ARBUTHNOT BANKING GROUP PLC

2019 Year-end Results

26 March 2020

Bank of the Year

CityAM Awards 2019

Key Messages

Financial

- Strong performance from new lending businesses drove a 32% increase in underlying profit before tax in FY19, to £5.8m (FY18: £4.4m)
- Period-end loan book of £1,599m, an increase of 31%; lending discipline remained strong
- Client deposits increased to £2,085m at the period-end, representing loan-to-deposit ratio of 76.7%
- Assets Under Management £1,107m at the period-end, an increase of 12%
- Adjusted EPS growth of 122% to 32.8 pence per share
- Full year dividend of 37 pence per share, a 6% increase on FY18
- Final dividend of 21 pence per share [subsequently withdrawn following guidance from the PRA]

Key Indicators

- Gross yield of 5.2%
- Cost of funding remained low at 0.69%
- Net margin of 4.5%
- Return on deployed equity of 4.3% versus 5.6% for FY18
- CET1 ratio of 14.4%
- Total Capital ratio of 17.3%
- Net assets per share 1,364p

Operational

- Development of CRM and technology strategy
- Mortgage portfolio acquisitions
- Awarded 'Bank of the Year' at the CityAM Awards
- £80m of deposits raised via Arbuthnot Direct to help facilitate mortgage portfolio acquisition

Strategic

- 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
- Realised £15.3m from the sale of Secure Trust Bank shares, taking the Group's holding to below 10%
- Raised £25m of Tier 2 Capital
- Bonus share issue of non-voting shares

Financial Highlights and KPIs

Key Performance Indicator	FY19	FY18	% Change
Net revenue margin	4.5%	4.7%	(4%)
Total cost income ratio	97%	96%	1%
Underlying PBT	£5.8m	£4.4m	32%
EPS (basic)	41.2p	(134.5p)	131%
EPS (adjusted)	32.8p	(149.8p)	122%
Dividend per share*	37p	35p	6%
Annualised ROAE	4.3%	5.6%	(23%)
Period-end loan book	£1,599m	£1,225m	31%
Period-end deposits	£2,085m	£1,714m	22%
Loan-to-deposit ratio	76.7%	71.4%	7%
Lending (flow)	£430m	£469m	(8%)
Cost of risk	0.05%	0.22%	(75%)
Cost of funding	0.69%	0.53%	31%
CET1 ratio	14.4%	15.9%	(9%)

Commentary

- Net margin reduction to 4.5% driven by H2 increase in cost of funding
- Continued progressive dividend policy reflected by 2p increase in dividend*
- 31%/£274m loan book growth driven by discounted mortgage portfolio acquisition and subsidiary growth in higher margin markets
- Loan to deposit ratio 76.7%, up from 71.4% in 2018 due to the mortgage portfolio acquisition
- Cost of risk 0.05% following the adoption of IFRS9 in 2018 and the acquisition of the mortgage portfolio
- Cost of funding increased in H2 due to market pricing
- CET1 Ratio 14.4%, down from 15.9% in 2018 due to the mortgage portfolio acquisition

* Including final dividend of 21 pence subsequently withdrawn following PRA Covid-19 guidance issued late March

