by the record low interest rate environment, but despite this the Group remains on course to meet market expectations in its full year results.

Business Division Highlights

Banking

Momentum continued in the third quarter across the banking business, with good growth in both Private and Commercial Banking. Deposits increased by £167m in the quarter, with net year to date growth of £441m to finish the third quarter at £2,806m. The overall cost of deposits has also continued to decline as older higher priced deposits have matured and been replaced with new deposits at lower current rates.

Net loan growth for the quarter was £96.7m resulting in net loan growth of £253m for the 9 months to 30 September 2021, equating to 22% growth from the year end. It is expected that the loan book growth momentum will marginally slow in the fourth quarter as more capital consumptive lending matures and is refinanced away. This is planned as part of the Group's repositioning strategy, as the Bank intends to recycle its loan book into more capital efficient lending.

Following accreditation for the Recovery Loan Scheme (RLS), a strong credit approved RLS pipeline has developed with expected drawdowns in Q4 2021 and Q1 2022.

The banking book continues to perform in line with our credit risk appetite.

Wealth Management

Wealth Management has seen further positive gross inflow momentum in the nine months to September up 102% on the same period for the previous year at £193.2m. Total AUMs have increased 14% in the 9 months to £1,313m at the quarter end. The Wealth Management pipeline continues to build positively, with several larger value mandates developing.

Renaissance Asset Finance (''RAF'')

RAF finished the quarter with lending balances of £96.1m, a 5% increase since the year end with no erosion of margin on new business written.

RAF continues to experience increased demand for its asset finance facilities with new business advances in the quarter of £13.5m and £36.7m issued year to date. Its current pipeline of new business proposals and acceptances are at record levels as confidence returns to the economy although issues in the supply chain are affecting the availability of assets to finance and causing delays in deal originations.

Loans under forbearance measures have fallen dramatically from their peak in May 2020 and continue to fall having reduced by 40% in the third quarter. Forbearance cases are now almost completely confined to the London purpose-built taxi market which accounts for almost all of RAF loan balances under forbearance. However this segment too has improved, falling by over 30% in the third quarter as the general economic activity has increased, resulting in taxi operators reporting improved business conditions.

Arbuthnot Commercial Asset Based Lending ("ACABL")

As business activity has increased in the economy, ACABL has experienced strong growth in demand for its products with a net increase in its loan book of £64.3m since the year end equating to 74% growth, and finishing the quarter with a net loan book of £151.6m. The growth in loan balances is due to both new business and existing clients increasing their borrowings towards pre-pandemic levels.

At the quarter end, total facilities were £342m spread across 72 clients and 30 different sectors.

Following the accreditation of the Bank by the British Business Bank for the Recovery Loan Scheme earlier in the year, ACABL has written three RLS loans totalling £1.7m with further loans in the pipeline.

Arbuthnot Specialist Finance ("ASF")

After playing a crucial role in the launch and establishment of ASF the two founding managing directors have left the business to pursue new ventures. The Group is very grateful for their hard work in building this business and wish them good luck in their future projects. Day to day management of the business is now overseen by senior management from the Commercial Banking team, who are continuing to focus on building an agile, responsive proposition for the bridging loan market.

The specialist finance portfolio has grown to £9m of drawn balances at the end of the third quarter. New business flow reduced in the summer months, however the business is now experiencing a steady flow of new opportunities.

Asset Alliance Group Holdings ("AA")

Following the acquisition of Asset Alliance in the first half of the year the business's underlying performance has been in line with expectations. However the global chip shortage has led to reduced availability of new vehicles. This has two significant impacts on the business. Firstly, AA has strong demand and is robustly funded and is positioned to increase its fleet, but this growth has been delayed due to production issues in the truck manufacturing industry. Secondly, due to the fact that the fleet continues to age, maintenance costs associated with trucks that are past their normal replacement age have increased significantly.

At the quarter end AA had client assets on lease totalling £132m.

Mortgage Portfolios

After the Tay portfolio was sold in February 2021, mortgage portfolio balances (represented entirely by the Santiago portfolio acquired in August 2019) were £191m at the quarter end.

The portfolio continues to perform in line with expectations with active forbearance and arrears balances following the COVID payment holidays reduced to pre-pandemic levels.

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

The information contained within this announcement is deemed to constitute inside information as stipulated under the retained EU law version of the Market Abuse Regulation (EU) No. 596/2014 (the "UK MAR") which is part of UK law by virtue of the European Union (Withdrawal) Act 2018. The information is disclosed in accordance with the Company's obligations under Article 17 of the UK MAR. Upon the publication of this announcement, this inside information is now considered to be in the public domain.

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