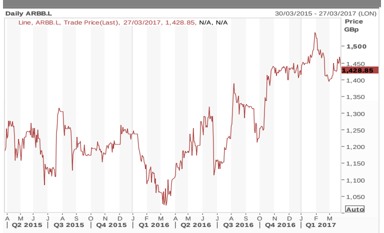
28th March 2017

hardman&co

Speciality Finance



Source: Eikon Thomson Reuters

Market data

EPIC/TKR	ARBB
Price (p)	1,456
12m High (p)	** 1,717
12m Low (p)	** 1,265
Shares (m)	15.3
Mkt Cap (£m)	222
Loans to deposits	76%
Equity to assets	19%
Market	AIM

**As defined by AIM Rule 26 ** pre £3 spec div*

Description

ABG has a well funded and capitalised private bank and has been growing very strongly. It holds an 18.6% stake in Secure Trust Bank (STB). It has c£100m to invest in new organic or acquired businesses

Company information

Chair / CEO	Sir Henry Angest
COO	Andrew Salmon
Group FD	James Cobb

Telephone No +44 (0)20 7012 2400
www.website.com

Key shareholders

Sir Henry Angest	55.1%
Liontrust Inv Ptnrs LLP	5.2%
Unicorn Asset Mgmnt	4.8%
Prudential plc	4.7%
R Paston	3.5%

Next event

4 May-17	AGM
Mid July-17	H117 results

Analysts

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Arbuthnot Banking Group

History is repeating itself

Arbuthnot's strategy, and largely the same management team, have delivered total shareholder returns of 418% 2008-2017 and 930% 1997-2017 respectively. 2016 saw a new phase in the execution of the strategy with the further partial sale of Secure Trust shares releasing capital to be deployed in other businesses. The initial stages of this deployment began (property acquisition, loan book purchase, accelerated team hires, asset finance deal, plus a 325p special dividend) but the full deployment of capital will take some years. 2016 results were a little ahead of our estimates but 2017 accelerated investment leaves forecasts largely unchanged.

- **2016 results**: Statutory profits (£228m) were dominated by the disposal gains (£228m), and investments. Revenue grew from £35m to £42m, other income and associate contribution was £5m (nil) while costs rose from £36m to £46m. Impairments dropped by two thirds. Underlying profits rose by a third to £4m.

- **2017 outlook:** 2016 hires should deliver accelerated loan growth in 2017. The targeted c60% increase in commercial banking headcount in 2017, is more than we had expected. The Renaissance acquisition should complete shortly. We have raised loan, revenue, and cost forecasts leaving the profits unchanged.

- **Valuation:** The average of our base case valuations is £18.49 (with the highest valuation being the Gordon's Growth model (£23.01) which we believe best captures profitability and growth). The average is up from the previous valuation (£16.31) as we have moved to 2018 estimates. The end 2016 NAV was 1534p

- **Risks:** As with any bank the key risk is credit. AL's existing business should see below market volatility and so the main risk lies in new lending. We believe management is cognisant of the risk and has historically been very conservative. Other risks include reputation, regulation and compliance.

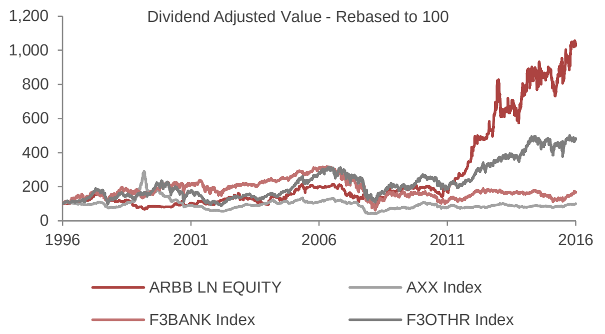
- **Investment summary:** ABG offers strong franchise and continuing-business (normalised) profit growth. Its balance sheet strength (both capital and funding) gives it wide ranging options to develop organic and inorganic opportunities. The latter are likely to increase in uncertain times. Management has been both innovative but also very conservative in managing risk. Our base case valuation has 27% upside, or 56% on the full deployment of capital.

