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Business Markets

Genteel bank has transformed itself

ARBUTHNOT BANKING GROUP

Annual loss £1.1m | **Loan to deposit**
CET1 ratio 15.4% | **ratio** 67.1%

What is Arbuthnot Banking Group? Most people might have a sense that it is a genteel bank for the well-heeled, but in recent years the small lender has transformed itself (Katherine Griffiths writes).

Arbuthnot does, indeed, serve the wealthy through its Arbuthnot Latham brand, providing private banking and wealth management, focusing on professionals in property, the media and sports, as well as entrepreneurs and overseas clients. Since 2016, however, it has been branching out into commercial lending to the point where such business accounts for about half of its balance sheet. The aim was to direct low-cost deposits from the private bank into niche areas of higher-interest lending and to take the principle of having lots of contact with private banking clients into services for commercial customers.

That now spans four areas, including invoice discounting — a solid business for many lenders, despite the present and very public dramas of Greensill — and loans for plant and machinery. In 2016 it entered the arena for loans for expensive and vintage cars via an acquisition of Renaissance Asset Finance. And yesterday it completed a deal to buy Asset Alliance, one of Britain's biggest vehicle financing businesses, and its fleet of 4,000 lorries. The deal, announced in December, was a result of Arbuthnot, which is conservatively run with a large cash pile, being able to pounce on a business struggling with Covid-19.It, plus greater impairments and the squeeze of ultra-low rates, pushed Arbuthnot to an annual loss before tax of £1.1 million.

Stripping out those costs, new asset-based lending drove a 41 per cent increase in underlying profit before tax to £8.2 million, from £5.8 million a year ago. At the same time customer balances increased by 13 per cent to £2.36 billion, providing more funding firepower.

One feature of Arbuthnot is that it has a controlling shareholder in the form of Sir Henry Angest, a Swiss-born banker who was one of the City's rare backers of Brexit. Angest owns 56 per cent and is also Arbuthnot's chairman and chief executive. Senior executives argue that the arrangement has been in the firm's interests because Angest has backed Arbuthnot's long-term approach to returns, but inevitably his holding narrows opportunities for the bank, such as mergers and acquisitions.

Arbuthnot has undergone a fairly significant restructuring. Until 2016 it owned 51 per cent of Secure Trust Bank, another specialist lender. Sales have taken that holding to 5.74 per cent. It has pumped that cash into Arbuthnot Latham's expansion.

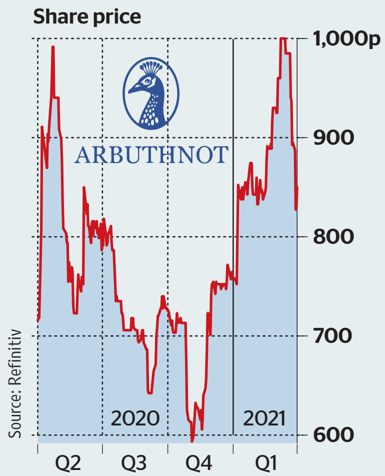
Last year was tough for anyone in lending. Arbuthnot did not declare a dividend for 2020, but it did pledge to pay a special dividend of 21p in lieu of the payout declared in March last year but held back after the Prudential Regulation Authority's ban on bank dividends for 2019.

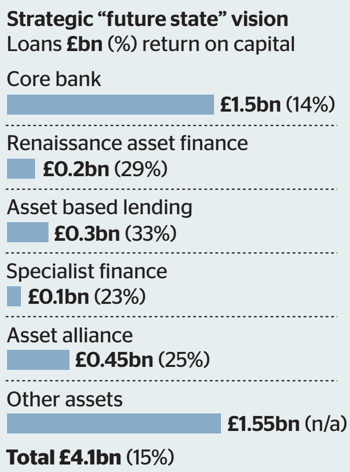
It believes that lending conditions are improving. Its plan is to move more of its capital away from its core private and small business bank into specialist commercial lines, which deliver higher returns.

Arbuthnot is trading at 0.7 times its net asset value, not expensive for a niche lender. Its combination of being conservatively managed yet innovative should enable it to grab more opportunities as the economy recovers.

This is not an easy business to pin down: on one hand, its roots date back to the 19th century; on the other, it has entirely updated its technology system such that it could move to remote working relatively easily last year. This may have held back its valuation — its shares rose 15p, or 1.8 per cent, yesterday to 845p — but its quiet transformation has gone well.

Opportunity knocks





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