29 July 2025

ARBUTHNOT BANKING GROUP

1H'25 results: growing where it wants to

From ABG's *1H'25 results*, we note i) strong growth in low-capital-intensity businesses (deposits, wealth management) and high risk-adjusted-return specialist lending (most notably RAF and leasing businesses) – ABG is not competing for business that does not meet its target returns and some loan books are shrinking (e.g. property lending), and ii) pre-tax profits halved on 1H'24 due to the well-flagged impact of the falling rate environment, less PE activity driving lower ACABL activity and low truck resale profits. Some of this is noise, and the effects will moderate. Despite cutting estimates, we forecast 2H'25 pre-tax profits above 1H'25 and FY'26 above the 2H'25 run rate.

- **Financial highlights:** PBT £10.9m (1H'24: £20.8m). Op income £73.3m (£74.4m). Impairments £1.4m (£1.1m). EPS 42.5p (94.6p). Interim dividend p/sh 22p (20p), up 10%. Net assets per share were £16.49 (31 Dec'24: £16.36). The CET1 ratio was 12.7% (11.6%) and total capital ratio 14.8% (13.6%).

- **Operating highlights:** Customer deposits +7% to £4.4bn (2024: £4.1bn) and loans £2.3bn (£2.4bn). RAF and AAG specialist lending divisions saw good growth. FUMA +8% to £2.38bn (£2.21bn), with inflows at £127m, annualised 11% of opening FUMA. Investment continues (costs rose 11%).

- **Valuation:** Our multiple approaches see a broad range of valuations: £10.74 DDM, £18.80 SOTP and £23.91 GGM. The average is £17.82, nearly double the share price. Trading at 62% of NAV is anomalous, in our view, given returns above the cost of capital and ABG's growth potential. ABG's 2026E yield is 5.7% with over 2x cover.

- **Risks:** Margins have fallen from peak, with the trend and level of interest rates a key driver to future earnings. A higher-for-longer outlook would be beneficial. Credit is a risk, but ABG is conservative in lending, taking good security; thus, its loss given default is low. Other risks: reputation, regulation and compliance.

- **Investment summary:** ABG offers strong-franchise and continuing-business (normalised) profit growth. Its balance sheet strength gives it a number of wide-ranging options to develop organic and inorganic opportunities. The latter are likely to increase in uncertain times. Management has been innovative but also very conservative in managing risk. Having a profitable, well-funded, well-capitalised and strongly growing bank priced below book value is an anomaly, in our view.

Financial summary and valuation

Year-end Dec (£000)	2022	2023	2024	2025E	2026E
Group op. income	137,388	178,899	179,511	174,345	187,945
Total costs	(108,913)	(131,113)	(139,806)	(147,503)	(154,253)
Cost:income ratio	79%	73%	78%	85%	82%
Total impairments	(5,503)	(3,191)	(6,275)	(4,950)	(6,250)
Reported PBT	20,009	47,117	35,090	22,521	28,191
Adj. PBT (co. basis)	31,078	51,384	35,090	22,521	28,191
Statutory EPS (p)	109.0	222.8	152.3	104.0	129.0
Adj. EPS (co. basis) (p)	169.2	244.6	152.3	104.0	129.0
Loans to deposits	66%	55%	51%	44%	43%
Ord. dividend (p)*	42.0	46.0	49.0	54.0	59.0
P/adj. earnings (x)	6.1	4.2	6.8	9.9	8.0
P/BV (x)	0.73	0.67	0.63	0.61	0.58

**Additional special dividends of 21p (2021) and 20p (2024). Source: Hardman & Co Research*

Banks

Source: LSEG, 2025

Market data

EPIC/TKR	**ARBB/ARBN**
Price (p)	**1,030/1,000**
12m high (p)	1,040
12m low (p)	830
Shares (m)	16.7
Mkt cap (£m)	172
Loans to deposits, 2024	51%
Ord. shares free float*	40.4%
Country of listing	UK
Currency of listing	GBP
Market (UK)	AIM/AQSE

*As defined by AIM Rule 26

Description

Arbuthnot Banking Group (ABG) has a well-funded and capitalised private bank and has been growing specialist high-margin commercial banking very strongly.

Company information

Chair/CEO	Sir Henry Angest
COO/CEO Arb. Latham	Andrew Salmon
Group FD/ Deputy CEO Arb. Latham	James Cobb

Tel: +44 (0)20 7012 2400

www.arbuthnotgroup.com

Key shareholders

Sir Henry Angest	58.0%
Liontrust AM	9.2%
Slater Investments	7.2%
The late R Paston	3.3%

Diary

Oct'25	3Q trading update

Analyst

Mark Thomas mt@hardmanandco.com

1H'25 results summary

Growth options highlighted in results

The key strategic message is the numerous options that ABG has created to grow its franchise through the noise of an unknown interest rate cycle, customer behaviour changes, slower PE business and a weak truck resale market. The 1H'25 results show good growth in the specialist loan book, deposits and wealth management.

Financial highlights

Profits down, as expected, with pressure on margins from maturing, low-cost deposits

- Profit before tax fell to £10.9m (1H'24: £20.8m) for the reasons identified below in this report. We forecast higher profits in 2H'25 than 1H'25 and the FY'26 run rate above that of 2H'25.
- Group total operating income was down at £84.9m (£87.1m), with modest falls in both banking income (£73.3m vs. £74.4m) and leasing income (£11.6m vs. £12.7m). As expected, there was pressure on banking net interest income (£58.7m vs. £62.1m), with interest income down over £4m but interest expense down just £1m. Banking net fee income grew from £12.4m to £14.5m.

