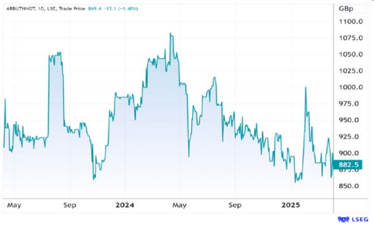
4 April 2025

Banks



Source: LSEG, 2025

Market data

EPIC/TKR	**ARBB/ARBN**
Price (p)	**845/850**
12m high (p)	1,116
12m low (p)	830
Shares (m)	16.7
Mkt cap (£m)	141
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 (4 Mar'25)

Sir Henry Angest	58.0%
Liontrust AM	9.8%
Slater Investments	7.2%
The late R Paston	3.3%

Diary

21 May	AGM

Analyst

Mark Thomas mt@hardmanandco.com

ARBUTHNOT BANKING GROUP

2024 results: franchise growing through the noise

The core of any successful, long-term business lies in offering clients the products they want so that they give you more business and, in turn, you attract new customers. The 2024 results show how ABG has achieved this, with growth in i) specialist lending (now £828m, 35% of loans up 33% in 2023, 27% in 2022 and 21% in 2021), ii) deposit volumes (+10%), and iii) wealth management (FUMA +30%). 1,200 new banking clients were onboarded in 2024. Short-term profits reflected that ABG had optimised returns in a rising rate environment (2023 PBT £47.1m vs. £4.6m in 2021) but faced the predicted margin pressures when they started to fall (2024 PBT £35m).

- **Financial highlights:** PBT £35.1m (2023: £47.1m). Op income £179.5m (2023: £178.9m). Average net margin 5.1% (2023: 5.7%). EPS 152.3p (2023: 222.8p). Final dividend p/sh 29p (2023: 27p), total dividend p/sh 69p (2023: 46p), up 50%. Net assets £267m (2023: £252m). CET1 ratio 13.2% (2023: 13.0%).

- **Operating highlights:** Customer deposits +10% to £4.1bn (2023: £3.8bn) and loans +2% to £2.4bn (2023: £2.3bn). ABG maintained tighter credit appetite during the year. Each specialist lending division saw growth in operating income. FUMA +30% to £2.2bn (2023: £1.7bn), with inflows 28% of opening FUMA.

- **Valuation:** Our multiple approaches see a broad range of valuations: £12.73 DDM, £20.95 SOTP and £24.29 GGM. The average is £19.32, nearly double the current share price. Trading at 52% of NAV is anomalous, in our view, with above the cost of capital returns (target: mid-teens pre-tax ROCE), and given ABG's growth potential.

- **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; so, 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	181,149	192,007
Total costs	(108,913)	(131,113)	(139,806)	(148,451)	(153,451)
Cost:income ratio	79%	73%	78%	82%	80%
Total impairments	(5,503)	(3,191)	(6,275)	(6,058)	(6,058)
Reported PBT	20,009	47,117	35,090	28,362	34,220
Adj. PBT (co. basis)	31,078	51,384	35,090	28,362	34,220
Statutory EPS (p)	109.0	222.8	152.3	129.7	155.6
Adj. EPS (co. basis) (p)	169.2	244.6	152.3	129.7	155.6
Loans to deposits	66%	55%	51%	49%	50%
Ord. dividend (p)*	42.0	46.0	49.0	53.0	57.0
P/adj. earnings (x)	7.8	5.0	3.5	5.5	6.5
P/BV (x)	0.63	0.60	0.55	0.52	0.49

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

2024 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 2024 results gave visibility on those options, including specialist loan growth (largely fixed-rate), deposit and wealth management growth.

Financial highlights (2023 in brackets)

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

- Profit before tax fell 26% to £35m (£47m). Group total operating income was flat at £180m (£179m), with a fall in banking income (£154m vs. £159m) offset by rising leasing income. As expected, there was pressure on banking net interest income (£126m vs. £137m), with a £32m increase in gross interest income more than offset by a £42m rise in interest expense. The average NIM fell from 5.7% to 5.1%. 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 full catch-up effect of low-cost, fixed-term savings maturing and rolling into higher-rate products. Banking fee income grew by £7m.