Financial summary and valuation

Year end Dec (£000)	2013	2014	2015	2016	2017E	2018E
Operating income	100,020	92,049	34,604	41,450	54,154	68,523
Total costs	(76,231)	(66,165)	(35,926)	(46,111)	(53,776)	(61,343)
Cost income ratio	76%	72%	104%	111%	99%	90%
Total impairments	(18,807)	(11,953)	(1,284)	(474)	(1,085)	(1,410)
Reported pre-tax	15,713	13,931	(2,606)	179	7,074	14,152
Adj pre-tax	18,528	15,327	2,982	4,009	8,074	14,152
Statutory EPS (p)	77.3	58.0	86.3	1,127.3	44.6	84.7
Adj EPS	92.1	77.0	13.5	17.1	50.0	84.7
Loans to deposits	76%	97%	82%	76%	81%	80%
Equity to total assets	6.1%	7.8%	5.5%	18.5%	15.0%	12.8%
P/ Adjusted Earn (x)	15.8	18.9	107.9	85.1	29.1	17.2
P/BV (x)	3.3	2.0	1.8	0.9	0.9	0.9

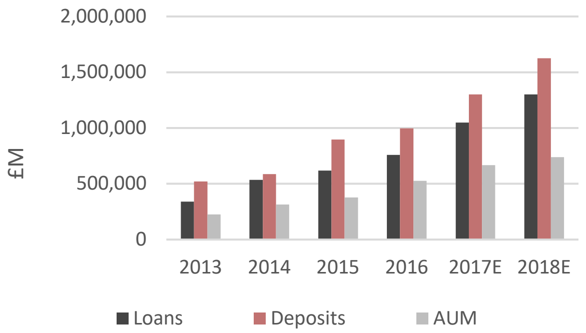
*Source: Hardman & Co Research * Includes fully consolidated STB **NAV increased with STB share sales*

ABG Long term shareholder value creation



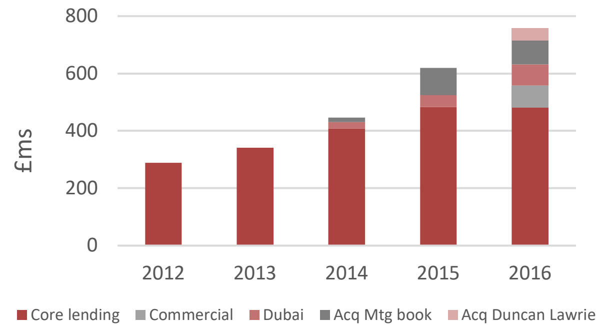
- Total shareholder returns (including dividend re-invested) over 10 years was 418% (2007-2017).
- This is not new phenomena as the TSR over 20 years has been 930%.
- This has significantly outperformed comparator companies. £1 invested in 1997 would be worth c£1 if in FTSE AIM All share index, £1.69 if in FTSE 350 Banks, £4.84 in FTSE350 Speciality Finance but c£10.30 in ARBB

Arbuthnot Latham franchise growth



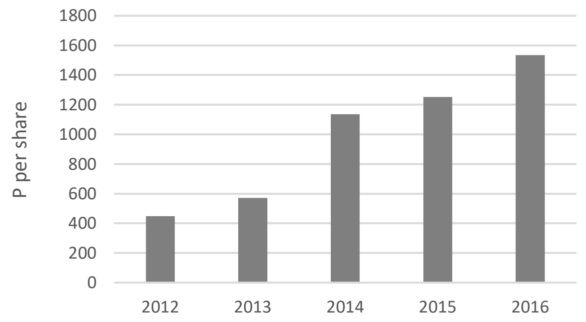
- Conservative policy with deposits comfortably exceeding loans and we expect this to continue.
- Rapid growth seen with nearly 50% over past two years and expected to accelerate over next two.
- Has been a banking led business but now showing strong growth in assets under management.

Arbuthnot Latham Mix of lending



- Consistent growth over past five years.
- For over 20 years, the strategy, across ABG has been to develop new opportunities.
- These may be organic growth (over past 3 years Dubai and more recently commercial) or acquisition.
- 2017 will see further acquisition growth (Renaissance Finance with £55m of customer loans) and full period delivery by commercial bankers.