Costs reflect mix of inflationary pressure, headcount growth and increased investment

- Operating expenses increased by 11% to £73.3m. ABG is facing the market-wide competition for banking staff, inflation, and higher headcount. Additionally, it has made further IT/premises investment (e.g. dual running costs on new London property from August 2024) and increased national insurance costs.
- Earnings per share were 42.5p (94.6p). The interim dividend declared increased by 2p to 22p, nearly twice covered by earnings. The 10% dividend growth reflects the board's confidence in the outlook.

Divisionally, key message is growth in specialist lending, partially offsetting banking pressure

- Caution needs to be taken when considering reported divisions, given internal allocations, but reported divisional pre-tax profits were: i) **Banking and Other Divisions combined** (to eliminate distortions from internal treasury pricing) £10.7m (£23.8m), the unit most exposed to higher funding costs; ii) **Renaissance Asset Finance (RAF)** £3.3m (£2.2m) with strong volume growth; iii) **Arbuthnot Commercial Asset Backed Lending (ACABL)** £4.8m (£4.4m); and iv) **Asset Alliance Group (AAG)** £517k loss (£25k profit), good franchise growth. The **Wealth Management (WM)** division reported funds under management and administration at the end of June of £2.4bn, up 22% YoY, but its profitability is distorted by internal allocations. As we detail later in this report, there has been strong customer acquisition.

Strong capital ratios – total nearly 2x regulatory minimum

- The core equity Tier 1 ratio was 12.7% (end-2024: 13.2%), and the total capital ratio was 14.8% (15.3%), well above the regulatory requirement of 8.32%. NAV per share was £16.49 against £16.36 at year-end 2024.

Operational highlights

YoY deposits +14%, FUMA +22%

Specialist loans +7% in 1H'25

Customer deposits increased by 7% in 1H'25 (14% YoY), to £4.4bn, despite outflows in the tax payment period and transfers to a gilt product. FUMA balances were up 8% in 1H'25, 22% YoY to £2.4bn. Net flows for the period were £127m. Customer loans fell 4% in 1H'25, 5% YoY, to £2.3bn. Specialist Lending Divisions' loan balances were strong (aggregate £896m vs. £840m at end-2024) while private banking loans fell amid further tightening of lending criteria and competition leading to pricing below ABG's target returns in some areas.

Theme 1: growth where it wants

ABG invested to build much bigger franchise business and growth seen in multiple key areas

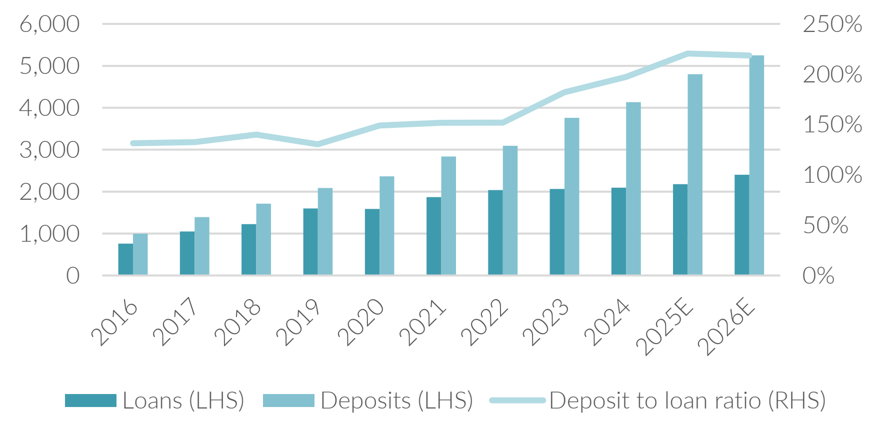
As we detailed in *Trading update: taking ABG to the next level* (24 October 2023), ABG has invested up front in building an infrastructure to service a much larger pool of business. An example is its move to much larger premises in London. The financial benefit from the franchise growth has yet to be fully seen.

Growing deposits

In 1H'25, deposit volumes surprised on upside

For much of the past 15 years, interest rates have been so low that deposits have not been a profitable product in their own right. Indeed, when base rates were at their lowest, there was cost in having surplus liquidity. However, rises in rates from end-2021 to mid-2023 meant that deposits can be raised at below base rate and placed with the Bank of England at a positive spread and so generate profit at minimal risk and with a minimal capital requirement. Deposits at end-1H'25 – at £4.4bn, up 22% on 1H'24 – were close to the level we had forecast for the full year. This is despite outflows of £140m in the tax payment season and transfers to ABG's gilt product in the Wealth Management division. Following these results, we have added £200m to our deposit estimates. As the chart below shows, ABG has not only nearly doubled its deposit book over the past five years, it has also grown deposits at a faster rate than lending; in doing so, it has increased its deposit-to-loan ratio from 130% in 2019 to nearly 200% in 1H'25.

Deposits and loans (£m LHS) and deposit-to-loan ratio (% RHS)



Source: ABG Report and Accounts, Hardman & Co Research

New deposit segments being targeted

Looking forward we expect continued focus on growing deposits. ABG has a track record of targeting customer segments that are underserved by the market and where cheap deposits may still be available. We expect further initiatives in the SME market over the coming 12 months. The key message is that ABG has built, and continues to develop, a platform that allows it to choose where to compete and grow deposits at a rate it chooses.

