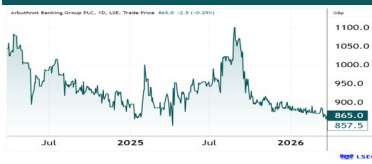




1 April 2026

Banks



Source: LSEG, 2026

Market data

EPIC/TKR	ARBB/ARBN
Price (p)	865.0/880.0
12m high (p)	1,130
12m low (p)	820
Shares (m)	16.7
Mkt cap (£m)	145
Loans to deposits, 2026E	44%
Free float*	38.6%
Country/Ccy	UK/GBP
Market (UK)	AIM/AQSE

*As defined by AIM Rule 26

Description

Arbutnot 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	Andrew Salmon
Arb. Latham	
Group FD/	James Cobb
Deputy CEO	
Arb. Latham	
NEDs	Jayne Almond, Frederick Angest, Sir Nigel Boardman, Charlotte Crosswell, Richard Gabbertas, Angela Knight, Lord Sassoon

Tel: +44 (0)20 7012 2400

www.arbutnotgroup.com

Key shareholders

Sir Henry Angest	59.9%
Liontrust AM	8.5%
Slater Investments	5.0%

Diary

20 May	AGM
21 July	Interim results

Analyst

Mark Thomas
mt@hardmanandco.com

ARBUTHNOT BANKING GROUP

2025 lower margins, 2026 profit stability

ABG's 2025 results noted i) strong growth in low-capital-intensity businesses (deposits, wealth management) and high risk-adjusted-return specialist lending – ABG continues to walk away from business that does not meet its target returns, and ii) pre-tax profits fell 31% on 2024 due to the well-flagged impact of the falling rate environment, lower PE-related ACABL activity and low truck resale profits, partially offset by a one-off £3.25m gain. Some of this is short-term noise. A higher-for-longer interest rate environment, due to the Iran war, will aid deposit margins in 2026. We forecast a near-7% yield for 2026, with cover of over 2x.

- ▶ **Key financials:** i) PBT £24.2m (2024: £35.1m); ii) op income £169.5m (2024: £179.5m); iii) NIM 4.7% (2024: 5.1%); iv) EPS 109.1p (2024: 152.3p); v) final div. +2p to 31p (2024: 29p), total ord. DPS +4p; vi) NAV p/sh 1,694p (2024: 1,636p); vii) CET1 ratio 13.3% (2024: 13.2%); and viii) £1.4bn surplus liquidity.
- ▶ **Key operating metrics:** i) deposits £4.57bn, +11% (2024: £4.13bn); ii) customer loans £2.25bn (2024: £2.38bn); iii) FUMA +21% to £2.68bn (2024: £2.21bn), driven by very strong inflows, which represented 23% of FUMA at the start of the year; and iv) new clients: 1,200 banking, 200+ investment mgt.
- ▶ **Valuation:** Our broad range of valuations is: £9.83 DDM, £18.12 SOTP and £24.58 GGM. The average is £17.51, nearly double the share price. Trading at 51% of NAV is anomalous, in our view, given returns above the cost of capital and ABG's growth potential. ABG's 2026E yield is 6.7% with over 2x cover.
- ▶ **Risks:** Margins are falling, 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 and takes good security; thus, its loss given default is low. Other risks: reputation, regulation and compliance.
- ▶ **Investment summary:** ABG offers strong-franchise growth building embedded profits for the future. Its balance sheet strength gives it options especially in uncertain times. Management has been innovative but also very conservative in managing risk. 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)	2023	2024	2025	2026E	2027E
Group op. income	178,899	179,511	169,474	183,123	197,873
Total costs	(131,113)	(139,806)	(147,208)	(157,098)	(167,598)
Cost:income ratio	73%	78%	87%	86%	85%
Total impairments	(3,191)	(6,275)	(2,501)	(6,137)	(6,137)
Reported PBT	47,117	35,090	24,184	21,057	25,307
Adj. PBT (co. basis)	51,384	35,090	24,184	21,057	25,307
Statutory EPS (p)	222.8	152.3	109.1	97.5	116.2
Adj. EPS (co. basis) (p)	244.6	152.3	109.1	97.5	116.2
Loans to deposits	55%	51%	43%	44%	42%
Ord. dividend (p)*	46.0	49.0	53.0	58.0	61.0
P/adj. earnings (x)	3.5	5.7	7.9	8.9	7.4
P/BV (x)	0.56	0.53	0.51	0.50	0.48

Source: Hardman & Co Research

2025 results summary

Business model options highlighted in results

The key strategic message lies in numerous options that ABG has created to grow its franchise through the noise of an unknown interest rate cycle. The 2025 results gave visibility on those options, including growth in specialist loan (largely fixed-rate), deposit and wealth management.

Profits down, as expected, with pressure on margins as term deposits take time to mature and reprice in a falling rate environment

▶ As expected, the profit before tax fell 31% to £24m (£35m), or 40% to £21m excluding a one-off settlement. Group total operating income fell 7% to £170m (£180m), with a 4% fall in banking income (£148m vs. £154m) and a 17% fall in gross profit from leasing income. As expected, there was pressure on banking net interest income (£118m vs. £126m), with a £16m fall in gross interest income but just an £8m reduction rise in interest expense reflecting the pressures on funding spreads in a falling rate environment. The average NIM fell from 5.1% to 4.7%. ABG's relationship model allowed it to widen margins in a rising-rate environment (offering competitive rates for its core customers), but it has now seen the full catch-up effect of fixed-term savings becoming relatively expensive as they take time to mature. Banking fee income grew by £2m. The fall in lease income reflected losses on the disposals of trucks, a p/l line that is usually a profit.

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

▶ Operating expenses increased by 5% to £147m, from £140m, with a rising headcount, salary increases (together with the increased National insurance increases) and the move to a new HQ at 20 Finsbury Circus.