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

- Operating expenses increased by 7% to £140m, from £131m in 2023. 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).
- Earnings per share were 152.3p (222.8p). The final dividend declared increased by 2p to 29p. With a special dividend of 20p per share paid in June 2024, the total dividend per share for the year was 69p (2023: 46p), an increase of 50%.

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** £28m (£66m) being the unit most exposed to higher funding costs; ii) **Renaissance Asset Finance (RAF)** £5.6m (£1.6m) and accelerating on 1H'24 £2.2m. The end-2024 loan book was £249m, up 25% on 2023; iii) **Arbuthnot Commercial Asset Backed Lending (ACABL)** £11.9m (8.5m) and again accelerating on 1H'24's £4.4m; and iv) **Asset Alliance Group (AAG)** profit £28k (loss £3.1m), with end-2024 assets available for lease and finance leases totalling £363m, up 11%. The **Wealth Management (WM)** division reported funds under management and administration at the end of June of £2.2bn, up 30%, 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 13.2% (13.0%), and the total capital ratio was 15.3% (15.2%), well above the regulatory requirement of 8.32%. NAV per share was £16.36 against £15.47 at the year-end 2023.

Operational highlights

Deposits +10%, FUMA +30%, loans +2% (strong growth in specialist lending, core banking credit criteria tightened)

Customer deposits increased by 10% YoY (just 3% in 1H'24), to £4.1bn, with corporate deposits up 30%. FUMA balances were up 30% YoY to £2.2bn (15% in 1H'24). Net flows for the period were £331m, up from £261m in 2023. Customer loan growth was 2% YoY (3% in 1H'24), to £2.4bn. Specialist Lending Divisions' loan balances were strong while private banking loans fell by £24m amid further tightening of lending criteria.

Theme 1: franchise growth

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

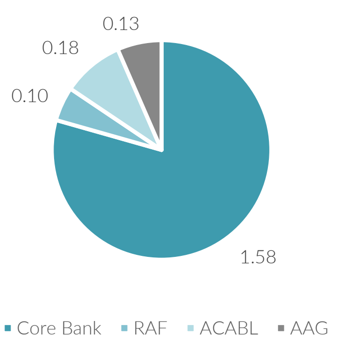
As we noted above, a core driver to long-term performance is giving customers what they want, so that they give you more of their business, which, in turn, attracts new customers. In 2024, this was seen across ABG's different businesses, with notably strong performance from the specialist lending areas, deposit gathering and wealth management. 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, and 2024 profits were affected by the predicted pressures of a falling rate environment (see next section for the mitigating action ABG is taking).

Growth in specialist lending

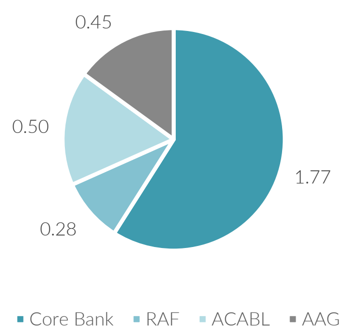
Strategic "Future State" vision

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)

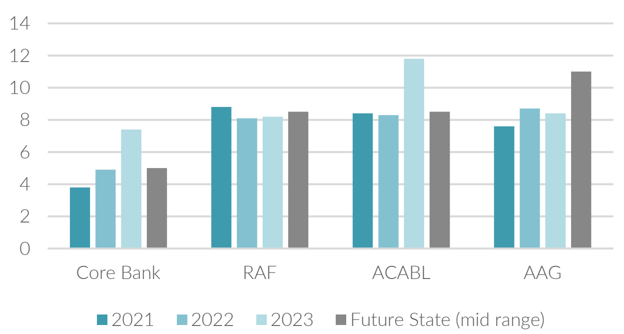


Mix of customer loans, "Future State 2" vision (£bn)