Arbuthnot Banking Group net asset per share



- Franchise growth has historically delivered growth in shareholder value (2012 NAV per share 440p, 2016 1,534p).
- The growth is both real and low risk. It is largely realised following the sale of the majority of the Secure Trust stake.
- Accounting recognition has created some volatility in specific periods but the long-term trend has been steady growth delivered year in year out by a conservative management team.

Source: Company data and presentation; Hardman & Co Research

2016 Results summary

Large gain on sale but underlying profits up by a third

- Group profit for the year was £228m (2015: £27m) dominated by the gain realised from the sale of Everyday Loans and Secure Trust Bank shares of £228m. Statutory profit before tax on continuing operations £0.2m (2015: Loss of £2.6m). The underlying profit before tax £4.0m (2015: £3.0m).

Driven by franchise growth driving revenue growth which more than offset increased costs including investments. Small benefit from lower provisions

- Operating income increased by 20% to £41.5m (2015: £34.6m) while operating expenses rose from £35.9m to £46.1m. Both reflected the franchise growth following investments in 2016 and prior periods. There was also an associate income of £2.1m and other income was £3.2m (including £1.6m realised on the investment in Visa and £1.1m from property rental income). Impairments dropped from £1.3m to £0.5m as the tail end of a limited number of significant historic situations were resolved.

- Earnings per share were 1127.2p (2015: 86.3p) and the final dividend per share 18p (2015: 17p), an increase of 6%. The total dividend per share was 356p (2015: 29p) including special dividends paid in the year of 325p per share (reflecting an immediate distribution to shareholders of some of the realisation gains made in the year). The underlying return on deployed equity was 9.6% (2015: 9.2%).

Net assets 1534p meaning ABG is still trading below book

- Net assets per share were 1534p (2015: 1253p), an increase of 23%.

Arbuthnot Latham

- Profit before tax £9.1m (2015: £6m) an increase of 51%.

- Net client margin steady at between 4.2% and 4.5% (monthly average).

Loans up 23% (+£140m) while deposits up 11% (+£101m). Deposits still £250m more than loans. AUM up strongly

- Customer loans balances up 23% to £759m (2015: £619m) with written loan volume increased 39% to £227m (2015: £164m). Customer deposits grew 11% to £998m (including £51m of commercial deposits, 2015: £897m) with surplus deposits over loans of nearly £250m. Assets under management increased to £920m (2015: £793m).

Heavy investment in people

- This franchise growth reflects the growing numbers of private bankers (36 end 2016 v 28 end 2015) and commercial bankers (15 v 2). Both take time to get to a full run rate including some practical issues such as getting surveyors and lawyers familiar with the AL way of doing things). We expect accelerated loan growth in 2017 from the 2016 hires.

And some inorganic growth

- In addition, AL purchased a Duncan Lawrie loan portfolio (£45m at a 5% discount to nominal value), bought a London West-End office building for £53m (£20 King Street) and has agreed the acquisition of Renaissance Asset Finance with c£55m of customer loans (completion expected shortly). These were reviewed in our note New group taking shape with strong momentum 22nd December 2016

Secure Trust Bank – Associated Undertaking

- In 2016 the shareholding was reduced to 18.6%. It is treated as an associated undertaking due to significant influence via three board members. For ABG this resulted in a reported £2.1m of profit from associates from 15 June 2016 with the underlying share of full year profit of £3.6m.

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In 2016 AL delivered multiple growth options with accelerated growth expected in 2017.

Critically this is not new. AL has shown good franchise growth over many years

As we highlighted in our initiation note (Tripedalism - three legs are better than two), AL has multiple sources of growth. In 2016 we saw all of them, including:

- geographic expansion: (i) Dubai: loans up 78% in 2016 to £74m, deposits of £64m and AUM of £60m) and (ii) regional UK offices.
- hiring more private bankers (36 v 28).
- improving the penetration of investment products (AUM up 16%).
- acquisitions of portfolios (Duncan Lawrie), commercial property (part of which may be used to service private banking clients) and companies (Renaissance Asset Finance to complete shortly).
- New products in particular the growth of the commercial business (adding £76m of loans (10% of total) and £51m of deposits (5% of total).
- These were offset by an unusually high level of redemptions in the core business (notably a few large loans) which is not expected to recur on an ongoing basis.