Growing wealth management

Strong growth in new customers and FUMA

One of the stars in 2024, and again in 1H'25, was wealth management. As the table below shows, client numbers were up by nearly two thirds over five years to end 2024 while funds under management and administration (FUMA) more than doubled. The steady growth in net inflows is also a key indicator of customer satisfaction.

Key metrics for wealth management division						
	2020	2021	2022	2023	2024	1H'25
FUMA (£bn)	1.1	1.4	1.3	1.7	2.2	2.4
Clients	868	938	1,196	1,308	1,401	n/d
Average portfolio (£m)	132	1.45	1.11	1.31	1.58	n/d
Net inflow (£m)	12	80	105	261	331	127

Source: ABG, Hardman & Co Research

We understand that ABG has a project in hand that will allow it to deliver a lower price but a product offering with much cheaper cost of delivery with rollout through 2026.

Growth in specialist lending

RAF loan book +12% on year-end

RAF is a specialist asset finance provider, acquired by ABG in 2017. It makes funding facilities available, both direct and via premium brokers, to the UK SME and high-net-worth individual markets. The main products are HP, finance leases and refinance facilities for a range of assets, including motor vehicles, plant and machinery, engineering and manufacturing equipment, and business-critical soft assets. RAF reported a profit of £3.3m (1H'24: £2.2m and against just £0.2m in FY'22) and finished 1H'25 with a loan book of £279.6m, up 12% on the end-2024 book of £248.8m. The Block Discounting product grew 88% to £59m, 21% of the portfolio. Strong growth was expected from RAF, but we have still marginally increased divisional forecasts.

RAF – key data						
Year-end Dec (£000)	2021	2022	2023	2024	2025E	2026E
Interest income	8,300	8,898	12,584	19,340	23,000	27,000
Interest expense	(2,371)	(3,353)	(4,540)	(6,468)	(7,250)	(8,250)
Net fees and comms.	166	32	34	239	100	200
Operating income	**6,095**	**5,577**	**8,078**	**13,111**	**15,850**	**18,950**
Other income	78	82	170	0	-	-
Operating expenses, direct	(3,943)	(4,697)	(5,634)	(6,981)	(8,000)	(8,750)
Impairments	(2,292)	(768)	(982)	(554)	(1,000)	(1,000)
PBT	**(62)**	**194**	**1,632**	**5,576**	**6,850**	**9,200**
Loans and advances (£m)	97	134	199	249	310	370

Note: In 2021, impairments included a £2.1m charge against Arena TV, which appears to be a sophisticated fraud affecting 54 other lenders; Source: ABG, Hardman & Co Research

AAG +6%

As we detail below, AAG continues to see strong volume growth with assets available for leases and finance leases up 6% on the year-end. While the company has only just achieved breakeven, this is partly due to the stage of development of the business. Since acquisition, it has more than doubled the size of its fleet, in a relatively short period of time. As at end-1H'25, the business had assets available for lease and finance leases totalling £385m, up 6% on end-2024 £363.0m (2023: £326.8m). The benefit of this will mainly be felt as the portfolio matures.

Shrinking where pricing uneconomic

ABG walking away from competitive markets when returns drop below target levels

ABG has a track record of not following market pricing blindly, making it a somewhat counter-cyclical lender. At present, competition in low-risk property lending has intensified. ABG has been tightening credit criteria; a combination of this, and the low-returns available, mean that the private bank loan book has been shrinking. In the past, ABG has conserved capital to either lend when pricing improves or to make acquisitions of less prudent businesses that have got into difficulties.

Theme 2: 1H'25 noise

We forecast 2H'25 pre-tax profits above 1H'25

Pre-tax profits halved on 1H'24 due to the impact of the falling rate environment, less PE activity driving lower ACABL activity and low truck re-sale profits. Some of this is noise, and the effects should moderate over time. Despite cutting estimates, we forecast 2H'25 pre-tax profits above 1H'25 and FY'26 above the 2H'25 run rate.

Well-flagged adverse impact of a falling rate environment

The base rate was 5.25% for the whole of 1H'24 but since then has seen four 0.25% cuts, reaching its current level in May 2025. We have analysed ABG's interest rate sensitivity extensively in previous notes (see appendix 2) and believe the company has well flagged it with investors. Its average cost of funds has come down from 3.19% in 1H'24 to 2.80% in 1H'25, just over a third of the base rate fall.

The cost of funds is reducing, and the end of June 2025 rate was 2.68%. Over a year, on £4.4bn of deposits, the benefit of the lower period-end rate against the average rate is equivalent to £5m of profit. We expect further reductions in cost of funds as residual fixed rate deposits mature and re-price at lower levels.

Customers more proactive in seeking better rates

We also note that change in the rate environment may have been a contributing factor to customer behaviour evolving. ABG is reporting a more proactive approach by customers seeking to protect levels of income as rates have fallen and so there has been an adverse mix effect with fewer deposits in accounts paying low rates. It is unclear whether this behaviour will persist once rates stabilise at a lower level.

Mix effects offsetting volume growth

Additionally, we note that ABG has been competing more effectively for deposits paying slightly below base (and reinvesting surplus deposits with the Bank of England). This has been a material driver to the expected deposit volume growth and is profitable business in its own right with only minimal operational risk capital required, but it does reduce the average deposit spread.

ACABL advances stable. Growth deferred as anticipated recovery in PE activity delayed.

ACABL is a specialist, asset-based lender, focused on delivering facilities significantly to private equity (PE)-backed SME and mid-tier businesses. It provides a full suite of asset-based lending facilities, including invoice discounting, stock finance, property, plant and machinery, and cashflow loans. ACABL reported a profit of £4.8m (2H'24: £7.5m, 1H'24: £4.4m). Gross income in 1H'25 was £13.6m against £15.5m reported for 1H'24. The loss rate remains very low due to the high-quality, liquid assets, as well as close monitoring of the collateral.

