ARBUTHNOT BANKING GROUP PLC

5 October 2022

Arbuthnot Banking Group PLC

Third Quarter 2022 Trading Update

The Board of Arbuthnot Banking Group PLC ("Arbuthnot", "the Company" or the "Group") is today issuing the following update regarding the trading performance of the Group for the three months to 30 September 2022.

Highlights

- **Bank of England base rate rises contribute to increased revenue**
- **Good progress being made across all divisions**
- **Deposit balances exceed £3bn in the quarter**
- **Completion of the sale of King Street property progressing**
- **Full year results expected to be ahead of market expectations**

Group Performance

The Group has traded well in the third quarter of the year and further increases in the Bank of England base rate ("base rate") have continued to drive the increased profitability of the Group.

In September the underlying monthly profit before tax was approaching £4m (excluding the one-off cost of living bonus payment made to all employees that was signalled in the Group's Interim results released on 19 July 2022). Any future base rate increases will continue to have a corresponding positive impact on the Group's revenue, as approximately £2.6bn of the Group's assets (loans and liquidity assets) have variable interest rates linked to the base rate. Accordingly, the Board expects that both reported and underlying profit for the year ending 31 December 2022 will be ahead of market expectations. *

However, as referenced in the interim statement, it should be noted that at this current time, the Group is experiencing higher net interest margins than it expects over the longer term; the repricing of deposits generally has a delay of up to twelve months as time deposits reach maturity. Also, the Group is yet to see the full impact of the inflationary pressures that are currently working their way through the economy.

During the quarter, deposit balances of Arbuthnot Latham & Co., Ltd ("the Bank"), exceeded £3bn for the first time in the Bank's history, as our deposit gathering model continued to prove successful. As expected, the cost of deposits is beginning to rise and is now in excess of 81 basis points ("bps"), but this compares favourably with the current base rate of 2.25% and also proves the value of developing a relationship-based deposit platform rather than relying on "best buy" deposits, which are currently seeing one-year rates reaching over 4%.

Our liquidity remains robust with the Bank having surplus liquid assets of more than £411m above the minimum regulatory requirement of £565m. The Group remains well capitalised, and this is expected to strengthen given the improved profitability.

The Group's loan balances have increased to £2.2bn. However, given the current market uncertainty, we have tightened our credit appetite, particularly in our real estate lending business. We are now stressing the affordability of interest payments to levels in excess of the 2% increase in rates that is prescribed. The effect of this will be to reduce the loan to value ("LTV") on our new lending below our guidance of 60%. It is also expected that this change in appetite will reduce our lending volumes in the short term. However, given our increased levels of profitability, we are content to save our financial resources for future opportunities that will arise given the market dislocation.

In the current economic environment, it is likely that the risk of defaults will increase across the economy; however, the Group continues to maintain its long held credit principles and discipline. Currently, the non-performing loan book has been reduced to its lowest level for over two years and there are no signs of material stress in the credit metrics. The average LTV against the loan book remains low at 51%, giving significant levels of security to withstand and minimise the effect of any potential falls in property markets.

The Group's economic scenarios incorporated into its IFRS 9 expected credit loss modelling have been revised to consider the current negative outlook and future economic climate. However, despite the potentially worsening macro-economic outlook, the increase in expected losses is limited due to the high levels of property-based security.

Business Division Highlights

Banking
Client acquisition in the third quarter continued the strong trend seen in the first half of 2022 of double-digit growth across all the key markets. Given the economic outlook, combined with its conservative business model, the Bank's proposition resonates well with clients seeking a bank that can provide support throughout the economic cycle along with building long term relationships. This was reinforced with a strong Net Promoter Score (NPS) achieved in 2022 of 64% across Private & Commercial Banking.

Banking has generated good liquidity for the Group through its deposit raising strategy with a significant proportion of relationship call and current deposits raised, which tend to be priced lower. The cost of deposits is expected to increase market wide given the outlook; however strategically the business views this as an opportunity to continue to win and retain further relationship deposits.

The loan book growth for the third quarter has been broadly flat with repayments offsetting new lending. The transition to more efficient use of capital continues as capital intensive lending matures and refinances away to other lenders and is replaced with more capital efficient lending. The last quarter of 2022 is expected to deliver modest loan book growth as clients defer transactions given the interest rate outlook and the impact of increased financing costs. The business remains committed to its long-held credit disciplines and conservative approach to lending, and given the economic and interest rate outlook, the Bank is well positioned to take advantage of opportunities and to support new to Bank clients where the credit risk is low and the competition are distracted.