Highlights

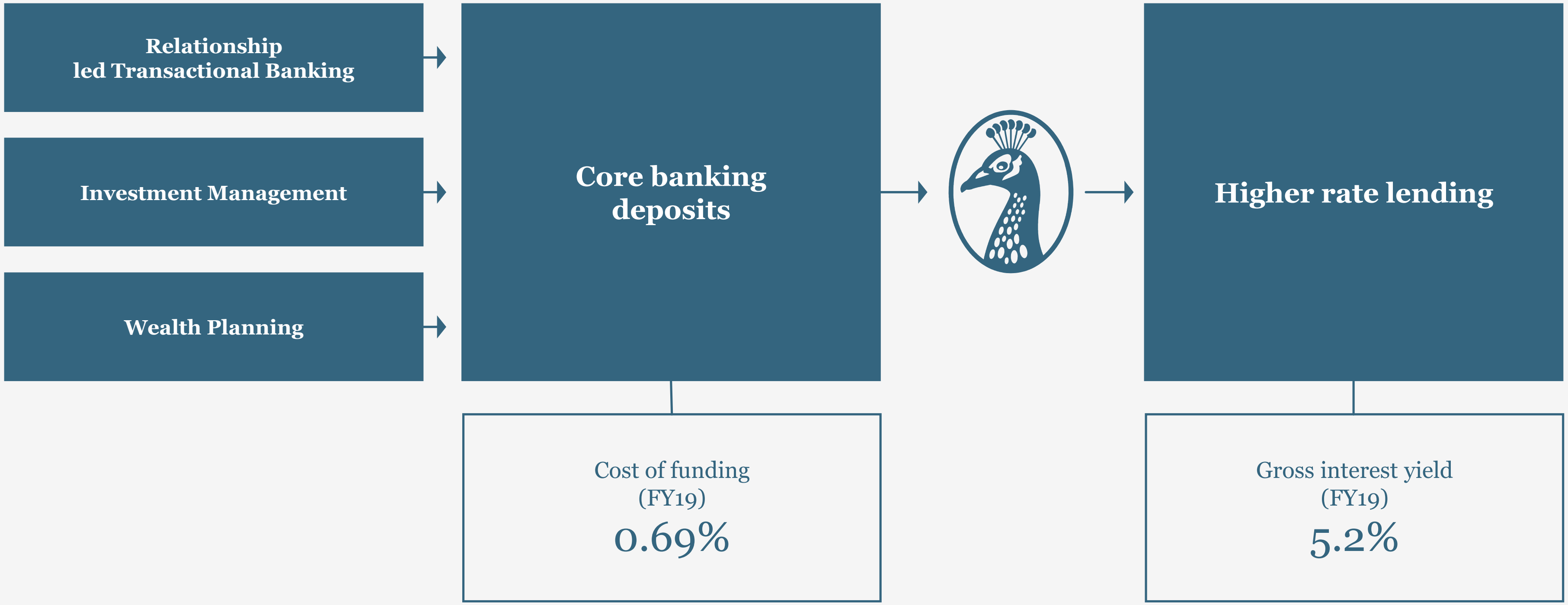
Strategy & group overview

Financial review

Appendix

Group Strategic Overview

Business model



Private Banking Overview

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

Overview of the business

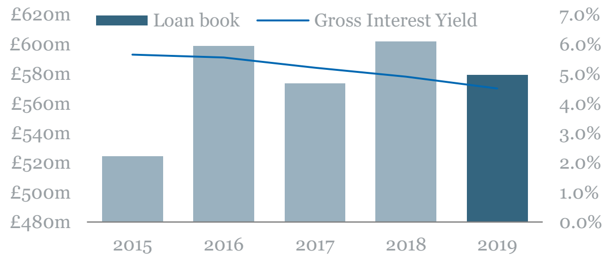
Private Bank since 1833, focussed on low risk sustainable growth. Provide a high quality private banking service to our clients. Sector focus on Media, real estate, professionals, Executives & Entrepreneurs and international clients. Relationship led proposition delivered by private bankers in London, 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 (quote awards).

Business Model / Strategy

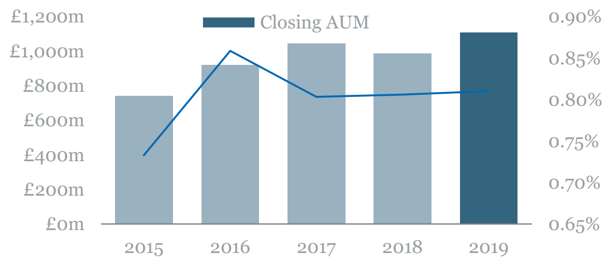
Building sustainable long term relationships with criteria clients. Relationship driven service. Typically win business from other private & retail banks, on flexibility, service, breadth of our proposition. Grow client numbers and broaden wallet share with existing clients.

- 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, Cash & Insurance policies
- Relationship driven

Loan book growth and gross interest yield



Assets under Management and revenue yield



Divisional operating metrics

	FY 2019	FY 2018
Gross interest yield	4.5%	4.9%
Bad debt / impairment %	0.08%	0.31%
Private Bank as a % of loan book	36%	49%
Average loan size at period end	£0.76m	£0.73m
Typical loan maturity	51.6 months	50.8 months

Commercial Banking Overview

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

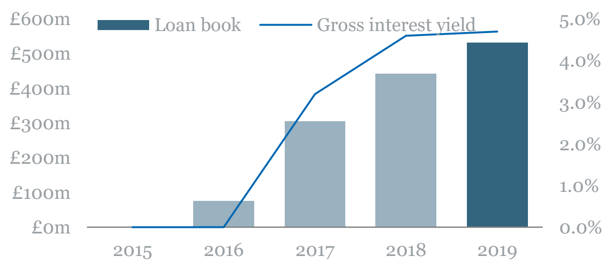
Founded in 2015. Provide a high quality banking service to our clients, typically owner managed, independent businesses. Sector focus on media, real estate, healthcare, law firms, credit unions. Relationship led proposition delivered by commercial bankers in London and UK regional offices.