ACABL's end-1H'25 loan book was £231.2m (2024: £228.2m, 1H'24: £263.8m, and 2023: £239.8m) after two large repayments at the end of 2024. The key driver to the pedestrian franchise growth has been limited activity by PE firms, many of which have been using positive operating cashflow to reduce gearing. For ABG, the consequence of both these trends has been that maturing facilities have largely offset new origination. Management has indicated "more positive" signs are now being seen. We have cut our ACABL profit by ca.£2m for both 2025E and 2026E.

ACABL – key data

Year-end Dec (£000)	2021	2022	2023	2024	2025E	2026E
Interest income	8,010	14,665	23,300	25,456	20,000	24,000
Interest expense	(2,699)	(7,903)	(14,658)	(15,413)	(11,000)	(12,000)
Net fees and comms.	4,224	5,976	6,911	9,922	9,000	10,000
Operating income	**9,535**	**12,738**	**15,553**	**19,965**	**18,000**	**22,000**
Operating expenses, direct	(4,748)	(5,463)	(6,777)	(7,993)	(8,000)	(8,000)
Impairments	(50)	(2,082)	(234)	(32)	(500)	(500)
PBT	**4,737**	**5,193**	**8,542**	**11,940**	**9,500**	**13,500**
Loans and advances (£m)	182	269	240	228	230	250

Source: ABG, Hardman & Co Research

1H'25 saw minimal AAG disposal gains at end of leases vs. ca.£6m p.a. in 2021-22. Fleet size materially higher now, so significant upside potential in "normal" conditions.

AAG provides contract hire, operating lease and hire of new and used commercial vehicles in the UK. It is the UK's leading bus and coach leasing, finance and rental provider. AAG reported a pre-tax loss of £517k (2H'25 profit £3k, 1H'25 profit £25k) after paying internal funding costs. We had been forecasting a full-year profit of £596k. The main driver to the shortfall has been lower disposal gains on trucks at the end of their lease period. When AAG was acquired, the expected gains were capitalised as a fair-value adjustment, a treatment that unwound as the portfolio matured and was sold. In 2021-22, the adjustment was £5.8m and £6.5m, respectively. We understand that in 1H'25 the gains were minimal. This reflected supply and demand for second-hand and new trucks. COVID-19 created massive distortion to both (including, for example, limited production on supply chain constraints), the effects of which continue to be seen. In 1H'25 ABG reported the difficult conditions from 2024 had continued as new truck prices were competitive, with strong supply and limited demand. This in turn put pressure on resale prices of secondary trucks. In terms of forecasts, we have reduced 2025 pre-tax profits by £1m (implying breakeven 2H'25) and 2026E by £1.5m. Given the business generated ca.£6m p.a. in disposal gains in 2021-22, and the size of the fleet has grown strongly since then, the potential uplift from a more conducive environment against the minimal profits reported in 1H'25 is material.

AAG – key data

Year-end Dec (£000)	2021	2022	2023	2024	2025E	2026E
Interest income	190	664	2,390	5,119	6,000	7,000
Interest expense	(2,591)	(5,120)	(10,254)	(15,327)	(14,000)	(14,000)
Net fees and commissions	0	0	0	(15)	-	-
Turnover	68,673	99,367	100,940	110,832	120,000	135,000
Cost of sales	(62,196)	(82,109)	(81,074)	(85,301)	(96,000)	(108,000)
Operating income	**4,076**	**12,802**	**12,002**	**15,308**	**16,000**	**20,000**
Other income	0	0	0	88	30	150
Operating expenses, direct	(7,872)	(14,507)	(15,093)	(15,308)	(16,500)	(17,500)
Gain on acquisition	8,626	0	0	-	-	-
Impairments	(1,001)	(369)	(98)	(60)	(200)	(500)
PBT	**3,829**	**(2,074)**	**(3,189)**	**28**	**(670)**	**2,150**
Loans and advances (£m)	121	189	327	363	415	500

Note: Income and profits deflated in 2022 (£6.5m) and 2023 (£4.3m). No impact in 2024. Source: ABG, Hardman & Co Research

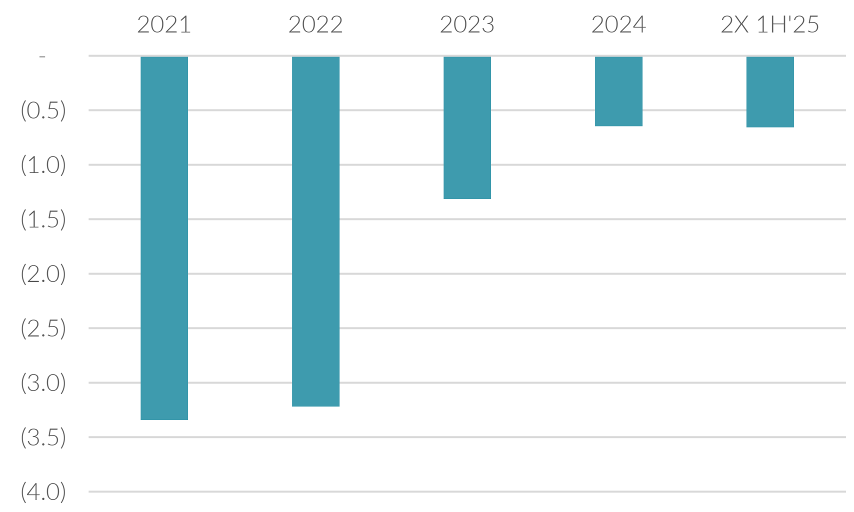
Other issues

Credit

SME credit metrices remain robust

We had previously indicated that a base rate sustained at 4% or higher was likely to lead to systemic pressure, but there is limited evidence of this as yet. Indeed, across the specialist lending divisions, and despite lending growth, the impairment charge remains about one half of 2023 levels.