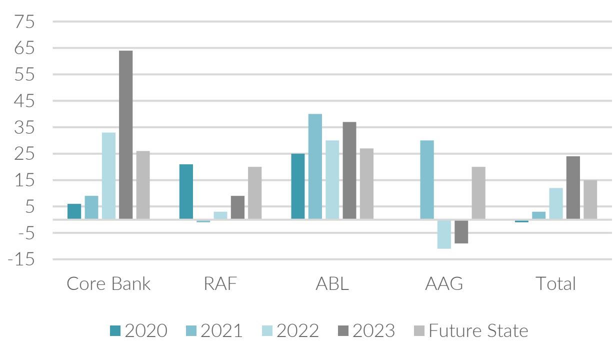


Source: ABG, Hardman & Co Research

Margin (%)

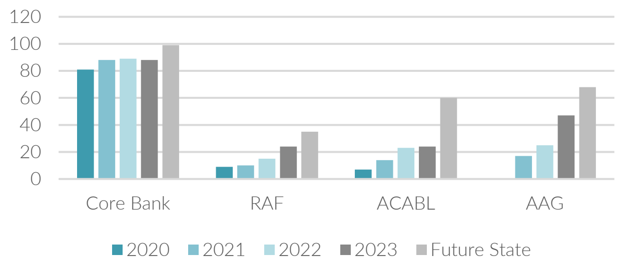


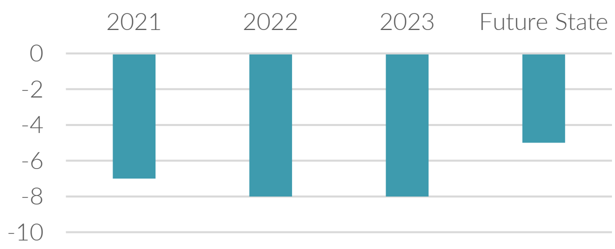
Pre-tax return on capital employed (RoCE) (%)



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 off the profit/capital generation. Current equity is £267m.

2024 results: SME franchises update

ABG has prioritised specialist SME finance businesses for an increasing proportion of capital deployed. The investment in new businesses saw strong returns and growth in 2024, as detailed below.

ACABL

Rapidly rising profit up sharply (2024 more than 2x 2022)

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 profit of £11.9m (2023: £8.5m, 2022 £5.2m) and finished 2024 with a loan book of £228.2m, marginally down on 2023 £239.8m. The timing of drawdowns/repayments has a material impact on the spot balance sheet. There was a small growth in facilities extended (£542m vs. £536m), but the business saw two large repayments at the end of the year, reducing loans from ca.£300m at peak. Readers will note, from the table below, the strong, consistent growth in operating income despite the volatility of year-end balances. The loss rate remains very low due to the high-quality, liquid assets, as well as close monitoring of the collateral. Against our forecasts, the interest expense was a little lower, as were impairments.

ACABL – key data

Year-end Dec (£000)	2021	2022	2023	2024	2025E	2026E
Interest income	8,010	14,665	23,300	25,456	28,000	31,000
Interest expense	(2,699)	(7,903)	(14,658)	(15,413)	(16,000)	(17,000)
Net fees and comms.	4,224	5,976	6,911	9,922	11,000	12,000
Operating income	**9,535**	**12,738**	**15,553**	**19,965**	**23,000**	**26,000**
Operating expenses, direct	(4,748)	(5,463)	(6,777)	(7,993)	(9,000)	(10,000)
Impairments	(50)	(2,082)	(234)	(32)	(500)	(500)
PBT	**4,737**	**5,193**	**8,542**	**11,940**	**13,500**	**15,500**
Loans and advances (£m)	182	269	240	228	275	350

Source: ABG, Hardman & Co Research

RAF

RAF profits more than trebled on 2023 and 29x 2022

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 & machinery, engineering and manufacturing equipment, and business-critical soft assets. ACABL reported a profit of £5.6m (2023: £1.6m, 2022: £0.2m) and finished 2024 with a loan book of £248.8m, up 25% on 2023 (the Block Discounting product grew 83%). The gross yield rose from 8.2% to 8.7%.