The outlook for 2017 is for accelerated growth as the 2016 hires deliver full period growth. This is likely to be most evident in the commercial area where the new teams have not only had to source new business but also build the operational infrastructure of the business. Staffing in commercial banking is also likely to be increased by nearly 60% through the year suggesting further strong growth into 2018. The group remains over-capitalised (Hardman estimate c£100m surplus capital at end 2016) and well-funded (deposits exceeding loans by c£250m).

Exhibit 1: Historic growth in AL

Metric (£m)	2009	2010	2011	2012	2013	2014	2015	2016
Loans	177.7	210.8	238.2	289.3	341.0	536.5	618.9	758.8
Deposits	292.0	349.5	420.0	495.7	521.2	585.9	896.8	997.6
Assets Under Management	180.0	225.0	315.0	376.6	527.9	665.9	738.8	920.0
Operating income	13.1	14.4	17.7	18.9	21.7	28.1	35.1	41.8
Costs	11.6	14.9	16.0	17.9	21.3	24.0	29.7	36.6
Pre-tax profits	0.2	1.0	2.0	2.1	7.7 *	3.6	6.0	9.1
Underlying pre-tax (co basis)	0.7	1.0	2.0	2.4	2.1	4.8	7.9	8.8

*Source: Hardman & Co Research * included large property gain*

The loan growth has not come at a cost of credit. 2016 impairments are at a 10 year low in nominal terms, as a proportion of loans and as a proportion of revenue. The nature of private banking is that losses can be lumpy. 2011-2014 losses were driven by one lending niche which was closed and the final effects have now been seen.

Exhibit 2: Historic impairments in AL

	2008	2009	2010	2011	2012	2013	2014	2015	2016
Impairment (£000s)	(444)	(1179)	(979)	(2,212)	(2,038)	(2,914)	(3,378)	(1,250)	(427)
Impairment as % average loans	0.28%	0.71%	0.50%	0.99%	0.77%	0.92%	0.77%	0.22%	0.07%
Impairment as % revenue	3.04%	9.16%	6.78%	12.51%	10.79%	13.46%	11.69%	3.56%	1.13%

Source: Hardman & Co Research

Secure Trust (from STB's results)

STB results in 2016 were also affected by the disposal of Everyday Loans to Non Standard Finance. Stripping this out continuing operations operating income grew 28% as interest income rose from £79m to £104m, and fees and commissions from £13m to £14m. The revenue growth reflected broad and strong loan growth (per Exhibit 3). In personal banking STB has organically built a motor loan business from £31m in 2010 to £235m in 2016 and its retail point of sale business, aided by a modest acquisition, to a £322m business. Given the small average loan size this is a considerable achievement. More recently commercial banking has been the key driver and now accounts for half the loan book from near zero in 2013.

Exhibit 3: Historic growth in STB

Metric (£m)	2009	2010	2011	2012	2013	2014	2015	2016
Personal Loans (exc everyday Loans)	15	22	44	142	159	181	188	66
O/w ELL	*0*	*0*	*0*	*74*	*81*	*94*	*114*	0
Motor Loans	5	31	63	90	115	138	166	236
Retail point of sale Loans	6	16	21	26	70	117	220	322
Total consumer loans	**26**	**69**	**128**	**258**	**344**	**436**	**574**	**624**
Real Estate	0	0	0	0	2	134	368	451
Asset Finance	0	0	0	0	0	5	70	117
Invoice Finance	0	0	0	0	0	5	29	63
Business loans	**0**	**0**	**0**	**0**	**2**	**143**	**468**	**631**
Other	26	20	27	40	45	44	33	66
Total Loans	**51**	**89**	**155**	**298**	**391**	**622**	**1,075**	**1,321**
Deposits			**272**	**399**	**437**	**608**	**1,033**	**1,152**

*Source: Hardman & Co Research * exc acquired portfolios in 2010-11*

Despite rising costs and impairments underlying profits grew strongly in 2016

Growth is forecast by the market to continue to be strong with consensus EPS growth of around 20% in both 2017 and 2018.

