



# ARBUTHNOT BANKING GROUP PLC

2008 Year End Results

12 March 2009



ARBUTHNOT BANKING GROUP PLC

# 2008 Year End Results

## Introductions

Henry Angest  
Chairman & Chief Executive





2008 Year End Results

Business Review

Andrew Salmon  
Chief Operating Officer



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# Key Messages

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- Overall a creditable outcome for a very challenging environment
- Group made a positive return, recommends a Total Dividend of 21p
- Closed the year with strong balance sheet, capital and liquidity ratios
- Successful sale of three businesses
- Group in a position to take advantage of market opportunities
  - LV portfolio
  - Motor Finance
  - Attracting new deposits
  - Property Investments
  - Selective recruitment
  - Client growth



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# Strategic Update

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- Group remains committed to being a diversified financial services group
- Banking businesses are well positioned to grow and action in the Securities business means it can endure current markets
- Priorities:
  - Increased profitability at Secure Trust Bank
    - Lending growth
    - New fee based income
    - Reduced costs
  - Improved return on capital from Arbuthnot Latham
    - Increased banking margins
    - Client growth
    - Reduced Costs
  - Ensuring Arbuthnot Securities continues to improve its performance
  - Controlling costs
  - Securing the opportunities that arise from current economic conditions
  - Swiss Bank



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# Private Banking

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## **ARBUTHNOT LATHAM REMAINS STRONG, PROFITABLE AND WELL POSITIONED FOR FUTURE GROWTH**

- Liquidity, funding and capital remain strong despite market conditions
- Customer loan to deposit ratio still below 60% and funding lines undrawn
- Improvement in core profitability now evident
- Finer deposit margins offset by higher fees/tariffs and lending margins
- Loan book remains healthy with low loan to value ratios
- Disposal of pensions and factoring businesses gives greater focus
- Cost reduction initiatives will provide recurring cost savings

We expect to grow our target client base and core revenues in 2009 due to our:

- Balance sheet strength
- Ability to lend
- Well integrated customer offering
- Continued independence



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# Retail Banking

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## Good Progress

- Profit Before Tax increased 60%
- Cost control generating efficiencies – Cost Income ratio down to 63%
- No legacy balance sheet issues:
  - Good liquidity
  - Growing deposits
  - Solid capital base
  - No historic bad debt problems
- Strong Cash Flow from fee based products



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# Retail Banking

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## Income Growth

- Pre Paid Debit Card
  - Niche market opportunity
  - End to end product offering
  - Mastercard Licence
  
- Motor Finance
  - Lending Opportunity following exit of major providers
  - Recruited experienced team to develop business model
  - Gradual entry with small number of dealer groups to start
  
- Consumer Lending
  - Market conditions more favourable than recent times – Risk properly priced
  - Customer behaviour identified from OneBill account
  - LV portfolio purchased in February doubles number of lending customers



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# Investment Banking

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- Arbutnot Securities business lost £4m from 12 market making positions
- Corporate Finance fees fell from £19.2m to £7.2m
- Number of retained corporate clients increased from 85 to 97
- Largest client recently admitted to FTSE 100 index
- New Management and limit structure in place for trading book
- Significant enhancement of personnel base
  - New Head of Corporate Finance started January 2009
  - Equity distribution
- Research agenda continues to move up market cap spectrum
- Management actions expected to return Securities business to profitability





# 2008 Year End Results

## Financial Review

James Cobb  
Group Finance Director



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# Financial Highlights

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- Positive Earnings Per Share
- Group able to recommend a final dividend
- Balance sheet, capital and liquidity remain strong
- Gains on disposals re-invested in business for future benefit
- Benefits of diversifications continue



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# Headline Results

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	<u>2008</u>	<u>2007</u>
Operating Income	£41.9m	£68.8m
(Loss) / Profit Before tax	(£2.2)m	£8.6m
Profit attributable to Equity holders of the Company	£0.5m	£3.6m
Basic Earnings Per Share	3.5p	23.8p
Total Dividend Per Share	21p	33p
Total Assets	£359.8m	£414.4m
Regulatory Capital	£45.5m	£46.7m