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	26,000
Interest expense	(2,371)	(3,353)	(4,540)	(6,468)	(7,500)	(8,500)
Net fees and comms.	166	32	34	239	200	200
Operating income	**6,095**	**5,577**	**8,078**	**13,111**	**15,700**	**17,700**
Other income	78	82	170	0	0	0
Operating expenses, direct	(3,943)	(4,697)	(5,634)	(6,981)	(8,000)	(8,000)
Impairments	(2,292)	(768)	(982)	(554)	(1,000)	(1,000)
PBT	**(62)**	**194**	**1,632**	**5,576**	**6,700**	**8,700**
Loans and advances (£m)	97	134	199	249	300	350

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

On the court's ruling on motor finance broker commissions, the board believes that this ruling is not applicable to RAF, as it is not regulated by the FCA and has only lent to sophisticated borrowers, the majority of whom are corporate entities. RAF has not facilitated transactions where the car dealer is both seller and credit broker.

AAG

Profitable despite higher internal funding cost. Book up 11%.

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. AAG reported a profit before tax of £28k (2023: £3.2m loss) after paying internal funding costs of £15.3m (2023: £10.3m). Against our forecast, turnover and cost of sales were both a little above expectation. While the company has only just achieved breakeven, this is partly due to the stage of development of the business, whereby, since acquisition, it has more than doubled the size of its fleet, in a relatively short period of time. The benefit of this will mainly be felt as the portfolio matures. As at end–2024, the business had assets available for lease and finance leases totalling £363.0m (2023: £326.8m), a growth of 11%.

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)	(18,500)	(20,000)
Net Fees and commissions	0	0	0	(15)	-	-
Turnover	68,673	99,367	100,940	110,832	130,000	150,000
Cost of sales	(62,196)	(82,109)	(81,074)	(85,301)	(100,054)	(115,446)
Operating income	**4,076**	**12,802**	**12,002**	**15,308**	**17,446**	**21,554**
Other income	0	0	0	88	150	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)	(500)	(500)
PBT	**3,829**	**(2,074)**	**(3,189)**	**28**	**596**	**3,704**
Loans and advances (£m)	121	189	327	363	450	600

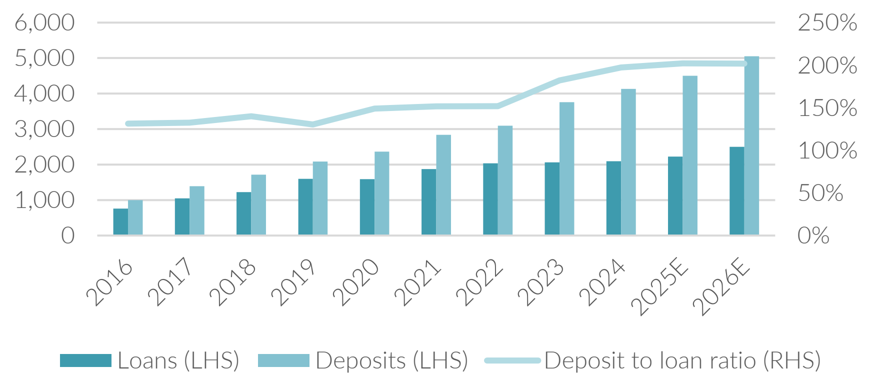
Note: Income and profits deflated in 2022 (£6.5m) and 2023 (£4.3m). No impact in 2024. Source: ABG, Hardman & Co Research

Growing deposits

With deposits being low-capital-intensity, profitable product at current interest rate levels, ABG has given them more priority and grown them well ahead of loans for past two years

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, the recent rise in rates means 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. As the chart below shows, ABG has not only nearly doubled its deposit book over the past five 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 197% in 2024.