▶ Earnings per share were 109.1p (152.3p). The total ordinary dividend per share for the year was 53p, +4p. 2024 included a 20p special dividend.

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

▶ Caution needs to be taken when considering reported divisions, given internal allocations, but the reported divisional pre-tax profits were: i) Banking £28.5m (£28.1m) supported by higher internal transfers; ii) Renaissance Asset Finance (RAF) £7.2m (£5.6m) – the end-2025 loan book was £288m, up 16% (£249m) on stable yields; iii) Arbuthnot Commercial Asset Backed Lending (ACABL) £8.9m (£11.9m); and iv) Asset Alliance Group (AAG) loss £2.3m (£28k profits), with end-2025 assets available for lease and finance leases totalling £383m (£363m). The Wealth Management (WM) division reported funds under management and administration £2.7bn, up from £2.2bn, 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 13.3% (13.2%), and the total capital ratio was 15.4% (15.3%), well above the regulatory requirement of 8.05% (8.32%). NAV per share was £16.94 against £16.36.

Deposits +11%, FUMA +21%, good growth in specialist lending while core banking credit criteria tightened

Operational highlights

Key operational highlights include:

- ▶ Customer deposits increased by 11% YoY to £4.6bn.
- ▶ FUMA balances were up 21% YoY to £2.68bn, with inflows for the period 23% of opening FUMA.
- ▶ Customer loan balances fell 6% YoY to £2.3bn. Specialist Lending Divisions' loan balances were strong while private banking loans fell as ABG chose not to compete for loans which did not meet its hurdle returns.

Theme 1: new things from results

We see modest net impact from an Iranian war that resolves in the near(ish) future, with higher deposit income, some loan market share growth, lower overall demand for loans and ABG's conservative lending, meaning any increases in impairments are likely to be modest. New information from these results include: i) a sharp improvement in forward-looking credit metrics, ii) WM division to generate run rate profitability by end-2026, iii) an expected normalisation in truck profits on sale in 2026, and iv) further active structural balance sheet management. Two key themes continue from our prior reports and are updated below, including: i) managing interest rate noise, and ii) franchise growth where ABG wants to grow.

Sensitivity to Iranian war

Assuming a resolution to the conflict in the near(ish) future:

- Higher deposit income
- Wider loan spreads
- Loan market share gain offset lower market wide loan demand
- Improving 2025 credit metrics + conservative lending make any impairment deterioration likely to be modest

In summary, based off our current expectations that the war will not continue beyond the short term, we expect:

- ▶ Given the rise in oil price, expected inflation market expectations for interest rate cuts have been deferred. Higher for longer interest rates will benefit ABG deposit spreads only partially offset by slower PE activity presenting challenges for ACABL growth.
- ▶ Loan income may also rise with a market-wide increase in spreads reflecting the higher macro risks.
- ▶ ABG may also take market share, and its loan volumes improve. In 2025 ABG chose not to write business that did not meet hurdle returns when competition was willing to write it. Banking division loans fell by ca. £200m as a result. The Iranian situation may lead to higher market spreads, and lower competitive appetite to lend, resulting in some of this business now meeting ABG hurdle returns. Loan volumes may rise with a market share gain offsetting what we would expect to be subdued overall market demand for loans.
- ▶ Higher-for-longer interest rates and the macro uncertainty would normally mean that credit risk metrics deteriorate. In the next section, we highlight the improvements seen in 2025 in these metrics, and ABG has been a very conservative lender for a very long time.

Credit tightening has paid off with falling higher-risk loans

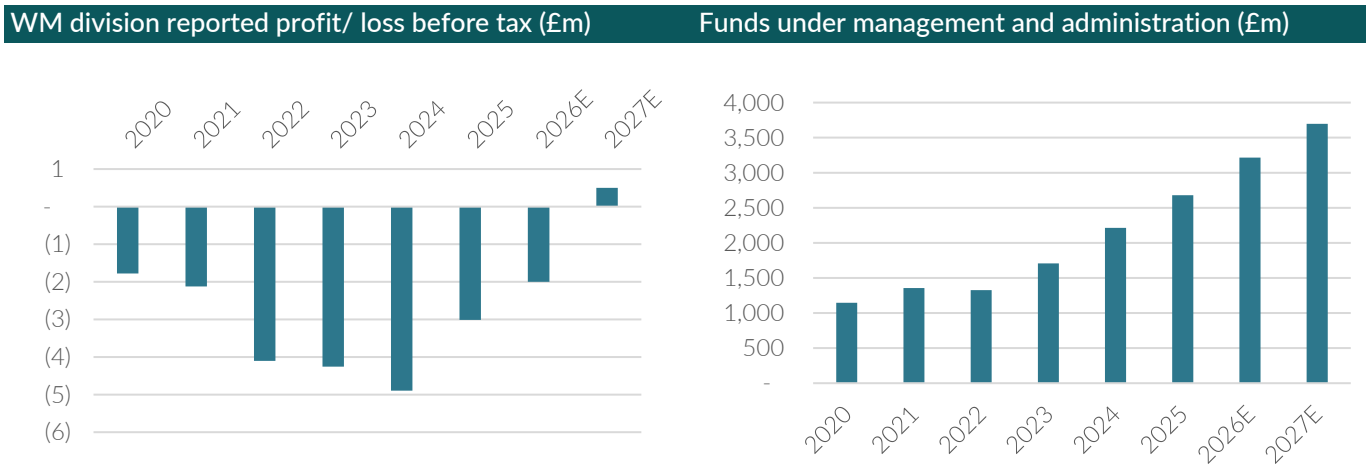
2025 saw falling higher-risk loans, falling early-stage arrears (lead indicator for future loss) and minimal loss rate in year

Specifically, we draw investors' attention to notes 22 and 23 of the results. The accounting disclosure provides a risk categorisation (stages 1-3 with stages 2 and 3 being higher risk). We note:

- ▶ Stage 3 loans (net of provisions) are down from £64m to £51m while stage 2 loans have nearly halved, from £102m to £53m. Interestingly the fall in stage 3 includes significant elements of refinance away by third parties (so ABG lost the highest risk credit) while stage 2 loans have reduced because of this but also by the customer reverting to a more favourable condition and ABG keeping the now acceptable loan.
- ▶ The early-stage arrears have fallen with total loans 30-60 days in arrears just £3m (end-2024: £16m).
- ▶ The loss rate was a minimal 10bp in the year.