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

Loan book growth and gross interest yield



Divisional operating metrics

	FY 2019	FY 2018
Gross interest yield	4.7%	4.6%
Bad debt / impairment %	(0.07%)	0.07%
Commercial Bank as a % of loan book	33%	36%
Average loan size at period end	£1.26m	£1.21m
Typical loan maturity	47.7 months	44.7 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

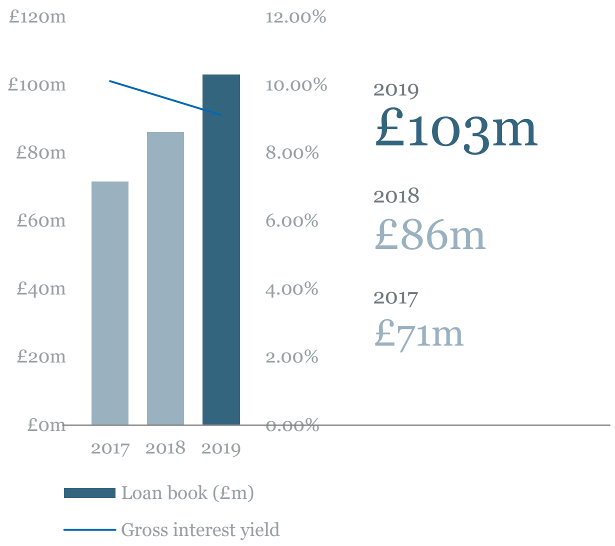
Acquired in April 2017, the subsidiary is based in Basildon with a sales team giving UK wide coverage

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 2019 of 9.1%
- Average tenor of 3 years
- Average loan size is £118k

RAF Loan book growth



2019
£103m

2018
£86m

2017
£71m

Divisional operating metrics

	FY 2019	FY 2018
Gross interest yield	9.1%	9.6%
Bad debt / impairment %	0.75%	0.56%
RAF as a % of loan book	6.4%	7.0%
Average loan size at period end	£0.118m	£0.123m
Typical loan maturity	45.9 months	45.3 months

Arbuthnot Commercial Asset Based Lending (ACABL)

Full asset based lending facilities (invoice discounting, stock finance, property and plant and machinery
loans) plus cash flow loans in support of acquisition, refinancing, cash-out and turnaround scenarios.

Overview of the business

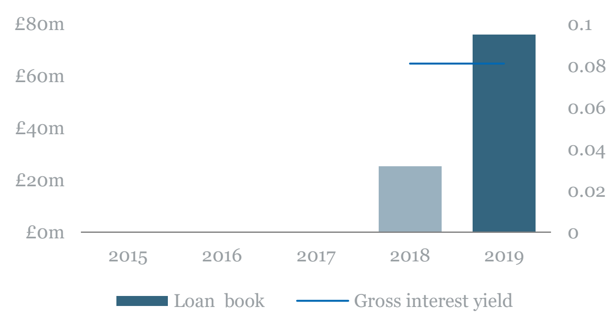
Management team formed in January 2018 with 60+ years of combined industry experience, most recently at Centric/Shawbrook and RBS.
Based in Gatwick.
Commenced trading in May 2018.

Business Model / Strategy

A specialist asset based lender, focused on delivering facilities to SMEs and lower mid-market corporates. Provides a full suite of asset based lending facilities including, invoice discounting, stock finance, property, cashflow and plant and machinery loans.

- Supporting UK SMEs with working capital and acquisition finance
- All asset debentures against the SMEs assets
- Professional intermediary network
- Lending rates ranging from 2.25% to 4.95% with additional service fees contributing to an overall average rate in 2019 of 8.13% (including facility/transaction fees)
- Average tenor of 3 years
- Average loan size is £2.13m

ACABL Loan book growth & gross interest yield



Divisional operating metrics

	FY 2019	FY 2018
Gross interest yield	8.1%	8.1%
Bad debt / impairment %	(0.02%)	0.39%
ACABL as a % of loan book	4.7%	2.1%
Average loan size at period end	£2.13m	£1.58m
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 2019 of 7.9%
- Average tenor of 12-15 months

Divisional operating metrics

	FY 2019	FY 2018
Gross interest yield	7.9%	n/a
Bad debt / impairment %	0.11%	n/a
ASFL as a % of loan book	0.5%	n/a
Average loan size at period end	£0.31m	n/a
Typical loan maturity	12.4 months	n/a

Summarised Income Statement & Balance Sheet

Income statement (£m)

	Financial Year 2019	Financial Year 2018	% Change
Interest income	76.87	65.29	18%
Interest expense	(18.23)	(10.11)	80%
Net interest income	58.64	55.18	6%
Net fees and commission income	13.83	12.72	9%
Operating income	72.47	67.91	7%
Net impairment loss	(0.87)	(2.73)	(68%)
Other income	5.60	6.59	(15%)
Operating expenses	(70.19)	(64.98)	8%
Profit before tax	7.01	6.78	3%
Tax	(0.84)	(1.12)	(25%)
Profit for the year	6.18	5.66	9%
Profit / (loss) from discontinued operations	0	(25.69)	(100%)
Reported profit for the year	6.18	(20.03)	(131%)