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



Source: ABG Report and Accounts, Hardman & Co Research

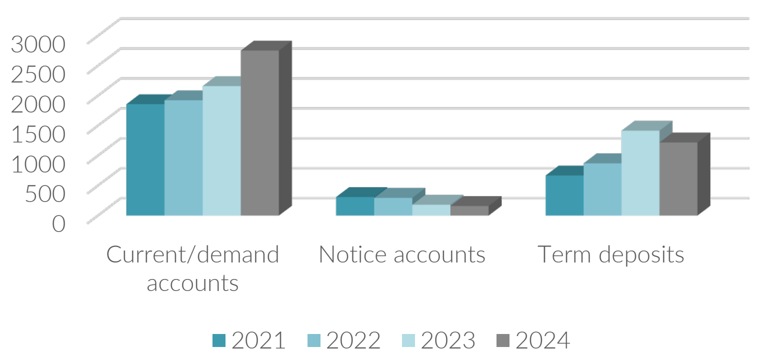
Deposit market has multiple sub-elements, which allow flexible and optimal focus. 2024 focus:

- Current/demand accounts
- Corporate (+30%)
- Platform deposit
- Rate-sensitive best-buy deposits allowed to mature away

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

- Targets customer segments that are underserved by the market and where cheap deposits may still be available. For example, commercial deposits grew 30% YoY.

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

- 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 SME 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. We understand the former account for approximately one third of 2024 deposits, and the latter two thirds, but the former only pays around half the rate of the latter. 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 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, which allows it to choose where to compete, and grow deposits, at a rate at which it chooses.

Growing wealth management

Strong growth in new customers and FUMA

One of the stars in 2024 was wealth management. Divisionally, it reports a loss because the division does not accrue benefit from the wealth management clients' deposits and internal costs. We believe the operating metrics are a more useful measure of how the business is doing. As the table below shows, 2024 client numbers were up by nearly two thirds over five years while funds under management and administration (FUMA) nearly doubled. The steady growth in net inflows is also a key indicator of customer satisfaction. The 2024 gross inflows were £482m (28% of opening balances) while gross outflows were £139m down 16% YoY.

Key metrics for wealth management division

	2020	2021	2022	2023	2024
FUMA (£m)	1,147	1,356	1,327	1,707	2,214
Clients	868	938	1,196	1,308	1,401
Average portfolio (£m)	132	1.45	1.11	1.31	1.58
Net inflow (£m)	12	80	105	261	331

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 1,200 new banking clients onboarded in 2024, of which 48% were non-personal clients. Of note: i) the number of private clients grew 9% in 2024, to more than 5,000 at the year-end, an outperformance against the market, which saw a 1% decline in total accounts during the year; ii) a total of 210 wealth management clients were onboarded in 2024, a 51% increase on 2023, and, as noted above, net client numbers grew by nearly 100; and iii) ACABL completed 22 new transactions with £122m of facilities written (2023: 17 new transactions and £73.1m of facilities written). RAF/AAG customer numbers are not disclosed but the 25% and 11% lending growth is indicative of the strong demand for their products.

Theme 2: managing the interest rate noise

FY'24 saw peak of benefits from a rising rate environment

In our April note, *2023: delivering strategy with strong profit growth,* we detailed how, in 2023, ABG saw the maximum benefit from the 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. The well-flagged – and hopefully known and understood by investors – wind down of this lag effect has been the key driver to profits falling from their unsustainably high level in FY'23.

Falling rate environment likely to have adverse effects, but a slow, steady reduction in rates gives time for remedial action to kick in

While there is some debate on timing, most commentators expect rates now to have peaked, and for the UK to be entering a falling rate environment. This would have adverse effects for ABG as all three of the benefits identified above go into reverse. Consensus has a slower decline in rates than expected a year ago and also slower than the speed with which rates were raised. This gives management some time to cushion the adverse impacts but not avoid them completely.