➤ Operating Income down largely due to Arbuthnot Securities

➤ Significant Items:

- Reduced Income in Investment Banking £19m
- Gains on Disposals £4.6m
- Restructuring £1.4m
- Financial Services Compensation Scheme Levy £0.5m

➤ Positive attributable returns to Shareholders and 21p Total Dividend

➤ Regulatory Capital broadly unchanged



# Divisional Performance

	<u>2008</u>	<u>2007</u>	Change
Private Banking (Arbuthnot Latham)	2,119	1,454	46%
Retail Banking (Secure Trust)	7,277	4,550	60%
Investment Banking (Arbuthnot Securities)	(5,225)	8,076	(165%)
Switzerland	(1,160)	(266)	336%
Group Costs	<u>(5,161)</u>	<u>(5,235)</u>	1%
Profit / (Loss) Before Tax	(2,150)	8,579	
Tax	<u>1,152</u>	<u>(2,792)</u>	
Profit / (Loss) After Tax	<u>(998)</u>	<u>5,787</u>	
Of Which			
Attributable to Group Share Holders	519	3,555	
Minority Interests	(1,517)	2,232	

## Private Banking

- Profits up 46%
- Significant Items:
  - Gains on Disposals £2.2m
  - Restructuring Costs £0.4m
  - Financial Services Compensation Scheme Levy £0.45m
- Underlying core business up 5%
- Reduced number of Property fees

## Retail Banking

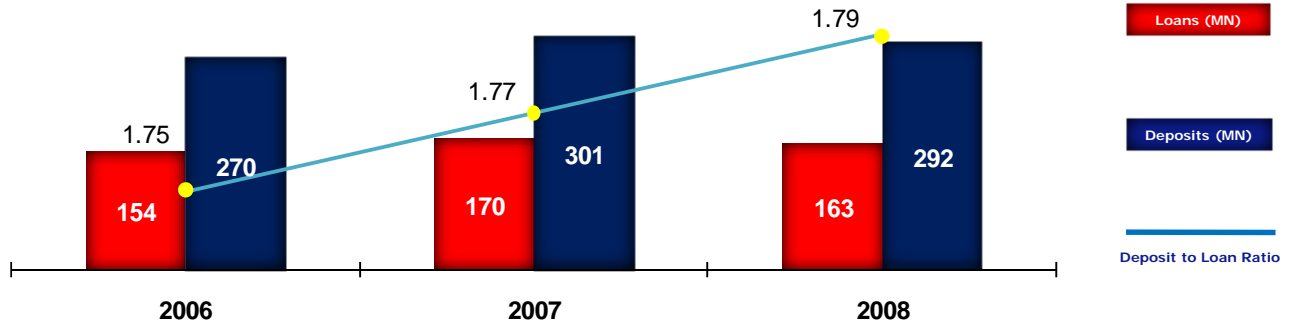
- Profits up 60%
- Significant Items:
  - Gains on Disposals £2.4m
  - Restructuring Costs £0.3m
  - Financial Services Compensation Scheme Levy £0.05m
- Underlying core business up 20%
- Cost Income Ratio down to 63%

## Investment Banking

- Profits down 165%
- Significant Items:
  - Corporate Finance Fees down £12m
  - Trading Income down £7m
  - Restructuring Costs £0.7m
  - Bonus expense reduced £7m
- Minority Interest unchanged at 40.4%



# Liquidity & Balance Sheet Strength



- Deposits broadly unchanged despite market conditions
  - Private banking represents 93% of total deposits unchanged
- Loan balances fall as outsourcing deal with Every Day Loans continued into second half of year – now reversing
- Loan to deposit ratio improving to 1:1.79 as balance sheet remains funded by retail deposits
- Quality of loans remains high
  - Loan To Value ratio falls only to 44% (2007: 37%)