Balance sheet (£m)

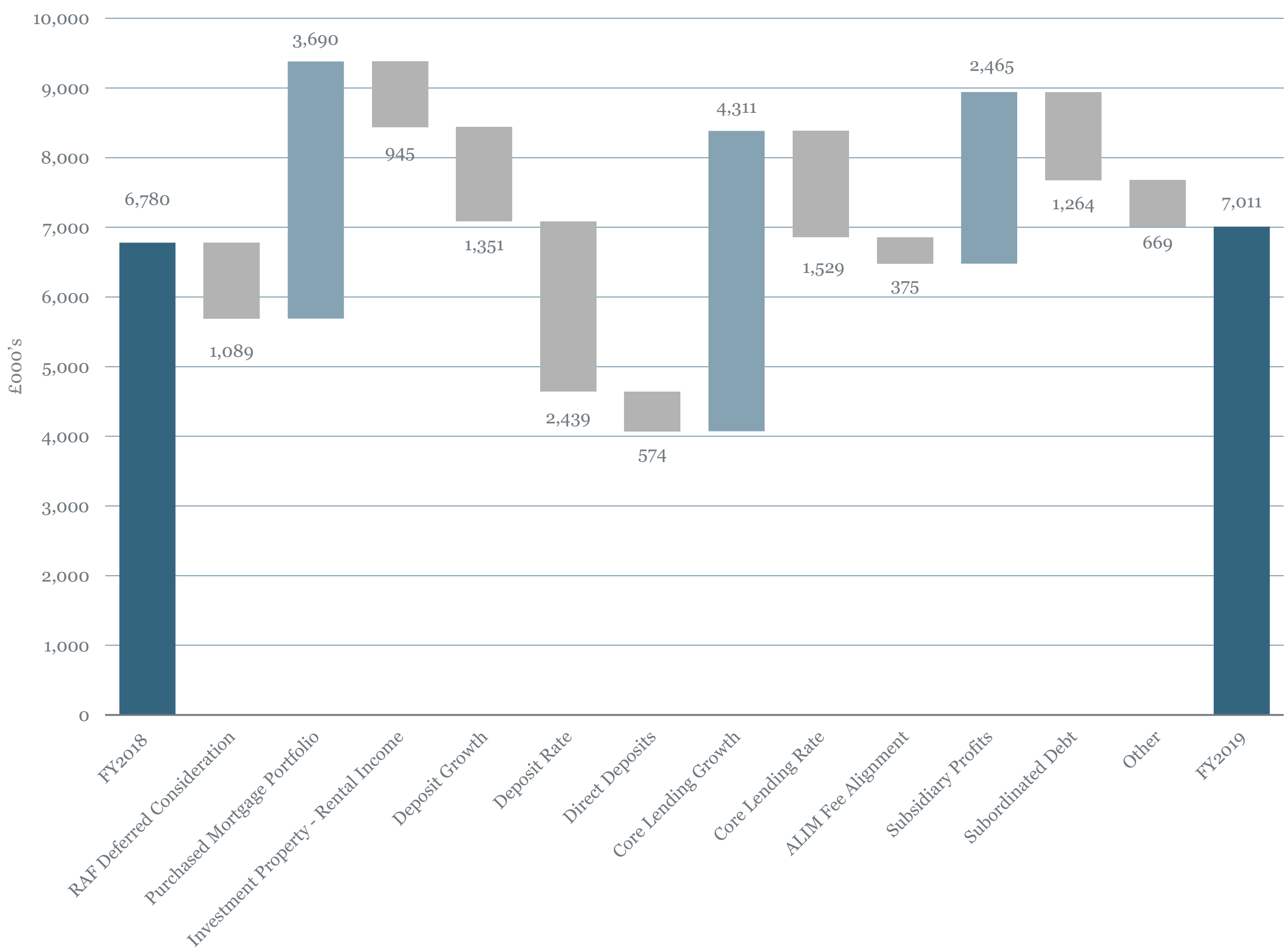
	Financial Year 2019	Financial Year 2018	% Change
Cash & balances at central banks	326	405	(20%)
Customer loans	1,599	1,225	31%
Other assets	670	545	23%
Total assets	2,595	2,175	19%
Customer deposits	2,085	1,714	22%
Deposits from banks	230	233	(1%)
Other liabilities	72	32	122%
Total liabilities	2,387	1,979	21%
Total equity	208	196	6%
Total equity and liabilities	2,595	2,175	19%

Commentary

- Interest income up 18% due to loan balance growth
- Interest expense increased due to increased competition in the deposit market
- Impairment loss reduction following the refinement of IFRS9 model
- Operating expenses up 8% year-on-year due to investment in technology/infrastructure, operational resilience and business growth