Impairments reported in combined RAF, AAG and ACABL divisions (£m)



Source: ABG Report and Accounts, Hardman & Co Research

Private banking combined stage 2 and stage 3 (riskier) loans down

The group and divisional breakdown by credit stages is given on pages 21-22 of ABG's 1H'25 results. Stage 2 loans fell from £60.3m at end-1H'24 to £35.7m at end-1H'25. We understand this was a mix of repayments, refinancing and improved covenant cover with a lower interest rate environment. Stage 3 loans were stable at £70.0m vs. £68.2m. As we stated in previous reports, it is important for investors to recognise both probability of default (indicated by stage 2/3 loans) and loss given default. ABG's conservative (and tightening) approach to credit means it, typically, has very good security cover so the loss in the event of default remains low.

Capital

Capital ratios strong

The core equity Tier 1 ratio was 12.7% (down from 13.2% at year-end 2024 but up from 11.6% against 1H'24) and the total capital ratio was 14.8% (end-2024 15.3%). Looking forward, the intention to cease implementation of the new Basel 3.1 capital rules in the US has led the PRA to announce that it is delaying the introduction of these rules in the UK until 2027 to see how the US situation evolves.

Financials

High levels of uncertainty regarding forecasts. On assumption of gently falling rates and cushioning effects of company actions, we forecast 2025 PBT at 5x 2021.

We advise investors to treat the following forecasts with a degree of caution. The interest rate environment will be critical to short-term performance. On our assumption of gently declining rates (to 4% at end-2025), there is a further reduction in profit in 2025, but the group's mitigating actions should then see 2026 profit rise on 2025. After the 1H'25 results, we have reduced our 2025-26 estimates. While interest rate-related pressure was expected, the noise in ACABL and AAG has seen these divisions forecasts reduced. Investors should not lose sight of the fact that 2025E is still 5x 2021 PBT and 2H'25 estimates remain higher than 1H'25.

Changes to estimates

Year-end Dec (£000)	2025E			2026E		
	Old	New	% change	Old	New	% change
Group operating income	181,149	174,345	-4%	192,007	187,945	-2%
Total costs	(148,451)	(147,503)	-1%	(153,451)	(154,253)	1%
Cost:income ratio	82%	85%	3%	80%	82%	3%
Total impairments	(6,058)	(4,950)	-18%	(6,058)	(6,250)	3%
Reported PBT	28,362	22,521	-21%	34,220	28,191	-18%
Adj. PBT (co. basis)	28,362	22,521	-21%	34,220	28,191	-18%
Statutory EPS (p)	129.7	104.0	-20%	155.6	129.0	-17%
Adj. EPS (co. basis, p)	129.7	104.0	-20%	155.6	129.0	-17%
Loans to deposits	45%	44%		46%	43%	

Source: ABG, Hardman & Co Research

Profit and loss

Year-end Dec (£000)	2020	2021	2022	2023	2024	2025E	2026E
Interest income	75,082	77,102	120,013	231,836	263,435	261,180	270,180
Interest expense	(17,024)	(13,027)	(20,932)	(95,217)	(137,568)	(141,935)	(143,935)
Net interest income	**58,058**	**64,075**	**99,081**	**136,619**	**125,867**	**119,245**	**126,245**
Fees and comms. income	14,735	18,223	21,586	23,170	29,142	31,899	35,499
Fees and comms. expenses	(293)	(100)	(537)	(768)	(1,029)	(799)	(799)
Net fees and comms.	14,442	18,123	21,049	22,402	28,113	31,100	34,700
Banking operating income	**72,500**	**82,198**	**120,130**	**159,021**	**153,980**	**150,345**	**160,945**
Leasing revenue	0	68,673	99,367	100,952	110,832	120,000	135,000
Leasing cost of sales	0	(62,196)	(82,109)	(81,074)	(85,301)	(96,000)	(108,000)
Gross profit from leasing	0	6,477	17,258	19,878	25,531	24,000	27,000
Group operating income	**72,500**	**88,675**	**137,388**	**178,899**	**179,511**	**174,345**	**187,945**
Total impairments	(2,849)	(3,196)	(5,503)	(3,191)	(6,275)	(4,950)	(6,250)
Other income	678	3,955	1,627	2,522	1,660	629	749
Profit from bargain purchase	0	8,626					
Loss on sale of King Street	0	0	(4,590)				
Operating expenses	**(71,419)**	**(93,422)**	**(108,913)**	**(131,113)**	**(139,806)**	**(147,503)**	**(154,253)**
Profit before tax from cont. ops.	**(1,090)**	**4,638**	**20,009**	**47,117**	**35,090**	**22,521**	**28,191**
Income tax	(242)	2,148	(3,551)	(11,738)	(10,236)	(5,556)	(7,143)
Profit for year	**(1,332)**	**6,786**	**16,458**	**35,379**	**24,854**	**16,965**	**21,048**