Operating expenses grew 30% including bonusses related to Everyday Loans and 23% excluding this. The real jaws between income and cost growth was thus 5%. Impairments increased from £17m to £28m. £7m of the group £11m increase was in the motor finance book and included additional impairments for early terminations in the motor book (should be one off step increase), £1.4m added for "market uncertainty" as well as business mix effects. Business finance provisions remain low (£0.9m up from £0.3m) partially due to the relative immaturity of the loan book. Reported profit was flat at £25m and underlying profit rose from £27m to £33m.

We do not believe that the accounting that ABG is required to adopt for its stake is particularly helpful. The 2016 disposals and subsequent share issues by STB have seen the ABG reduce to 18.6% but it has directors on the board. Accordingly, it is the accounting for its stake as an Associate. It was revalued in the books to the date of the disposal and subsequently accrues its proportionate share of earnings and other comprehensive income less dividends received. In ABG's books the stake will thus be valued at the market price on one day and subsequent earnings. For our sum of the parts we use the current market price (undiscounted value £71m, c one third of ABG's market capitalisation).

Proposed change in tax rules increases ABG's flexibility in selling residual stake tax free.

One positive development has been that the likelihood of ABG being able to crystallise its stake tax free has increased with proposed changes in the Autumn statement. Previously if its stake had gone below 10% (with for example STB issuing shares for an acquisition) ABG gain would have been taxed. To optimise returns this could have led to ABG selling at the same time as the STB deal. New proposals will allow a five-year window to sell tax free.

Valuation and Financials

Changes to estimates

2016 was a small beat against our forecasts with stronger loan growth feeding higher revenue, accelerated investment driving costs and impairments being better than expected. These business trends have continued into 2017 and 2018 although the pace of investment (and so cost) means that we have not at this stage changed our profit forecasts materially. We would expect 2019 to see more net benefits from this investment. Through 2017 the treatment of certain adjustments has changed making comparisons with our previous adjusted numbers invalid. The investment in incremental office space was more of a distortion H116 on H115 and so was in the adjustments then but not in the full year. Certain other costs have been capitalised on the full year accounting review. We do not believe the adoption of IFRS9 will have a huge impact on ABG (the majority is likely to be captured via a small prior year restatement on adoption rather than impacting ongoing earnings).

Exhibit 4: Previous Range of strategic options and valuations (£ p p/sh)

Scenario		FY 2016e			FY 2017e			FY 2018e	
	Old	Actual	% change	Old	New	% change	Old	New	% change
Profit and Loss (£'000s)									
Operating income	40,865	41,450	1%	50,719	54,154	7%	66,143	68,523	4%
Costs	(44,163)	(46,111)	4%	(47,630)	(53,776)	13%	(56,472)	(61,343)	9%
Impairments	(846)	(474)	-44%	(1,072)	(1,085)	1%	(1,425)	(1,410)	-1%
Associate and other income	3,846	5,314	38%	5,078	7,781	53%	5,840	8,383	44%
Statutory Pre-tax profit	(298)	179	n/m	7,095	7,074	0%	14,086	14,152	0%
Ordinary DPS	31.0	31.0	0%	33.0	33.0	0%	35.0	35.0	0%
Special DPS	325.0	325.0	0%	-	-	n/m	-	-	n/m
Balance Sheet (£ms)									
Loans and Advances	735	759	3%	980	1,050	7%	1,300	1,300	0%
Deposits	1,050	998	-5%	1,250	1,300	4%	1,560	1,625	4%
Equity	232	234	1%	233	235	1%	240	243	1%

Source: Hardman & Co Research

Divisional forecasts

Exhibit 5: Divisional forecasts (£000s)