WM division to see run-rate profitability by end-2026

On the current allocation (which we believe does not fully recognise the value of the deposits within the WM business), the division has not reported profitability since 2019. As the chart below shows, the scale of losses has been between £2m and £5m with a £3m loss reported in 2025.



Source: ABG, Hardman & Co Research

WM to show profitability on ABG's (penal) divisional allocation with

- Economies of scale from growing FUMA
- Converting investment in people into payback
- Efficiency gains
- Broader, lower average regulatory cost product range
- Broader distribution
- Benefits from fallout of industry wide consolidation

With these results, ABG announced its plan to turn the reported division to run-rate profitability by end-2026. This will be achieved by:

- ▶ Growing the funds under management and administration (FUMA) and thereby achieving economies of scale. The right-hand chart above shows the end-2025 FUMA were 2.4x the level of end-2020 and further growth is expected.
- ▶ Converting what has been a period of heavy investment in people (and so higher losses) into a period of payback for this investment.
- ▶ ABG will generate operational efficiencies that mean investment managers can spend more of their time directly supporting clients.
- ▶ In April 2026, ABG will launch a fund series (defensive, balanced and growth), which is designed to support sustainable growth by aligning each clients' needs with an appropriate service level. At present, there is a heavy regulatory compliance cost as every client needs an annual suitability review by a qualified person. Once in a fund, there is no such compliance requirement. By way of example, a parent with investments of £10m and with three children each with £100k in ISAs would see the suitability review cost fall by ca.75% should the children's funds be moved into the ABG growth fund while the parent still received bespoke advice.
- ▶ Broadening distribution channels via UK independent financial advisers. ABG offers a model portfolio service via UK leading investment platforms and discretionary portfolio service for more complex needs.
- ▶ The impact of consolidation across the sector (e.g. Brewin Dolphin acquisition by RBC) may also assist with displaced clients, staff and potentially some upward market-wide pricing increases.

Normalisation of truck sale profits

AAG has faced a challenging 2025, with ABG commenting “The market for commercial vehicles was subdued throughout 2025, with registrations of new vehicles down 14% year on year and lead times for the procurement of new assets reduced significantly. Customers, facing the impact of tax increases and low economic growth, showed hesitancy in growing or renewing their fleets”.

ABG de-risking lorry inventory by making sales at lower prices now complete. More normal market conditions returning.

Specifically, in terms of sales of trucks at the end of the lease, ABG said: “The market for end of lease commercial vehicles was particularly challenging, resulting in the company recording a loss on its residual value portfolio for the first time. The company took a strategic decision mid-year to accelerate the sale of assets and reduce both the volume and value of units held. By the end of the year this had been successfully accomplished, with the volume of assets reduced by circa 60%. This reduction was achieved, in part, by an increased use of trade and auction disposal channels, impacting margins.” By taking the decision to de-risk their inventory by selling at lower prices, ABG reported a loss in 2025 on truck sales compared to the usual profit. ABG is reporting that conditions at the start of the year are reverting to more normal levels, which we estimate, in a full year, could see an increase in annual profit of ca.£3m.

Active management of the balance sheet

Overall, £1bn switch in <3m sensitivity 2022 to 2024 partially reversed in 2025

In our previous notes (most recently, for example [1H'25 results: growing where it wants to](#), published 29 July 2025), we have highlighted how ABG has very actively managed the structural interest rate exposure of its balance sheet by changing the duration, especially of its debt securities portfolio. The overall cumulative gap (in the table below) showed a move from a net asset repricing (which benefits from a rising rate) to a net liability repricing (which benefits from a falling rate). The £1bn+ switch, 2024 on 2022, was close to 20% of the end-2024 balance sheet. In 2025, there was a reduction in this exposure (lower net liability repricing) as interest rates had fallen and the outlook became more uncertain. Given recent events and recent raising of interest rate expectations, this appears very prudent.

Repricing periods for selected asset classes and cumulative total				
(£000)	<3m	3m-6m	6m-12m	1 < 5 years
2025				
Cash and balances at central banks	437,548			
Debt securities at amortised cost	1,158,566	513,422	286,170	75,000
Total cumulative gap	(285,417)	(134,246)	(300,922)	(164,575)
2024				
Cash and balances at central banks	911,887			
Debt securities at amortised cost	567,847	295,895	173,755	162,350
Total cumulative gap	(547,639)	(513,824)	(690,183)	(337,176)
2023				
Cash and balances at central banks	826,559			
Debt securities at amortised cost	352,617	220,504	286,309	83,007
Total cumulative gap	(29,760)	(219,206)	(372,053)	(282,048)
2022				
Cash and balances at central banks	732,728			
Debt securities at amortised cost	334,700	13,301	85,752	6,000
Total cumulative gap	474,960	150,990	33,881	(53,932)

Source: ABG, Hardman & Co Research

Theme 2: managing the interest rate noise

Profits optimised when interest rate rose

In our April note, [2023: delivering strategy with strong profit growth](#), we detailed how, in 2023, ABG saw the maximum benefit from the then recent rising rates. In summary, ABG i) chose to have a structural sensitivity, with more assets repricing than liabilities, ii) invested in relationship banking so it could raise significant deposits at below base rate and then place them with the BoE, earning a spread – it grew deposits at a time when they were profitable in their own right, and iii) saw term deposits locked in for the duration of their term, and so repricing up only when they matured, and not immediately on the change in the base rates. Historically, it has taken ABG up to 18 months for its deposit book to effectively fully reprice to market changes.