- 31%/£274m loan book growth driven by discounted mortgage portfolio acquisition and subsidiary growth
- 22%/£371m deposit book growth, c£80m of which came from the successful launch of Arbuthnot Direct with the remainder coming from Private/Commercial deposit activity
- Other liabilities – £24m Tier 2 Capital & c£20m IFRS16 lease liability

Profit Before Tax Progression in FY19



Commentary

- 2019 PBT £7.0m, up from £6.8m in 2018
- RAF deferred consideration release [£2.6m in 2018, £1.5m in 2019]
- Higher revenue due to the acquisition of the mortgage portfolio
- Main tenant in King St vacating the building, making way for a c8m refurbishment which is due to complete mid 2021
- Deposit growth (£1.4m)
- Higher deposit rates (£2.4m)
- Additional funding from Arbuthnot Direct (£0.6m)
- Private/Commercial lending growth £4.3m
- Declining core bank rates (£1.5m)
- Alignment of asset management fee tariffs (£0.4m)
- Incremental subsidiary contributions, primarily Asset Based Lending £2.5m
- Half year £25m subordinated Tier 2 debt (£1.4m)

Summary Financials - Operating Segments

	Financial Year 2019	Financial Year 2018	% Change
Private Banking	£2.94m	£4.61m	(36%)
Commercial Banking	£7.27m	£2.80m	160%
Mortgage Portfolios	£3.31m	£1.90m	74%
RAF	£1.86m	£1.95m	(5%)
ACABL	£0.02m	(£1.11m)	102%
ASFL	(£1.21m)	(£0.35m)	250%
All Other Divisions	£1.97m	£4.77m	59%
Group Centre	(£9.15m)	(£7.79m)	(17%)

Commentary

- Private Banking lower due to loan balances falling and lower loan yields
- Commercial Banking higher due to £85m loan growth
- Mortgage Portfolio profit following the acquisition of a £265m portfolio in August 2019
- ACABL profitable in 2019, 1 year after launch due to strong loan growth
- Other Divisions – reduction in RAF deferred consideration and lower rental income
- Group Centre costs of £9.1m increased due to £1.3m increase in subordinated debt funding costs

Loan Portfolio Analysis - key metrics

£357k Average loan amount

88% secured at an average LTV of 46%

52% LTV average for the Core property book

46% LTV norm - a maximum 70% LTV permitted

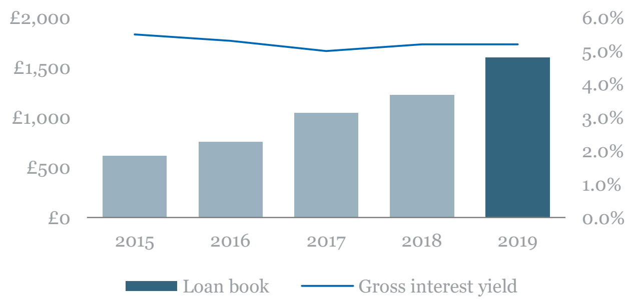
5.2% Gross interest yield in 2019 (5.2% in 2018)

4.5% Net interest margin (4.7% in 2018)

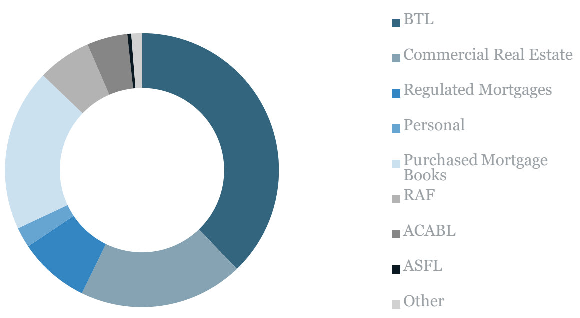
1.7% Non-performing loans (2.6% in 2018)

High quality, well diversified loan book

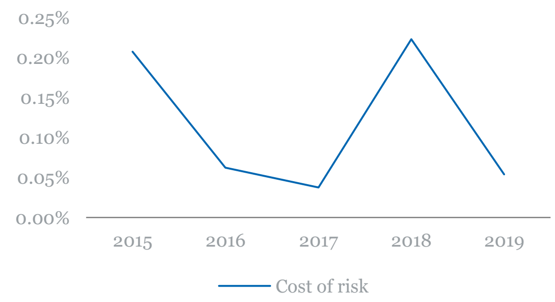
Loan Book and Average Gross Interest Yield



