ARBUTHNOT BANKING GROUP PLC

19 October 2023

Arbuthnot Banking Group PLC

Third Quarter 2023 Trading Update

The Board of Arbuthnot Banking Group PLC ("Arbuthnot", the "Company" or the "Group") provides the following update regarding the trading performance of the Group for the three months to 30 September 2023.

Highlights

- **Bank of England base rate rises continue to contribute to increased revenue**
- **Deposit pricing increases expected to stabilise in 2024 as maturing deposits are renewed**
- **Customer deposit balance growth of 7% over the period to £3.5bn**
- **Specialist divisions generating planned balance sheet growth**
- **Completion of lease for new Head Office premises**

Group Performance

During the third quarter, the Group continued to make good progress towards achieving its long-term objectives set out in the Group's "Future State 2" plan.

Once again, rises in the Bank of England base rate contributed to increased revenues from our repricing assets. As previously guided, the cost of deposits will be subject to the lag effect caused by fixed term deposits ("fixed deposits") maturing over the next year and subsequently repricing to higher rates. However, during the quarter, as clients increasingly expect the interest rate cycle to have peaked, we saw a switch out of call or current accounts into fixed products. During the third quarter, this saw fixed deposits increase by £179m, with fixed deposits at 30 September 2023 equating to 40% of the overall deposit book compared to 37% at 30 June 2023. As a result, the average cost of deposits increased to 291bps at 30 September 2023 and we expect the rate to ultimately rise just above 310 bps during 2024.

Given the robust position in which the Group finds itself and its predicted future growth prospects, the Group is pleased to have secured a new long-term solution for its office premises. On 7 September the Group completed on a new 15-year lease to occupy the entire office space at 20 Finsbury Circus. This building has approximately 75,000 square feet, an increase of 45% compared to our current London offices.

The planned fit-out, due to be completed in the second quarter of 2024, will provide both high specification working space and also new client meeting and entertainment suites, which will help to deepen the relationship banking offering that is proving successful in both our Private and Commercial banking businesses.

The increased footprint and depreciation of the fit-out costs will increase the annual expenditure on premises by approximately £5.0m on a steady state basis. During 2024 the Group will incur the additional cost of running both premises until the lease on our current office ends in October 2024.

Business Division Highlights

Banking
Growth in the Bank's client base has continued in the third quarter, from the existing franchise as well as from new segments, with deposit growth of £218m, to £3.5bn as at 30 September 2023. Within the deposit book there are a number of non-relationship deposits which are expected to exit by the year end, with the result that the full year deposit growth rate is expected to slow in the fourth quarter. However, this is not expected to materially affect the Bank's significant liquidity surplus against its regulatory requirement.

The cost of deposits has increased steadily throughout the year and into the third quarter, ultimately narrowing the Bank's net interest margin, as the lag effect caused by fixed term pricing unwinds. Further increases in the net cost of deposits are expected in the fourth quarter but are expected to stabilise in 2024 after the majority of term deposits are repriced and renewed at current market rates. The Bank's relationship banking model combined with competitive pricing supports the strategy to grow relationship deposits rather than rely on more expensive best buy table deposit rates. Over the long term, this will provide material value to the Group in a higher interest rate environment.

The 25bps increase in the Bank of England Base Rate ("base rate") in the quarter has contributed to higher lending income, although interest rates have showed signs of stabilising with the most recent decision to hold the base rate at 5.25% comparing with a rate of 2.25% twelve months prior.

The loan book is unchanged over the quarter, closing at £1.4bn and continues to perform robustly despite the increased credit risk inherent in the current environment. This was a result of a conservative credit appetite, which was tightened over a year ago, as well as the pressures of a higher interest rate environment on customers, which have resulted in reduced debt levels that businesses can raise and sustain, as well as clients paying down debt from cashflows. Over the next 12 months the Bank's credit appetite will remain conservative, and capital will only be deployed where disciplined risk and return hurdles are met, which is likely to result in a contraction in the Banking loan book.

Wealth Management
Assets under Management closed at £1.43bn compared to £1.38bn at the start of the period, as net inflows continued into the third quarter and market performance was positive.

Whilst the business saw strong inflows, outflows exceeded forecasts and are tracking above levels observed in the prior year. This has been largely as a consequence of rising interest rates as clients elect to pay down debt or revert to holding cash.

Mortgage Portfolio
The mortgage portfolio continues to amortise in line with expectation. As expected, the effect of rising inflation and interest rates has resulted in an increase in arrears, however the portfolio remains well secured with the impact of losses mitigated by higher income generated from the portfolio.

Renaissance Asset Finance ("RAF")
RAF finished the period with a loan book of £176m compared to £157m at the half year, equating to an increase of 12% in the quarter to 30 September 2023 and a 33% increase since 31 December 2022.

The business continues to build on the momentum generated in the first half of the year, delivering month-on-month loan book growth with consistent positive new business levels on the Broker Flow business, along with a positive pipeline going into the autumn period.

RAF's Block Discounting business, launched in the prior year, continues to grow in line with management's expectations.

Arbuthnot Commercial Asset Based Lending ("ACABL")
ACABL maintained its loan book over the quarter to finish at £244m. Mid-market deal-making continues to suffer as sponsors and investors find it hard to close deals due to ongoing macro uncertainty and the business has continued to see fewer transactions that fit within its risk appetite. Despite this, the business has continued to develop the book; although, the rate of attrition has been higher. The established loan book has resulted in an increase in opportunities to support existing clients with bolt on opportunities and natural growth, as would be expected in a higher inflation environment, with clients' invoices being at higher levels than before.

As a consequence of the challenging economic environment, the business has experienced a number of exit situations, including where clients have entered administration. However, the business model to lend against realisable assets has resulted in any exposures being managed down to avoid any losses.

Asset Alliance ("AAG")
AAG had Assets Available for Lease of £276m at 30 September 2023 compared to £259m at 30 June 2023 and £172m at 31 December 2022, with growth supported by recent portfolio transactions. The recent base rate increases have resulted in a slowing in demand for used trucks, as buyers defer decision making as late as possible, albeit sales continue to achieve targeted margins.

Whilst the overall economic position within the UK remains challenging, with increased interest rates having an impact on commercial confidence, truck manufacturers are now reporting close to pre-COVID supply capacity.

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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