Falling rates in 2025 created well-flagged margin pressure

Having seized the opportunity when rates rose so well, it was inevitable, and well flagged, that margins would come under pressure as interest rates fell and the lag effect meant ABG was still paying above current rates for its term deposits until they matured. With a deposit book of £4bn, the impact of this has outweighed otherwise good franchise growth in deposits, AUM and selected specialist lending.

Interest rate outlook uncertain

The outlook for interest rates is now uncertain. Previously expected cuts as inflation continued to moderate appear unlikely if the Iranian war continues and there is a sustained period of higher energy prices and so inflation. This should ease the incremental pressure on deposit margins.

What ABG has done to limit the effect of falling rates

Action includes:

- growing specialist lending, which is largely fixed-rate;
- switch from BoE deposits to securities; and
- extending duration of securities

The outlook remains uncertain. A rapid resolution of the Iran war could see interest rates revert to a falling trajectory. To mitigate these effects, management actions include:

- ▶ Most of the new commercial franchise lending is fixed-rate, over reasonably long durations, unlike the core bank lending, which, historically, was floating/fixed for short terms only. As detailed on slides 10 and 12 of the [2025 results presentation](#), the typical RAF loan maturity, at end-2024, was 41 months and AAG typical facility 65 months. As the mix of lending becomes more fixed, its sensitivity to falling rates reduces.
- ▶ Switching from immediately repricing central bank deposits to debt securities, which do not reprice as quickly. Debt securities at end-2025 were £2.0bn (end-2024 £1.2bn, end-2023 £0.9bn). ABG has taken minimal credit risk, with the significant majority being government or high-quality bank securities.
- ▶ Extending the duration of debt securities, locking in higher rates for longer. At the end of 2022, ABG had only £105m of debt securities repricing after three months, against end-2025 £875m.
- ▶ As noted earlier, managing the structural interest rate sensitivity of the book by changing the cumulative gap of assets and liabilities repricing.

Theme 3: franchise growth

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

As we noted above, a core driver to long-term performance is giving customers what they want, so that they give you more of their business, which, in turn, attracts new customers. In 2025, this was seen across ABG's different businesses, with notably strong performance from the specialist lending areas, deposit gathering and wealth management.

Growth in specialist lending

ABG has prioritised specialist commercial finance businesses for an increasing proportion of capital deployed. The investment in new businesses saw good franchise growth in 2025, as detailed below.

RAF

RAF profits 4.4x 2023

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 commercial 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 & machinery, engineering and manufacturing equipment, and business-critical soft assets. In 2025, RAF continued its strong, consistent profit growth trend, delivering a pre-tax contribution of £7.2m, with the loan book up 16%. The gross yield was stable at 8.6% (2024: 8.7%) despite base rate reductions.

RAF – key data

Year-end Dec (£000)	2021	2022	2023	2024	2025	2026E	2027E
Interest income	8,300	8,898	12,584	19,340	23,305	27,000	30,000
Interest expense	(2,371)	(3,353)	(4,540)	(6,468)	(7,667)	(8,500)	(9,500)
Net fees and comms.	166	32	34	239	92	92	92
Operating income	6,095	5,577	8,078	13,111	15,730	18,592	20,592
Other income	78	82	170	0	-	-	-
Operating expenses, direct	(3,943)	(4,697)	(5,634)	(6,981)	(7,612)	(8,500)	(9,250)
Impairments	(2,292)	(768)	(982)	(554)	(922)	(1,000)	(1,000)
PBT	(62)	194	1,632	5,576	7,196	9,092	10,342
Loans and advances (£m)	97	134	199	249	287	320	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

Motor broker commissions legal issue not a factor for RAF

RAF provides non-regulated asset finance facilities to commercial businesses and high net worth individuals. RAF does not and has not provided regulated facilities and so is out of scope of the current FCA Regulated Motor Finance Redress Scheme proposals, which was confirmed in the FCA response to the Supreme Court's judgment. RAF has not facilitated transactions where the car dealer is both seller and credit broker.

AAG

AAG profits down due to de-risking truck inventory. Book up 5%.

AAG provides contract hire, operating lease and hire of new and used commercial vehicles in the UK. It is the UK's leading bus & coach leasing, finance and rental provider. In 2025, AAG reported a loss due to the de-risking of its residual truck inventory, as discussed above. Additionally, operating expenses increased by £1.4m to £16.8m, mainly due to higher inflationary staff costs and the replacement of the operating platform by modernised technology. As at 31 December 2025, the business had a total of £382.8m (2024: £363.0m) of assets available for lease and finance leases, which is a 5% increase on the prior year. With more normal truck sale activity in 2026, already reported for the first couple of months, we expect the division to report a profit in 2026.

AAG – key data

Year-end Dec (£000)	2021	2022	2023	2024	2025	2026E	2027E
Interest income	190	664	2,390	5,119	6,298	7,000	8,000
Interest expense	(2,591)	(5,120)	(10,254)	(15,327)	(13,406)	(13,406)	(13,406)
Net Fees and commissions	0	0	0	(15)	425	-	-
Turnover	68,673	99,367	100,940	110,832	118,569	130,000	140,000
Cost of sales	(62,196)	(82,109)	(81,074)	(85,301)	(97,466)	(104,000)	(112,000)
Operating income	4,076	12,802	12,002	15,308	14,420	19,594	22,594
Other income	0	0	0	88	-	-	-
Operating expenses, direct	(7,872)	(14,507)	(15,093)	(15,308)	(16,758)	(18,000)	(19,500)
Gain on acquisition	8,626	0	0	-	-	-	-
Impairments	(1,001)	(369)	(98)	(60)	86	(500)	(500)
PBT	3,829	(2,074)	(3,189)	28	(2,252)	1,094	2,594
Loans and advances (£m)	121	189	327	363	383	400	425

Note: Income and profits deflated in 2022 (£6.5m) and 2023 (£4.3m) by acquisition accounting adjustments, driving the reported loss in those years.