Source: ABG, Hardman & Co Research

Divisional pre-tax profits

Year-end Dec (£000)	2021	2022	2023	2024	2025E	2026E
Banking*	12,166	22,898	66,039	28,123	29,500	25,000
Other divisions*	(2,253)	11,700	(5,377)	5,725	(7,250)	(7,250)
WM	(2,121)	(4,101)	(4,256)	(4,893)	(4,000)	(3,000)
AAG	3,829	(2,074)	(3,189)	28	(670)	2,150
RAF	(62)	194	1,632	5,576	6,850	9,200
ACABL	4,737	5,193	8,542	11,940	9,500	13,500
Centrals	(10,632)	(12,856)	(15,577)	(11,409)	(11,409)	(11,409)
Group total	**4,638**	**20,009**	**47,117**	**35,090**	**22,521**	**28,191**

Note change in divisional reporting in 2024 affecting banking and other divisions, Source: ABG, Hardman & Co Research

Balance sheet							
@ 31 Dec (£000)	2020	2021	2022	2023	2024	2025E	2026E
Cash and balances at central bank	636,799	814,692	732,729	826,559	911,887	1,494,446	1,705,584
Loans and advances to banks	110,267	73,444	115,787	79,381	66,971	100,000	100,000
Debt securities held to maturity	344,692	301,052	439,753	942,437	1,199,847	1,199,847	1,199,847
Assets classified as held to sale	3,285	3,136	3,279	3,281	0	0	0
Derivative financial instruments	1,843	1,753	6,322	4,214	2,970	2,970	2,970
Loans and advances to customers	**1,587,849**	**1,870,962**	**2,036,077**	**2,064,217**	**2,094,212**	**2,106,000**	**2,271,000**
Other assets	96,493	110,119	52,185	57,150	51,701	51,701	51,701
Financial investments	18,495	3,169	3,404	3,942	4,947	4,947	4,947
Deferred tax	1,009	2,562	2,425	-	-	-	-
Investments in associates	-	-	-	-	-	-	-
Intangible assets	23,646	29,864	32,549	29,587	30,565	30,065	29,565
Property, plant and equipment	4,905	125,890	175,273	274,306	313,366	363,366	413,366
Right of use property	17,703	15,674	7,714	52,816	47,511	47,511	47,511
Investment property	6,550	6,550	6,550	5,950	5,250	6,550	6,550
Total assets	**2,853,536**	**3,358,867**	**3,614,047**	**4,343,840**	**4,729,227**	**5,407,403**	**5,833,041**
Deposits from banks	230,090	240,333	236,027	193,410	192,911	192,911	192,911
Derivative financial instruments	649	171	135	1,032	-	-	-
Deposits from customers	**2,365,207**	**2,837,869**	**3,092,549**	**3,759,567**	**4,132,493**	**4,799,400**	**5,249,400**
Liab. relating to assets held for sale	0	0	0	0	0	0	0
Current tax liability	0	413	1,748	294	3,001	5,556	7,143
Other liabilities	7,606	26,216	26,144	40,700	35,384	35,384	35,384
Deferred tax liability				4,910	5,671	5,671	5,671
Lease liabilities	18,305	16,214	7,872	53,761	54,829	54,829	54,829
Debt securities in issue	37,656	36,772	37,594	37,726	37,982	37,982	-
Total liabilities	**2,659,513**	**3,157,988**	**3,402,069**	**4,091,400**	**4,462,271**	**5,131,733**	**5,545,338**
Share capital	154	154	154	167	167	167	167
Share premium				11,606	11,606	11,606	11,606
Retained earnings	207,839	201,026	212,037	240,606	254,575	263,289	275,322
Other reserves	-13,970	(301)	(213)	61	608	608	608
Total equity	**194,023**	**200,879**	**211,978**	**252,440**	**266,956**	**275,670**	**287,703**

Source: ABG, Hardman & Co Research

Valuation

Range of valuations broad – driven by scenario of assumptions but also methodology

Average is £17.82 per share, nearly double current price

Our average fair value is now £17.82, down from the previous estimate of £19.32. This has been driven by mix effects in our sum of the parts (SOTP) model, lower earnings/higher dividend reducing the GGM and DDM on lower estimates. On our assumptions, this represents a very undemanding 1.1x 1H'25 NAV for a business expected to deliver a near 5x increase in profits in 2025 vs. 2021.

Summary of different valuation techniques by approach

£ per share	GGM	SOTP	DDM
Implied valuation	23.91	18.80	10.74

Source: Hardman & Co Research

GGM

The assumptions and sensitivities in our GGM model are given below. The valuation £23.91 per share (vs. £24.29) reflects lower retentions on lower earnings and the paying out of higher dividends.

GGM £23.91

GGM and sensitivities (central scenario)

	Base	+1% RoE	+1% CoE	+0.5% G
Return on Equity (RoE)	13.5%	14.5%	13.5%	13.5%
Cost of Equity (CoE)	10%	10%	11%	10%
Growth	5%	5%	5%	5.5%
Price/book value (x)	1.70	1.9	1.4	1.8
Discount for near-term underperformance	-25%	-25%	-25%	-25%
Adjusted price/book value (x)	**1.3**	**1.4**	**1.1**	**1.3**
Book value 2025E (£m)	275.7	275.7	275.7	275.7
Valuation (£m)	351.5	392.8	292.9	367.6
Valuation per share (p)	**23.91**	**26.72**	**19.93**	**25.00**
Variance (p per share)		**41.4**	**-58.6**	**16.1**

Source: Hardman & Co Research

SOTP

SOTP £18.80

The valuation has dropped from £20.95 to £18.80/share due to the reduced estimates in higher-rated businesses. We have also treated banking and "other divisions" as one unit, reducing the valuation by applying a higher rating to the "other divisions" loss than in our previous model.