The changing macroeconomic environment is yet to impact the Bank's loan quality, with watchlist cases reducing to below pre-pandemic levels in absolute terms, despite the larger loan book. As

clients potentially experience increased pressure, the Bank's conservative lending appetite, reflected in low loan to values across the book, means it is able to work with clients who face the prospect of increasing interest rates.

Wealth Management
In the third quarter, despite the global financial market headwinds, Assets under Management ("AUM") achieved their highest ever level to finish August at £1.37bn. However, subsequently significant market volatility in September negatively impacted AUM levels to finish the quarter at £1.35bn. The effect of the falls in the markets was partially offset by Sterling's weakness and the Investment Committee's underweight allocation to UK Gilts.

Gross client inflows have been maintained with a high volume of criteria clients rather than being dominated by a smaller number of high value clients.

The Investment Committee maintains a cautious outlook on financial markets, expressed through an underweight to equities and fixed income, and cash holdings higher than normal providing the business the option to take advantage should market volatility increase.

Mortgage Portfolio
The mortgage portfolio continues to operate in line with expectation. There has been an incremental number of arrears as borrowers feel the effect of rising costs and interest rates.

The portfolio was acquired in August 2019 with a discount against par of 2.7% which is being unwound over the life of the portfolio. Currently the outstanding balance of the loans is approximately £163m with the remaining discount in excess of £4.6m. This coupled with a low average LTV of 69%, means the Bank's exposure to adverse economic headwinds is minimised.

Arbuthnot Commercial Asset Based Lending ("ACABL")
Despite the challenging market conditions, ACABL continues to experience strong lending growth with £55m of new client facilities issued in the third quarter, a record for the business.

The loan book growth was marginally offset by attrition where ACABL supported clients to successful sales and the facilities were repaid. The impact from the pandemic and Private Equity sponsors retaining assets for longer has meant the business is seeing lower levels of attrition than it would ordinarily expect.

In the current environment, and as the loan book grows the business would expect to see an increase in the number of clients that are being closely monitored. However, ACABL's business model which relies on high levels of liquid security, and close monitoring of cash flows and asset books used as security, means any potential problem debts can be actively managed in advance of incurring any losses. This is the standard methodology for mitigating credit risk in this industry.

After the closures of the RLS 2 scheme, ACABL was successful in being accredited for the government backed RLS3 scheme with its first loan drawn in September.

Renaissance Asset Finance ("RAF")
RAF continues to experience strong demand for its asset finance facilities, with the successful launch of its Block Discounting business. The business delivered strong growth in the third quarter with a record amount of new lending in the month of July.

Loans under forbearance measures following the pandemic remain largely static and confined to the London purpose-built taxi market.

Asset Alliance ("AAG")
AAG has reported three consecutive months of net growth in its leased asset portfolio with a strong pipeline into the first half of 2023. The global supply chain issues still affect the availability of new vehicles; however, the business has seen reasonably consistent progression and improvement month on month.

The reduced supply of new assets however has resulted in a reduction in overall discounts achievable as the global truck suppliers have opted to chase the more lucrative retail sector, resulting in less favourable terms to larger fleet buyers. However, being part of the Group and having access to a robust and reliable source of funding, AAG has been favoured ahead of many of its more financially challenged competitors allowing it to retain and commit to its supply agreements with the major truck and trailer suppliers.

The used truck sales market remains buoyant, in part due to global supply chain issues and the inflationary economy continuing to drive up residual values for assets resulting in increased profits on disposals.

The commercial vehicle portfolio remains centred around essential supply chain logistics businesses. Consequently, there has been no material increase in arrears or default positions.

Where historically the Bus & Coach business was brokered out to other lenders, AAG has successfully transitioned to retain the business on its balance sheet. During the third quarter, own book lending in this sector increased by over £20m, which was helped by an acquisition of a portfolio totalling £16m of operating leases. This was completed at a 6% discount to the future cash flows receivable.

Arbuthnot Specialist Finance ("ASFL")
ASFL continues to make progress implementing its new business plan. The loan book remains in line with the balance as at 31 December 2021.

Owned Properties
The Group expects to complete the sale of its King Street property, originally announced on 20 July 2022, in the near future.

The sale was part of the previously announced strategy to exit non-core assets to focus the Group on optimising its capital utilisation, with the disposal releasing £8.4m of capital which will be available to be deployed in line with the Bank's strategic "Future State" plan.

*The Company believes that consensus market expectations for the year ending 31 December 2022 are reported pre-tax profit of £13 million

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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