Source: ABG, Hardman & Co Research

ACABL

Despite challenging year,
ACABL 2025 profits still nearly
2x 2021 levels

ACABL is a specialist, asset-based lender, focused on delivering facilities 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 lower profit in 2025 with a loan book of £219m, marginally down on 2024 £228m. Facilities extended has been broadly stable (2025: £528m, 2024: £542m 2023: £536m), but usage has fallen. The challenging macroeconomic environment led to a reduced number of event-driven transactions and fewer private equity backed buy-outs in 2025. The client base was 106 (2024: 112) operating across a broad range of sectors, and the business processed £2.3bn of invoices in the year, a reduction of £200m compared to the prior year. The credit loss rate remains very low due to the high-quality, liquid assets, as well as close monitoring of the collateral. In uncertain times this low loss rate becomes increasingly attractive. PE activity was rising at end-2025/early 2026, although the Iranian war and sensitivity to software companies (PE is over-exposed to this sector) perceived to be exposed to AI disruption, could affect sentiment.

ACABL – key data

Year-end Dec (£000)	2021	2022	2023	2024	2025	2026E	2027E
Interest income	8,010	14,665	23,300	25,456	19,196	21,000	24,000
Interest expense	(2,699)	(7,903)	(14,658)	(15,413)	(10,276)	(12,000)	(13,500)
Net fees and comms.	4,224	5,976	6,911	9,922	7,182	8,500	9,000
Operating income	9,535	12,738	15,553	19,965	16,102	17,500	19,500
Operating expenses, direct	(4,748)	(5,463)	(6,777)	(7,993)	(7,241)	(8,000)	(8,750)
Impairments	(50)	(2,082)	(234)	(32)	(3)	(250)	(250)
PBT	4,737	5,193	8,542	11,940	8,858	9,250	10,500
Loans and advances (£m)	182	269	240	228	219	235	260

Source: ABG, Hardman & Co Research

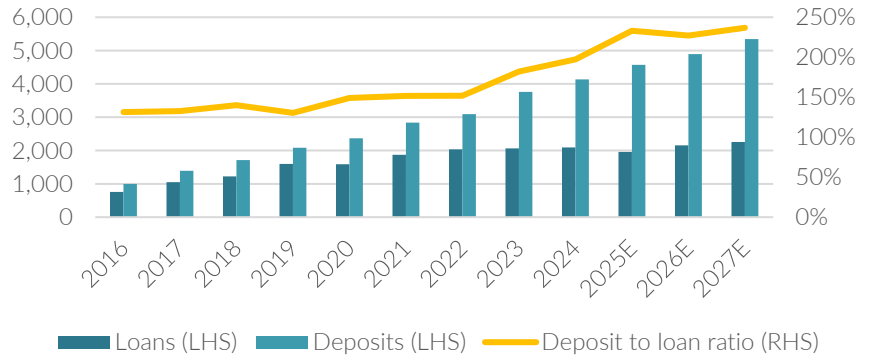
Growing deposits

Deposits low-capital-intensity,
profitable product at current
interest rate levels

For much of the past 15 years, interest rates have been so low that the 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, higher interest rates means that deposits can be raised at below base rate and invested at a positive spread, and so generate profit at minimal risk and with a minimal capital requirement. As the chart below shows, ABG has not only nearly doubled its deposit book over recent years, but it has also grown deposits at a faster rate than lending; in doing so, it has increased its deposits-to-loan ratio from 130% in 2019

to 233% in 2025. Lower-margin mortgages in the banking book have been replaced with higher-margin specialist lenders.

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



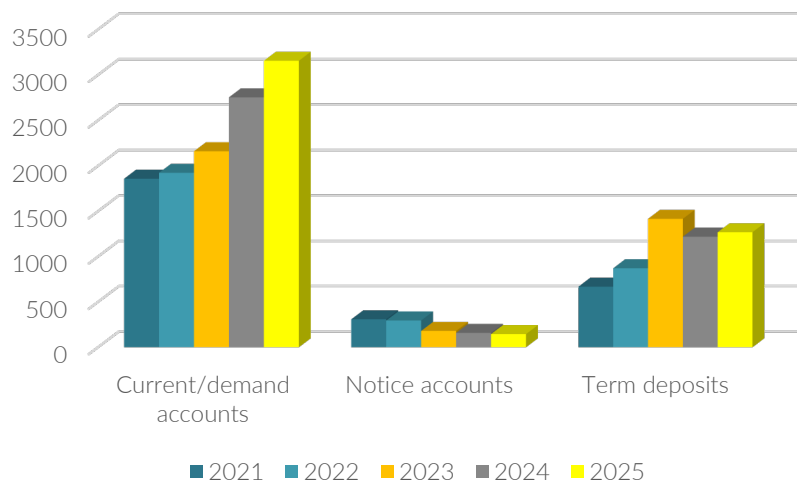
Source: ABG Report and Accounts, Hardman & Co Research

Deposit market has multiple sub-elements, which allow flexible and optimal focus

While ABG reports its aggregate deposits, in reality, there are multiple sub-elements to the market. This gives ABG flexibility in managing deposits to both generate liquidity and profit. Some of the key considerations are:

- ▶ The profitability of deposits varies by their type. As the chart below shows, the most recent growth has been in current/demand accounts over fixed and notice. This also changes the interest rate sensitivity of the group.