SOTP

	2025E post-tax	Rating (x)	Value (£m)
Banking	21.8	10	218.3
Other divisions	(5.4)	10	(53.7)
WM (2.5% FUMA)			52.8
AAG	(0.5)	12	(5.9)
RAF	5.1	12	60.8
ACABL	7.0	12	84.4
Centrals	(8.4)	5	(42.2)
Total			314.5

Source: Hardman & Co Research

DDM

DDM model indicates £10.74

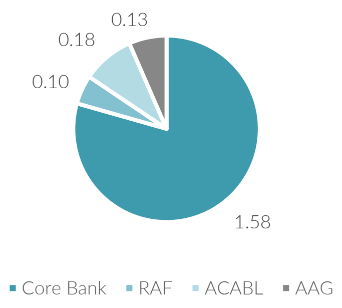
ABG now has attractive 2026E ordinary dividend yield of 5.7%

Our DDM model reflects forecast earnings and 5% annual growth through to 2046 and a terminal value of 10x. Our dividend payout ratio for 2027E reflects the earnings not required to fund growth on our long-term assumptions (payout ratio 65% with RoE at 13.5% and growth at 5%). The model implies a valuation of £10.74, down slightly on our previous estimate due to lower earnings.

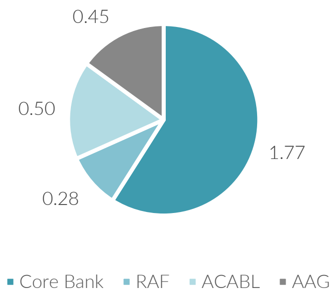
Appendix 1: strategic "Future State" vision

The charts, below highlight the impact of ABG's strategic vision or, put another way, the medium-term target mix of the group. It aims to be a balanced mix of high-margin, diversified businesses delivering a pre-tax ROCE of ca.15% over the medium term. The exceptional capital generation over recent years (despite paying special dividends) has accelerated the delivery of this strategy and, as we detail below, there has been strong growth across the specialist lending divisions.

Mix of customer loans, 2021 (£bn)

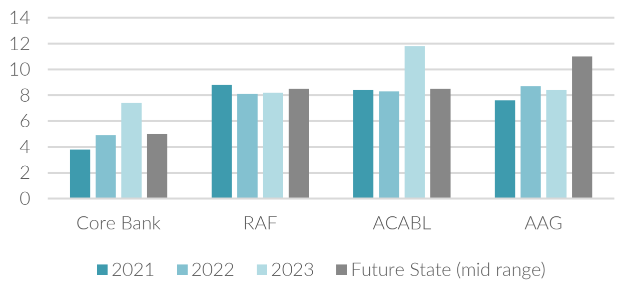


Mix of customer loans, "Future State 2" vision (£bn)

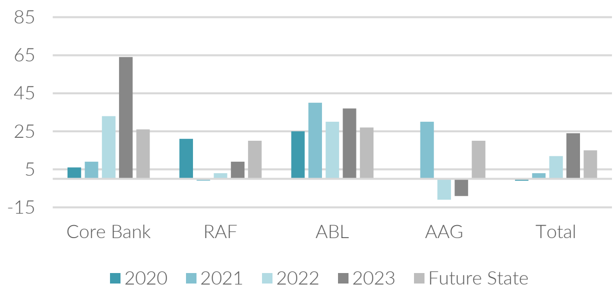


Source: ABG, Hardman & Co Research

Margin (%)

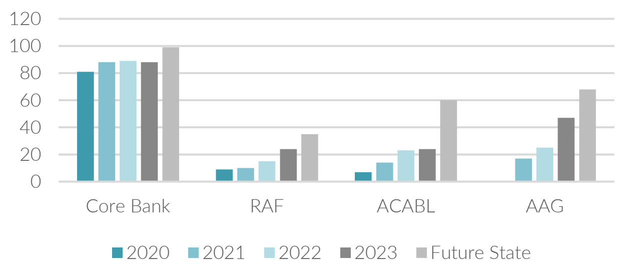


Pre-tax return on capital employed (RoCE) (%)

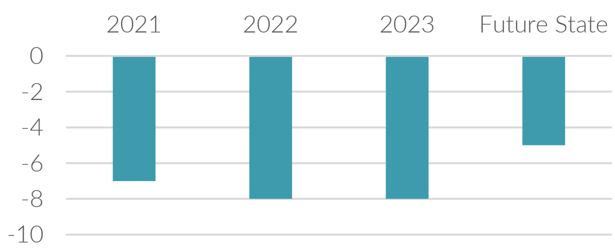


Note: Future low is low end of current "Future State 2" ranges, high is upper end of new potential range; Source: ABG, Hardman & Co Research

Capital (£m)



New "Future State 2" impact of group costs on pre-tax RoCE



Source: ABG, Hardman & Co Research

Higher, short-term profitability has increased capital and optionality

Since the original “Future State” outlook was announced, ABG has benefited from the rising rate environment, with profitability in the core bank well ahead of previous expectations. Capital generation is ahead of the original plans, which creates further options for the strategic development of the group. The latest future state vision sees £304m of capital deployed, against the earlier assumption of £223m, based on the profit/capital generation. Current equity is £269m.