Loans by Type £m

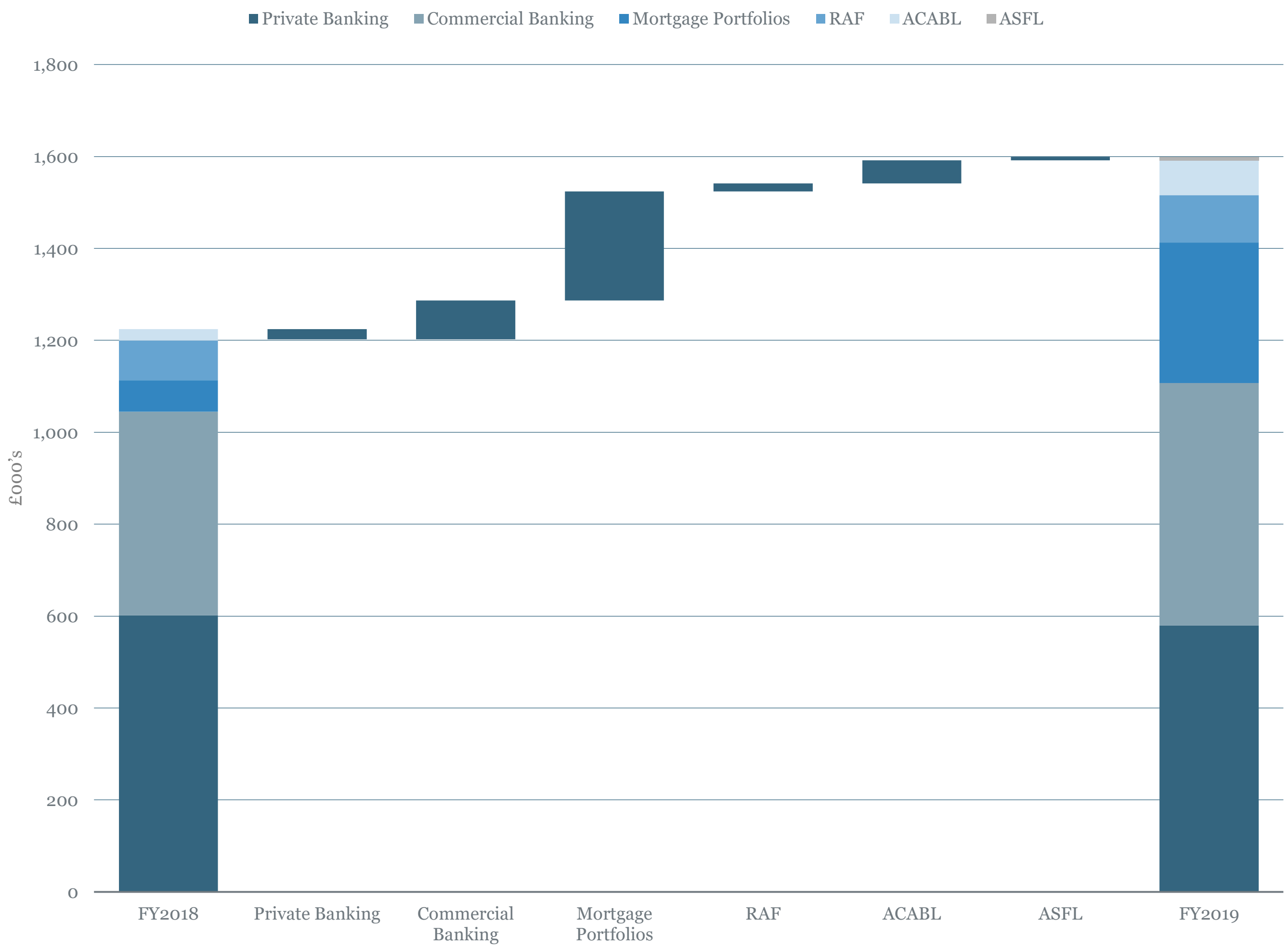


P&L Provision Charge / Total Loan Book



Loan Book Development in 2019

Increase of £374m (31%) year on year



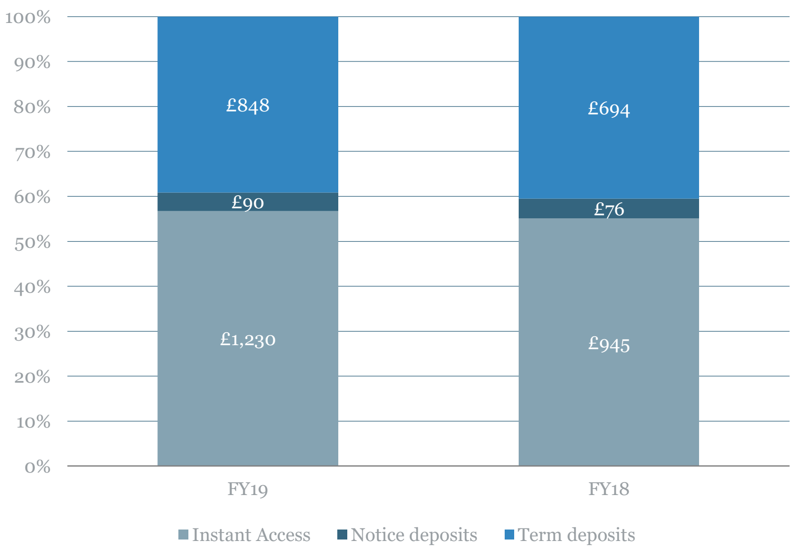
Commentary

- £265m Mortgage Portfolio acquisition
- Strong performance from Commercial bank and ACABL
- Continued repositioning of our Private Bank