Year Ended 31 December	2012	2013	2014	2015	2016	2017E	2018E
Operating Income							
Private Banking	18,730	21,651	28,895	35,076	41,776	54,893	69,261
Group centre	(62)	(613)	(506)	(261)	(326)	(739)	(739)
STB	46,887	78,982	63,660	-	-	-	-
ABG Total	**65,555**	**100,020**	**92,049**	**34,604**	**41,450**	**54,154**	**68,523**
STB stand-alone (exc ELL 2014/2015)	46,887	78,982	63,660	92,089	118,200	149,340	189,525
Statutory pre-tax profit							
Private Banking	2,058	7,728	3,628	5,998	9,053	11,031	17,508
Group centre	(6,718)	(9,208)	(7,452)	(8,393)	(11,019)	(8,239)	(8,239)
STB	17,253	17,193	17,755	-	2,145	4,281	4,883
ABG Total	**12,593**	**15,713**	**13,931**	**(2,606)**	**179**	**7,074**	**14,152**
STB stand-alone (exc ELL 2014/2015)	17,253	17,193	17,755	25,174	25,000	28,685	33,105

Source: Hardman & Co Research

Exhibit 6: Profit and Loss (£000s)

Year Ended 31 December	2012	2013	2014 *	2015 **	2016	2017E	2018E
Interest Income	62,300	93,329	87,398	32,801	38,071	51,829	67,389
Interest expense	(17,514)	(20,279)	(19,371)	(7,990)	(7,626)	(10,330)	(12,996)
Net Interest income	**44,786**	**73,050**	**68,027**	**24,811**	**30,445**	**41,499**	**54,393**
Fees and Comm income	24,116	31,816	25,841	9,999	11,430	12,930	14,430
Fees and Comms expense	(3,347)	(4,846)	(1,819)	(206)	(425)	(275)	(300)
Net Fees and Comms	20,769	26,970	24,022	9,793	11,005	12,655	14,130
Operating income	**65,555**	**100,020**	**92,049**	**34,604**	**41,450**	**54,154**	**68,523**
Net impairment on Financial assets	(10,984)	(18,807)	(11,953)	(1,284)	(474)	(1,085)	(1,410)
Other income	11,065	10,731	-	-	2,145	4,281	4,883
Associate Income (Post tax)				-	3,169	3,500	3,500
Operating expenses	(53,043)	(76,231)	(66,165)	(35,926)	(46,111)	(53,776)	(61,343)
Profit before tax from continuing operations	**12,593**	**15,713**	**13,931**	**(2,606)**	**179**	**7,074**	**14,152**
Income tax	(1,128)	(4,198)	(3,444)	121	(720)	(503)	(1,668)
Profit after tax from continuing operations	**11,465**	**11,515**	**10,487**	**(2,485)**	**(541)**	**6,572**	**12,484**
Profit from discontinued operations after tax	(347)	-	6,529	32,801	38,071	-	-
Profit for year	**11,118**	**11,515**	**17,016**	**(7,990)**	**(7,626)**	**6,572**	**12,484**
Attributable to non-controlling interests	-	-	(8,382)	24,811	30,445	-	-
Attributable to equity shareholders	**11,118**	**11,515**	**8,634**	**9,999**	**11,430**	**6,572**	**12,484**

Source: Hardman & Co Research ELL discontinued in 2014, ** STB discontinued in 2015*

Exhibit 7: EPS calculation and dividends (p)

Year Ended 31 December	2012	2013	2014	2015	2016	2017E	2018E
Average No shares (m)	15.28	15.28	15.28	15.28	15.28	15.28	15.28
Less treasury	0.39	0.39	0.39	0.39	0.39	0.39	0.39
Less ESOP	-	-	-	0.15	0.15	0.15	0.15
Avg no shares for EPS calculation	**14.89**	**14.89**	**14.89**	**14.74**	**14.74**	**14.74**	**14.74**
Diluted no shares	-	-	0.19	0.20	0	0	0
Statutory EPS (p)	**74.7**	**77.3**	**58.0**	**86.3**	**1,127.3**	**44.6**	**84.7**
Diluted EPS (p)	**74.7**	**77.3**	**57.3**	**85.2**	**1,123.5**	**44.4**	**84.4**
Adjusted EPS (co basis)	**60.8**	**92.1**	**77.0**	**13.5**	**17.1**	**50.0**	**84.7**
Interim dividend (p)	11	11	11	12	13	14	15
Final dividend (p)	14	15	16	17	18	19	20
Special dividend (p)	-	18	-	-	325	-	-
Total dividend (p)	25	44	27	29	356	33	35