Deposits by type



Source: ABG Report and Accounts, Hardman & Co Research

Deposits from investment platforms now profitable (at lower spread than relationship accounts)

- ▶ Targets customer segments that are underserved by the market and where cheap deposits may still be available.
- ▶ While all ABG's deposits reflect its relationships with customers, there is a variety in the depth of relationship. Some, such as those related to private banking personal and commercial customers, are deep and ongoing and pay relatively low rates for deposits. Others, such as taking instant access deposits from external wealth managers/platforms, are more rate-sensitive. The mix of

these sources is managed by ABG; so, for example, when rates are high, ABG can earn a profitable spread on the rate-sensitive accounts by depositing surplus liquidity at the BoE and thus deposit volumes grow, albeit at narrow margins.

Best-buy, rate-sensitive accounts allowed to mature away

- ▶ ABG's strong franchise and balance sheet meant that, in 2025, as in 2024, it could afford to encourage non-relationship, expensive fixed-term deposits to mature away from the Bank, by not competing on best-buy rates to retain these balances. This – combined with an investment product for private banking clients (who could earn higher returns through a gilt investment product, see next section) – reduced deposits while growing FUMA.

The key message is that ABG has built a platform that allows it to choose where to compete, and grow deposits, at a rate at which it chooses.

Growing WM

Strong growth in new customers and FUMA

One of the stars in 2025 was WM with FUMA up 21%. We discussed the outlook in the section above. Divisionally, it reports a loss because the division does not accrue benefit from the wealth management clients' deposits held within the banking division, and internal costs. We believe the operating metrics are a more useful measure of how the business is doing. As the table below shows, 2025 client and FUMA are on strongly growing trends up 12% and 21% on 2024 respectively. The 2025 gross inflows were £501m (2024: £482m, 2025: 23% after 28% of opening balances in 2024) while gross outflows were £239m (2024: £139m).

Key metrics for wealth management division						
	2020	2021	2022	2023	2024	2025
FUMA (£bn)	1.15	1.36	1.33	1.71	2.21	2.68
Clients	868	938	1,196	1,308	1,401	1,570
Average portfolio (£m)	132	1.45	1.11	1.31	1.58	1.71
Net inflow (£m)	12	80	105	261	331	263

Source: ABG, Hardman & Co Research

Growing customer numbers

Multiple areas of customer number growth across the group

Increasing numbers of new customers are being attracted across the group. Overall, more than 1,220 new banking clients were onboarded in 2025 (2024: 1,200), of which 56% (2024: 48%) were non-personal clients. Over 200 new investment management clients were onboarded, with an associated 375 portfolios opened. The specialist lending volume growth is indicative of their client number growth, which is not separately disclosed.

Other issues

Capital

Capital ratios strong and grew further in 2025

The core equity Tier 1 ratio was 13.3% (2024: 13.2%, 2023: 13.0%), and the total capital ratio was 15.4% (2024: 15.3%, 2023: 15.2%). The capital requirement is 8.05% so there is significant surplus capital. The ratios have grown, in the context of i) strong profitability, ii) tightened credit criteria seeing private banking loans fall, and iii) the low capital intensity in raising deposits and generating a positive spread by deploying them in zero- or low-weighted government and bank securities.

£20m hit from removal of “Refined approach” built into ABG’s plans

The PRA is implementing the new Basel 3 rules on 1 January 2027. ABG has made good progress to be ready to implement the new rules. The board is now minded to remain on the Basel rule book rather than adopt the Small Domestic Deposit Takers (SDDT) regime. Although the Bank would qualify for these new simplified rules, they would result in a higher capital requirement.

Both of these new rule books will see the withdrawal of the “Refined approach” which was designed to level the playing field between the large Internal Ratings Based (IRB) banks and smaller banks. Because of this approach, ABG saw a lower weighting as, on average, larger banks on IRB had a low capital weighting generated by their models and the regulator wanted a balanced playing field. The new Basel approach sets floors to the benefit of the IRB approach, meaning larger banks will have to hold more capital. This has resulted in the withdrawal of the compensating refined approach and will result in an increase in ABG’s capital requirement of ca. £20m. ABG has been planning for this, and it is a factor in the decision not to deploy capital at suboptimal rates and shrink the banking loan book.

Timing means ABG at competitive disadvantage for up to four years

The floors being introduced Basel 3.1 will however be tapered, with the full effect only felt in year four. Until that time ABG will be at a competitive disadvantage in terms of its capital costs, compared with large banks using IRB approaches, as the “refined approach” is being immediately withdrawn in full.

The equity-to-assets ratio has fallen from 5.6% to 5.5% but remains well above levels where we believe there would be any concern from rating agencies, for example.

Financials

High levels of uncertainty regarding forecasts. On assumption of gently falling rates and cushioning effects of company actions, we forecast 2026 PBT at 4.5x 2021 levels.

We advise investors to treat the following forecasts with a degree of caution. The interest rate environment will be critical to short-term performance. Excluding a one-off £3.25m settlement in 2025, we forecast stable profits in 2026.

Some of the key drivers include:

- ▶ Our assumption continues to be that there will be slow steady base rate reductions, although the timing has been deferred by around six months. This is a key assumption: every 25bp base rate cut sees the following 12 months' profits down by £2m-£3m.
- ▶ A modest return to loan book growth in the core banking division.
- ▶ The December 2025 annualised cost of funding was 2.35% vs. the 2025 average rate of 2.74%. 39bp lower cost of funds on £4.6bn of deposits saves £18m in interest cost, although we still expect only a modest fall in interest expense given the growth we forecast in deposit volumes (+£0.3bn in 2026).
- ▶ No repeat of unusually high early settlement fees in ACABL.
- ▶ Normalised profits on truck disposals (impact +£3m).
- ▶ ABG continues to invest, with 2025 average staff numbers 954 vs. 914 in 2024, further technology-related investment and the full period impact of NI changes will all have an impact.
- ▶ To be prudent, we also assume a higher level of impairments.