Customer Deposit Analysis - key metrics

15.1 Month Average term (original)	0.78% Average deposit interest rate	0.69% FY19 cost of funding	£804m Notice and Time inflows	£195m Call and Current Net Flow	£2,085m Customer deposits at 31 December 2019

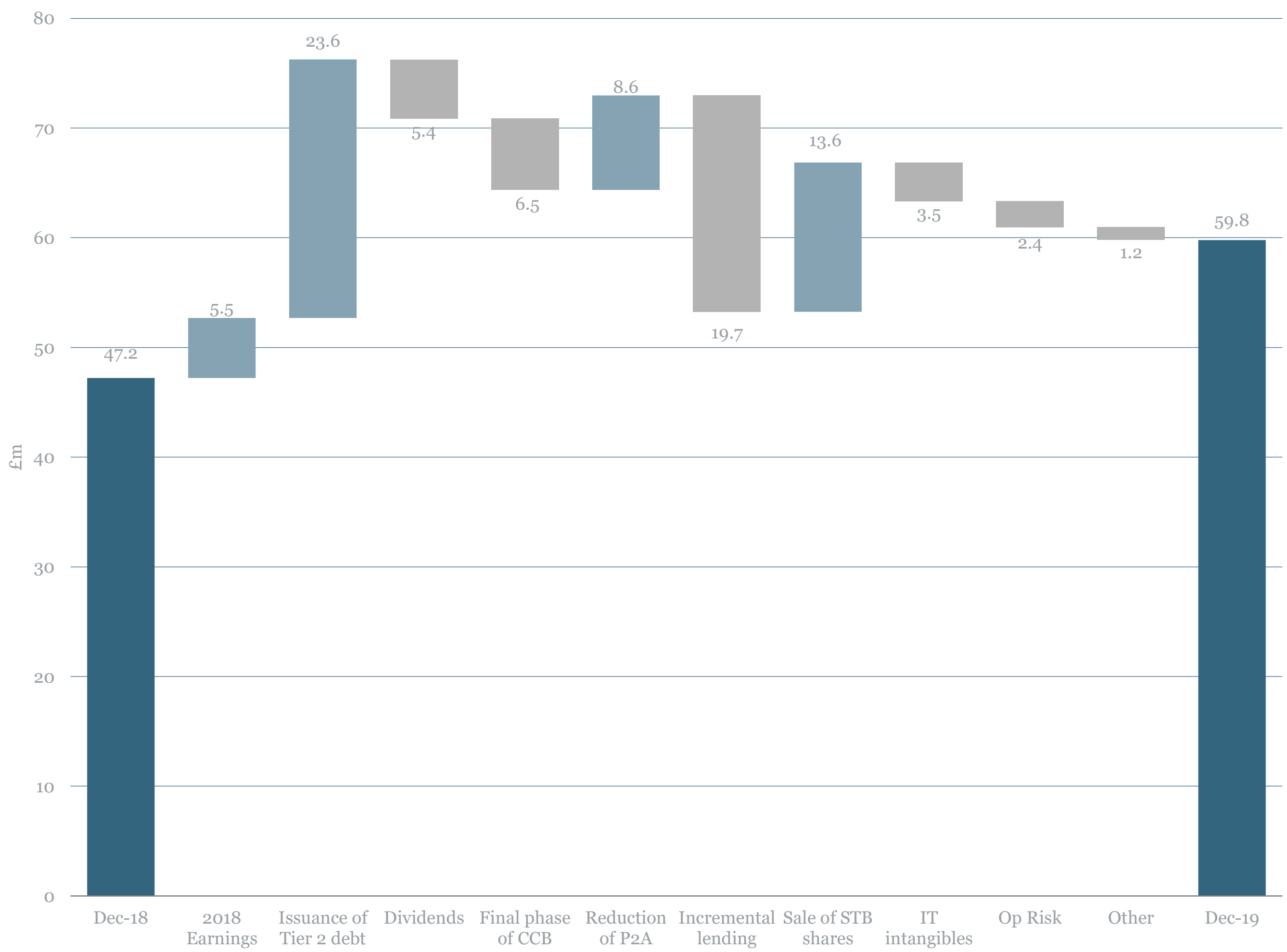
Breakdown of Customer Deposits (£m)