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# Capital Strength

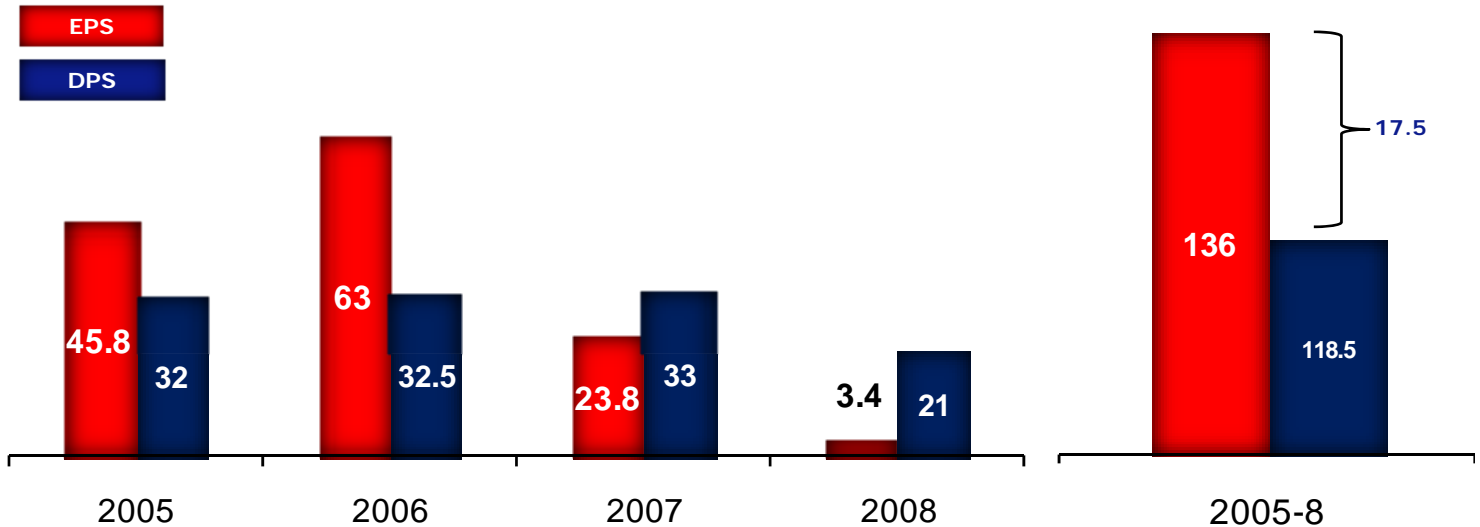
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- Total Regulatory Capital closed at £45.5m
- Tier 1 reduced by distributions and lower revaluation reserves
- Tier 2 increases in Subordinated loan
- Core Tier 1 ratio far ahead of major banks

<b>Capital – Core Tier 1</b>	
Latest announced Capital ratios (%)	
Arbuthnot Banking Group	10.5
RBS	7.9
HSBC	7.8
Standard Chartered	7.4
Barclays	6.5
Lloyds Banking Group	6-7



# Dividend Cover



➤ Reduced Earnings Per Share in 2008 of 3.4p vs Dividend Per Share of 21p

➤ However since 2005 Earnings Per Share remains 17.5p ahead of Distributions



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# Key Messages

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- Overall a creditable outcome for a very challenging environment
- Diversification of business is a great strength
- Well positioned to take advantage of current opportunities
- Businesses already showing progress in 2009



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# Forward Looking Statements

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This document is a summary only of certain information contained in the announcement dated 12 March 2009 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 Arbutnot 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 Arbutnot 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. Arbutnot 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 and equity risk in its investment banking businesses, inherent risks regarding market conditions and similar contingencies outside Arbutnot 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 Arbutnot Banking Group undertakes no obligation to update any of its forward looking statements.