Source: Hardman & Co Research

Exhibit 8: Adjusted Profit and Loss (£000s)

Year Ended 31 December	2012	2013	2014 *	2015 **	2016	2017E	2018E
Statutory pre-tax	**12,593**	**15,713**	**13,931**	**(2,606)**	**179**	**7,074**	**14,152**
Group adjustments							
Bonus payment in Group for ELL sale	-	-	-	-	2,304	-	-
Continuing income from associate for 6 mths ending June	-	-	-	3,714	1,732	-	-
180th anniversary	-	436	-	-	-	-	-
Arbuthnot Latham adjustments							
Cost of acquisition	-	-	-	418	398	-	-
Sale and leaseback	-	(6,535)	-	-	-	-	-
Gain on sale of Swiss subsidiary	(839)	-	-	-	-	-	-
Sale of Visa				-	(1,624)	-	-
Investment in operating system	-	-	-	1,123	21	-	-
Investment in AL commercial banking	-	-	-	333	999	1,000	-
Investment in new private bankers	300	-	-	-	-	-	-
Investment in regional offices / incremental office space		-	217	-	-	-	-
Investment in Dubai		879	981				
Total STB adjustments	(499)	8,035	198	-	-	-	-
Adjusted basis	**11,555**	**18,528**	**15,110**	**2,982**	**4,009**	**8,074**	**14,152**

Source: Hardman & Co Research ELL discontinued in 2014, ** STB discontinued in 2015*

Balance sheet

Exhibit 9: Balance Sheet (£000s)

Year Ended 31 December	2012	2013	2014	2015	2016	2017E	2018E
Cash and balances at Central Bank	203,683	193,046	115,938	368,611	195,752	205,803	284,709
Loans and advances to banks	144,391	105,061	31,844	28,578	36,951	36,951	36,951
Debt securities held to maturity	13,526	19,466	91,683	87,728	107,300	107,300	107,300
Assets classified as held to sale	-	-	-	118,456	-	-	-
Derivative financial instruments	648	508	2,707	1,490	1,516	1,516	1,516
Loans and advances to customers	**586,968**	**732,009**	**1,158,983**	**1,579,512**	**758,799**	**1,050,000**	**1,300,000**
Other assets	11,666	17,267	16,866	16,894	11,939	11,939	11,939
Financial Investments	3,257	1,975	1,277	2,685	2,145	2,145	2,145
Deferred tax	5,057	3,954	2,588	1,784	1,665	1,665	1,665
Investment in associate	-	943	943	943	82,574	86,855	91,738
Intangible assets	8,326	13,103	11,318	10,874	8,522	8,022	7,522
Property Plant and equipment	22,487	5,522	12,475	14,004	4,782	4,782	4,782
Investment Property	-	-	-	-	53,339	53,339	53,339
Total assets	**1,000,009**	**1,092,854**	**1,446,622**	**2,231,559**	**1,265,284**	**1,570,317**	**1,903,606**
Deposits from banks	373	2,003	27,657	55,305	3,200	3,200	3,200
Derivative financial instruments	462	371	1,067	135	227	227	227
Deposits from customers	**894,545**	**957,791**	**1,194,285**	**1,929,838**	**997,649**	**1,300,000**	**1,625,000**
Liabilities relating to assets classified as held for sale	-	-	-	8,700	-	-	-
Current tax liability	346	1,427	3,612	3,366	147	147	147
Other liabilities	23,655	32,116	34,984	31,977	17,082	17,082	17,082
Debt securities in issue	11,980	12,232	11,448	10,834	12,621	13,621	14,621
Total liabilities	**931,361**	**1,005,940**	**1,273,053**	**2,040,155**	**1,030,926**	**1,334,277**	**1,660,277**
Total to owners of the parent	**52,272**	**66,587**	**113,531**	**123,517**	**234,358**	**236,040**	**243,329**
Non-controlling interests	16,376	20,327	60,038	67,887	-	-	-
Total equity	**68,648**	**86,914**	**173,569**	**191,404**	**234,358**	**236,040**	**243,329**

Source: Hardman & Co Research

Valuation

Given the strategic optionality of the group, we reviewed a range of methodologies and scenarios for valuation in our initiation note (Tripedalism - three legs are better than two). This report also reviews the basis for our underlying assumptions which have not changed materially since them.