Commentary

- Good growth in all categories of deposits
- Cost of Time deposits increased due to further competition in the deposit market
- Commercial Bank attracted new business accounts
- Arbuthnot Direct found success in the best buy tables

Capital Surplus



Commentary

- Total capital position at year end of £214.5m, with surplus capital of £59.8m
- CET1 capital ratio at the period end of 14.4%
- 2018 retained earnings £5.5m
- Tier 2 subordinated debt raised in H1-19 £23.6m, ensuring sufficient capital for growth in the medium term
- Dividends paid in 2019 of £5.4m
- Incremental requirement resulting from the final increase in the Capital Conservation Buffer from 1.875% to 2.5% of £6.5m
- Reduction in our P2A add-on from 1.83% to 1.00% of £8.6m
- Incremental requirement from asset growth of £19.7m [c£11m of which resulted from the Mortgage Portfolio acquisition]
- Sale of STB shares resulting in £13.6m incremental resource
- Movement in intangibles (investment in CRM) reducing resources by £3.5m
- Incremental Operational Risk requirement of £2.4m
- £1.2m other

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 £111 million[1]
- Consistent dividend track record, returning £73.9m cumulatively to shareholders since 2014
- Continued growth in dividend – final dividend of 37p, an 8% on 2018 *
- Over the past eight years, net assets per share have risen almost fivefold to £13.64 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

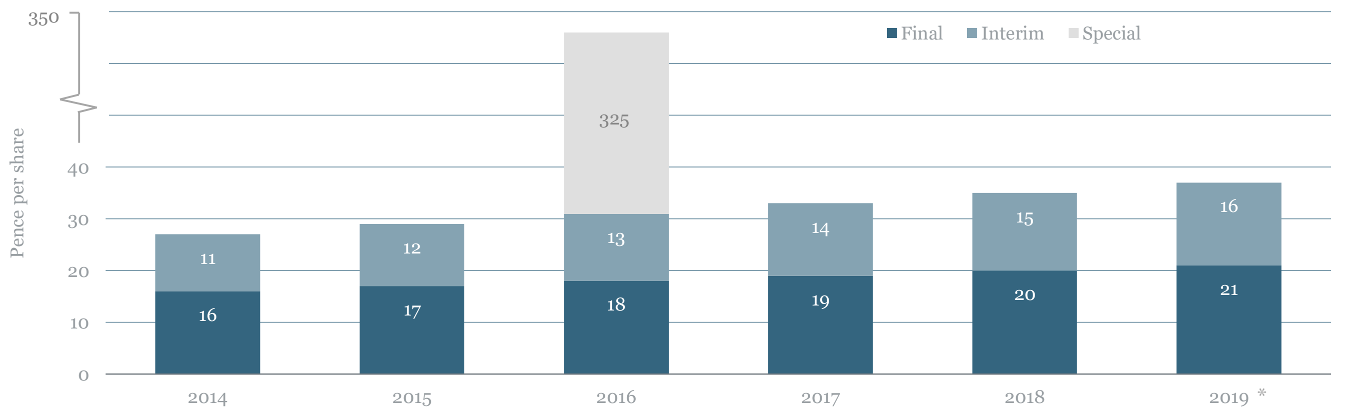
1 – as of 26/03/20

Share Price Performance & TSR

Major Shareholders

Sir Henry Angest	56.1%
Liontrust Asset Management Plc	9.1%
Slater Investments	3.9%
Mr R. Paston	3.6%
M&G Investment Management	3.6%
Unicorn Asset Management	3.3%

Dividend



* Including final dividend of 21 pence subsequently withdrawn following PRA Covid-19 guidance issued late March

History of Arbuthnot Banking Group

1833 – Arbuthnot & Latham formed at Great St Helen's

1960 – Flotation of Arbuthnot Latham

2009 – Launch motor finance

2011 – Secure Trust Bank quoted on London Stock Exchange

2014 – Acquire Dunfermline Residential mortgage portfolio

2015 – Launch Commercial Banking business

2016 – Arbuthnot Banking Group reduces shareholding in STB from 51.9% to 18.9% and raises £150 million

2017 – Complete the purchase of RAF[1]

2018 – Launch ACABL[2]
Launch Arbuthnot Direct
Establish ASFL[3]

2019

1 – Renaissance Asset Finance Limited, 2 – Arbuthnot Commercial Assed Based Lending, 3 – Arbuthnot Specialist Finance Limited

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This document is a summary only of certain information contained in the announcement dated 26 March 2020 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

Arbuthnot Banking Group: 0207 012 2400

Sir Henry Angest – Chairman and Chief Executive
Andrew Salmon – Group Chief Operating Officer
James Cobb – Group Finance Director

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