Changes to estimates						
Year-end Dec (£000)	2025			2026E		
	Old	New	% change	Old	New	% change
Group operating income	173,845	169,474	-3%	182,445	183,123	0%
Total costs	(147,503)	(147,208)	0%	(154,253)	(157,098)	2%
Cost:income ratio	85%	87%	2%	85%	86%	1%
Total impairments	(4,950)	(2,501)	-49%	(6,250)	(6,137)	-2%
Reported PBT	22,021	24,184	10%	22,691	21,057	-7%
Adj. PBT (co. basis)	22,021	24,184	10%	22,691	21,057	-7%
Statutory EPS (p)	101.7	109.1	7%	104.7	97.5	-7%
Adj. EPS (co. basis, p)	101.7	109.1	7%	104.7	97.5	-7%
Loans to deposits	43%	43%		43%	44%	

Source: ABG, Hardman & Co Research

Divisional pre-tax profits							
Year-end Dec (£000)	2021	2022	2023	2024	2025	2026E	2027E
Banking (inc. mtgs)	12,166	22,898	66,039	28,123	28,526	12,171	10,421
WM	(2,121)	(4,101)	(4,256)	(4,893)	(3,013)	(2,000)	500
AA	3,829	(2,074)	(3,189)	28	(2,252)	1,094	2,594
RAF	(62)	194	1,632	5,576	7,196	9,092	10,342
ABL	4,737	5,193	8,542	11,940	8,858	9,250	10,500
Other divisions	(2,253)	11,700	(10,269)	5,725	(3,183)	3,567	3,567
Centrals	(10,632)	(12,856)	(11,382)	(11,409)	(11,948)	(12,117)	(12,617)
Group total	4,638	20,009	47,117	35,090	24,184	21,057	25,307

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

Profit and loss							
Year-end Dec (£000)	2021	2022	2023	2024	2025	2026E	2027E
Interest income	77,102	120,013	231,836	263,435	247,248	248,702	259,202
Interest expense	(13,027)	(20,932)	(95,217)	(137,568)	(129,122)	(126,112)	(128,612)
Net interest income	64,075	99,081	136,619	125,867	118,126	122,590	130,590
Fees and comms. income	18,223	21,586	23,170	29,142	31,689	35,332	40,082
Fees and comms. expenses	(100)	(537)	(768)	(1,029)	(1,444)	(799)	(799)
Net fees and comms.	18,123	21,049	22,402	28,113	30,245	34,533	39,283
Banking operating income	82,198	120,130	159,021	153,980	148,371	157,123	169,873
Leasing revenue	68,673	99,367	100,952	110,832	118,569	130,000	140,000
Leasing cost of sales	(62,196)	(82,109)	(81,074)	(85,301)	(97,466)	(104,000)	(112,000)
Gross profit from leasing	6,477	17,258	19,878	25,531	21,103	26,000	28,000
Group operating income	88,675	137,388	178,899	179,511	169,474	183,123	197,873
Total impairments	(3,196)	(5,503)	(3,191)	(6,275)	(2,501)	(6,137)	(6,137)
Other income	3,955	1,627	2,522	1,660	4,419	1,169	1,169
Profit from bargain purchase	8,626						
Loss on sale of King Street	0	(4,590)					
Operating expenses	(93,422)	(108,913)	(131,113)	(139,806)	(147,208)	(157,098)	(167,598)
Profit before tax from cont. ops.	4,638	20,009	47,117	35,090	24,184	21,057	25,307
Income tax	2,148	(3,551)	(11,738)	(10,236)	(6,374)	(5,146)	(6,336)
Profit for year	6,786	16,458	35,379	24,854	17,810	15,911	18,971

Source: ABG, Hardman & Co Research

Balance sheet							
@ 31 Dec (£000)	2021	2022	2023	2024	2025E	2026E	2027E
Cash and balances at central bank	814,692	732,729	826,559	911,887	437,548	596,917	905,958
Loans and advances to banks	73,444	115,787	79,381	66,971	117,497	100,000	100,000
Debt securities held to maturity	301,052	439,753	942,437	1,199,847	2,033,158	2,033,158	2,033,158
Assets classified as held to sale	3,136	3,279	3,281	0	0	0	0
Derivative financial instruments	1,753	6,322	4,214	2,970	1,398	1,398	1,398
Loans and advances to customers	1,870,962	2,036,077	2,064,217	2,094,212	1,960,542	2,156,000	2,257,000
Other assets	110,119	52,185	57,150	51,701	51,866	51,866	51,866
Financial investments	3,169	3,404	3,942	4,947	2,061	2,061	2,061
Deferred tax	2,562	2,425	-	-	-	-	-
Investments in associates	-	-	-	-	-	-	-
Intangible assets	29,864	32,549	29,587	30,565	33,448	32,948	32,448
Property, plant and equipment	125,890	175,273	274,306	313,366	310,569	310,569	360,569
Right of use property	15,674	7,714	52,816	47,511	44,501	44,501	44,501
Investment property	6,550	6,550	5,950	5,250	5,250	5,250	6,550
Total assets	3,358,867	3,614,047	4,343,840	4,729,227	4,997,838	5,334,668	5,795,509
Deposits from banks	240,333	236,027	193,410	192,911	1,389	1,389	1,389
Derivative financial instruments	171	135	1,032	-	-	-	-
Deposits from customers	2,837,869	3,092,549	3,759,567	4,132,493	4,570,365	4,895,000	5,345,000
Liab. relating to assets held for sale	0	0	0	0	0	0	0
Current tax liability	413	1,748	294	3,001	-	5,146	6,336
Other liabilities	26,216	26,144	40,700	35,384	42,489	42,489	42,489
Deferred tax liability			4,910	5,671	10,258	10,258	10,258
Lease liabilities	16,214	7,872	53,761	54,829	58,267	58,267	58,267
Debt securities in issue	36,772	37,594	37,726	37,982	38,672	38,672	38,672
Total liabilities	3,157,988	3,402,069	4,091,400	4,462,271	4,721,440	5,051,221	5,502,411
Share capital	154	154	167	167	167	167	167
Share premium			11,606	11,606	11,606	11,606	11,606
Retained earnings	201,026	212,037	240,606	254,575	265,738	272,787	282,438
Other reserves	(301)	(213)	61	608	(1,113)	(1,113)	(1,113)
Total equity	200,879	211,978	252,440	266,956	276,398	283,447	293,098