Base case average now £18.49 (upside 27%) with more upside as capital fully deployed (average £22.75)

Following these results, the average of our base case valuations is £18.49, an upside of 27% on the current share price. The highest valuation continues to be the Gordon's Growth model (£23.01) which we believe best captures to profitability and growth of the business. This valuation represents a price to 2016 book of just 1.5x. The average of £18.49 is up from the previous valuation of £16.31p, primarily as we have moved to 2018 estimates which for a high growth company see a big increase especially in the sum of the parts earnings driven model.

The average of our capital fully deployed models is now £22.75. Again, this has increased with rolling forward to 2018 estimates which includes more incremental deployment of the £100m surplus capital.

Base case valuations

Gordons' Growth model has most upside to £23 but this is still only 1.4x 2016 NAV

Given the multiples on which some banks trade (see peer table in Exhibit 12) we do not believe that the implied price to book is at all demanding at 1.4x book.

Exhibit 10: Gordons growth model – base case and sensitivity analysis

	Base	+1% RoE	+1% COE	+0.5% G
ROE	13.5	14.5	13.5	13.5
COE	10.0	10.0	11.0	10.0
G	5.0	5.0	5.0	5.5
P/BV	**1.7**	**1.9**	**1.4**	**1.8**
Discount re near term	-15.0%	-15.0%	-15.0%	-15.0%
P/BV	**1.4**	**1.6**	**1.2**	**1.5**
BV 2018	243.3	243.3	243.3	243.3
Valuation (£m)	351.6	393.0	293.0	367.7
Valuation per share (£)	**23.01**	**25.72**	**19.18**	**24.06**
Variance		2.71	-3.84	1.05

Source: Hardman & Co Research

Exhibit 11: Sum of the parts model

£m	Earnings	Multiple	Value
Private bank	15.8	18	285.11
18.6% holding in STB (10% discount)			64.02
PV of surplus capital return in 2018			28.38
Centrals	(8.2)	8	-65.91
Group total (£m)			311.60
£ per share			**20.39**

Source: Hardman & Co Research

The model is arguably a little generous as the private bank benefits from Group tax relief for the central division losses but these are an ongoing feature of the business.

Peer group ratings

Exhibit 12: Peer group comparisons

	Share price p	Market cap £ms	2017E PE	2017E Yield	2015 ROE	P/BV
Arbuthnot	**1468**	**224.3**	**17.3**	**2.4**	**9.6%**	**1.0**
Secure Trust	20.65	381.6	10.6	4.1	19.8%	1.7
Wealth Management						
Brewin Dolphin (sept)	302	855.5	14.2	5.2	16.9%	3.5
Brooks MacDonald (june)	1997	274.0	16.0	2.6	15.5%	3.2
Charles Stanley (March)	305	154.6	10.9	4.1	loss	1.8
IFG	135	142.3	11.3	4.0	6.6%	1.8
Rathbones	2350	1190.7	16.8	2.7	12.2%	3.7
Average			**13.8**	**3.72**	**12.8%**	**2.8**
SME finance						
Paragon	408	1121.4	8.9	3.8	11.6%	1.2
1PM (may)	61	33.5	8.2	1.6	9.8%	1.3
PCF (march)	26	44.2	13.3	1.3	12.1%	1.8
Average			**10.1**	**2.2**	**11.2%**	**1.4**
Challenger Banks						
Aldermore	223	769.2	7.1	3.0	18.0%	1.4
Close Bros (July)	1537	2308.0	12.0	3.9	17.3%	2.0
CYBG	265	2337.8	12.3	2.7	loss	0.7
One Savings Bank	420	1020.9	8.8	3.9	29.0%	3.2
Virgin Money	324	1441.6	8.2	2.5	12.4%	0.9
Average			**9.7**	**3.2**	**19.2%**	**1.6**
Metro *	3330	2676.3	37.5	0	loss	3.3

*Source: Hardman & Co Research Priced as at 27 March 2017 * Metro segregated so as not to distort averages*

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