Appendix 2: previous research on ABG

The following details our research on ABG since the start of 2020. The short (typically 6-7 minutes) Directors Talk audio interviews on the reports are also available through the links below:

2019 results: resilience into the storm (19 April 2020)

2020 interim results: credit robust, rate sensitivity (20 July 2020)

Acquisition of Asset Alliance (11 December 2020)

2020 results in line; 2021 outlook: strong recovery (6 April 2021)

1H'21 results: a return to profitable growth (18 August 2021)

Back to profitable growth with interest-rate kicker (7 April 2021)

The power ranger of relationship deposit banking (22 July 2022)

3Q'22 trading statement – yet another upgrade (12 October 2022)

2022: profits and growth in core and new franchises (6 April 2023)

1H'23: steering through the interest rate wave (4 August 2023)

Trading update: taking ABG to the next level (24 October 2023)

2023: delivering strategy with strong profit growth (8 April 2024)

1H'24: optimising the franchise value (30 July 2024)

2024 results: franchise growing through the noise (4 April 2025)

Additionally, we give investors regular updates in our monthly book available *here*.

Disclaimer

Hardman & Co provides professional independent research services and all information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable. However, no guarantee, warranty or representation, express or implied, can be given by Hardman & Co as to the accuracy, adequacy or completeness of the information contained in this research and they are not responsible for any errors or omissions or results obtained from use of such information. Neither Hardman & Co, nor any affiliates, officers, directors or employees accept any liability or responsibility in respect of the information which is subject to change without notice and may only be correct at the stated date of their issue, except in the case of gross negligence, fraud or wilful misconduct. In no event will Hardman & Co, its affiliates or any such parties be liable to you for any direct, special, indirect, consequential, incidental damages or any other damages of any kind even if Hardman & Co has been advised of the possibility thereof.

This research has been prepared purely for information purposes, and nothing in this report should be construed as an offer, or the solicitation of an offer, to buy or sell any security, product, service or investment. The research reflects the objective views of the analyst(s) named on the front page and does not constitute investment advice. However, the companies or legal entities covered in this research may pay us a fixed fee in order for this research to be made available. A full list of companies or legal entities that have paid us for coverage within the past 12 months can be viewed at *http://www.hardmanandco.com/legals/research-disclosures*. Hardman may provide other investment banking services to the companies or legal entities mentioned in this report.

Hardman & Co has a personal dealing policy which restricts staff and consultants' dealing in shares, bonds *or other related instruments of companies or legal entities which pay Hardman & Co for any services, including research. No Hardman & Co staff, consultants or officers are employed or engaged by the companies or legal entities covered by this document in any capacity other than through Hardman & Co.*

Hardman & Co does not buy or sell shares, either for their own account or for other parties and neither do they undertake investment business. We may provide investment banking services to corporate clients. Hardman & Co does not make recommendations. Accordingly, they do not publish records of their past recommendations. Where a Fair Value price is given in a research note, such as a DCF or peer comparison, this is the theoretical result of a study of a range of possible outcomes, and not a forecast of a likely share price. Hardman & Co may publish further notes on these securities, companies and legal entities but has no scheduled commitment and may cease to follow these securities, companies and legal entities without notice.

The information provided in this document is not intended for distribution to, or use by, any person or entity in any jurisdiction or country where such distribution or use would be contrary to law or regulation or which would subject Hardman & Co or its affiliates to any registration requirement within such jurisdiction or country.

Some or all alternative investments may not be suitable for certain investors. Investments in small and mid-cap corporations and foreign entities are speculative and involve a high degree of risk. An investor could lose all or a substantial amount of his or her investment. Investments may be leveraged and performance may be volatile; they may have high fees and expenses that reduce returns. Securities or legal entities mentioned in this document may not be suitable or appropriate for all investors. Where this document refers to a particular tax treatment, the tax treatment will depend on each investor's particular circumstances and may be subject to future change. Each investor's particular needs, investment objectives and financial situation were not taken into account in the preparation of this document and the material contained herein. Each investor must make his or her own independent decisions and obtain their own independent advice regarding any information, projects, securities, tax treatment or financial instruments mentioned herein. The fact that Hardman & Co has made available through this document various information constitutes neither a recommendation to enter into a particular transaction nor a representation that any financial instrument is suitable or appropriate for you. Each investor should consider whether an investment strategy of the purchase or sale of any product or security is appropriate for them in the light of their investment needs, objectives and financial circumstances.

 This notice shall be governed and construed in accordance with English law. Hardman Research Ltd, trading as Hardman & Co, is an Authorised Representative of Palace Ventures Limited, which is authorised and regulated by the Financial Conduct Authority (FRN 433291). Hardman Research Ltd is registered at Companies House with number 8256259.

(Disclaimer Version 9 – Approved July 2025)

Status of Hardman & Co's research under MiFID II

Hardman & Co's research is paid for by the companies, legal entities and issuers about which we write and, as such, falls within the scope of 'acceptable minor non-monetary benefits', as defined in the Markets in Financial Instruments Directive.

The FCA Handbook (COBS 2.3A.19) states: 'An acceptable non-monetary benefit is one which:[…] (5) consists of: […] (b) written material from a third party that is commissioned and paid for by a corporate issuer or potential issuer to promote a new issuance by the company, or where the third party firm is contractually engaged and paid by the issuer to produce such material on an ongoing basis, provided that the relationship is clearly disclosed in the material and that the material is made available at the same time to any firms wishing to receive it, or to the general public.'

The fact that Hardman & Co is commissioned to write the research is disclosed in the disclaimer, and the research is widely available.

research@hardmanandco.com

9 Bonhill Street
London
EC2A 4DJ

www.hardmanandco.com