Source: ABG, Hardman & Co Research

Valuation

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

Average is £17.51 per share, nearly double current price

Our average fair value is now £17.51. On our assumptions, this represents a very undemanding 1x 2025 NAV for a business expected to deliver a 4.5x increase in profits in 2026 vs. 2021.

Summary of different valuation techniques by approach

£ per share	GGM	SOTP	DDM
Implied valuation	24.58	18.12	9.83

Source: Hardman & Co Research

GGM

The assumptions and sensitivities in our GGM model are given below. The valuation is £24.58.

GGM £24.58

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 2026E (£m)	283.4	283.4	283.4	283.4
Valuation (£m)	361.4	403.9	301.2	377.9
Valuation per share (£)	24.58	27.48	20.49	25.71
Variance (p per share)		42.5	-60.2	16.5

Source: Hardman & Co Research

SOTP

SOTP £18.12

The valuation is £18.12/share. As can be seen in the table below, more than half our value is generated by RAF and ACABL.

SOTP

	2026E post-tax	Rating (x)	Value (£m)
Banking	9.0	10	90.1
Other divisions	2.6	10	26.4
WM (2.5% FUMA)			59.0
AAG	0.8	12	9.7
RAF	6.7	12	80.7
ACABL	6.8	12	82.1
Centrals	(9.0)	5	(44.8)
Total			303.2

Source: Hardman & Co Research

DDM

Our DDM model reflects forecast earnings and 5% annual growth through to 2047 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 £9.83.

Appendix 1: strategic “Future State” vision

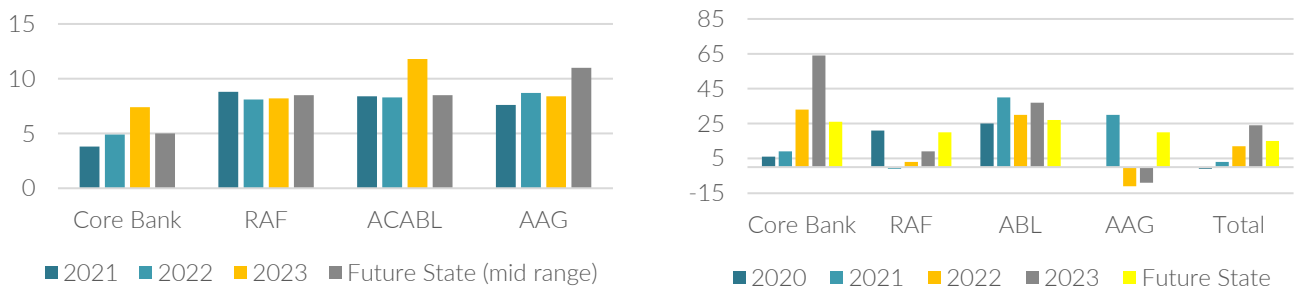
The charts below highlight the impact of ABG’s strategic vision or, put another way, the medium-term target mix of the group. It aims to be a balanced mix of high-margin, diversified businesses delivering a pre-tax ROCE of ca.15% over the medium term.

Mix of customer loans, 2021 (£bn) Mix of customer loans, “Future State 2” vision (£bn)



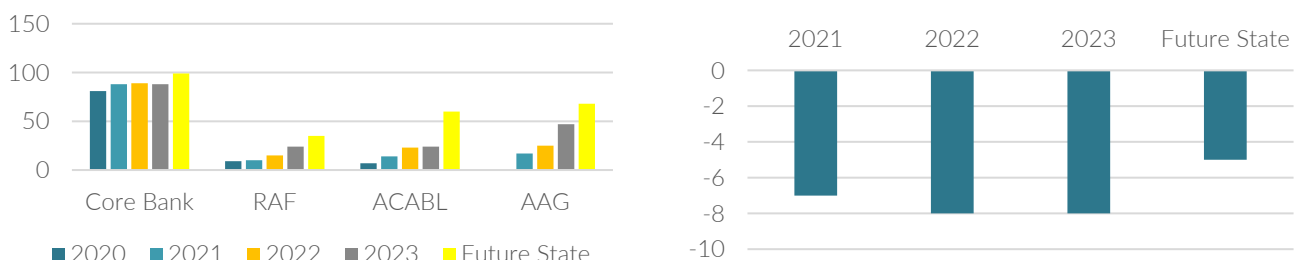
Source: ABG, Hardman & Co Research

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. End-2025 equity was £276m.

Appendix 2: previous research on ABG

The following details our research on ABG since the start of 2020. The short (typically 6-7 minutes) DirectorsTalk audio interviews covering 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)

[1H'25 results: growing where it wants to](#) (29 July 2025)

Additionally, we give investors regular updates in our monthly book available [here](#).

More information including the AIM Rule 26 disclosure can be found on the company's website [here](#) and RNSs on the company's LSE webpage [here](#).

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research@hardmanandco.com

9 Bonhill Street
London
EC2A 4DJ

www.hardmanandco.com