Action includes:

growing specialist lending, which is largely fixed-rate;

switch from BoE deposits to securities; and

extending duration of securities

Management actions to mitigate falling rates include:

- Most of the new SME 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 *2024 results presentation*, the typical RAF loan maturity, at end-2024, was 43.1 months and the AAG typical facility 41 months. As the mix of lending becomes more fixed, its sensitivity to falling rates reduces.

- Executing a switch from immediately repricing central bank deposits to debt securities, which will reprice but not as quickly as the BoE deposits. Debt securities, at end-2024, were £1,199m, up from £942m at end-2023 and just £597m end-1H'23. ABG has taken minimal credit risk, with the significant majority either 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 £589m at end-2023 and, by end-2024, £632m. The scale of this hedge has stabilised as ABG will benefit, in a falling rate environment, from the fixed rate lending identified above, along with moderating expectations of the timing and scale of rate cuts.

Overall, £1bn switch in <3m sensitivity vs. £4.7bn balance sheet

- The overall cumulative gap (in the table below) shows the aggregate of all assets and liabilities repricing, and this has moved from a net asset repricing (which benefits from a rising rate) to a net liability repricing (which benefits from a falling rate). The £1bn+ scale of the switch (less than three months +£475m to -£547m) can be compared with the end-2024 total assets of £4.7bn and is reflective of the active approach shown by ABG management.

Repricing periods for selected asset classes and cumulative total				
(£000)	<3m	3m-6m	6m-12m	1< 5 years
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

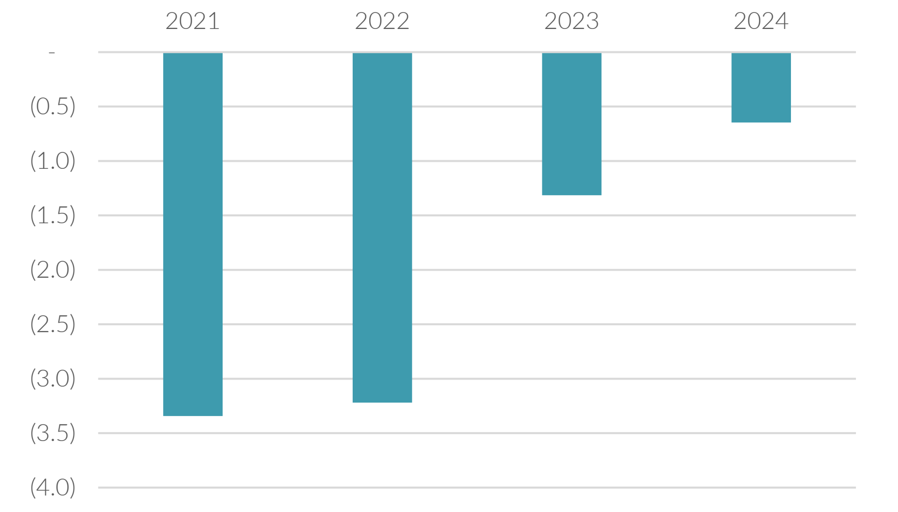
Other issues

Credit

SME credit metrices improved in 2024

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 the lending growth, the impairment charge halved compared with 2023. The detailed breakdown by credit stages is given on page 77 of the 2024 press release and it shows that the combined Stage 3 loans (worst quality) fell from £9.6m at end-2023 to £4.1m at end-2024.

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



Source: ABG Report and Accounts, Hardman & Co Research

Private banking impairment increased due to two specific exposures. Stage 2 and stage 3 (riskier) loans down on 2023.

The impairment in private banking increased to £5.6m (from £2.1m) driven by two individual accounts. Private banking always has lumpy impairments, and counterparty-specific conditions can have a big influence. By way of example, we understand that one account, the largest driver of 2024 losses, reflected changed recovery assumptions on a long-standing problem situation, with no bearing on economic conditions. Indeed, the externally sourced assumptions used for the IFRS expected credit loss model were more favourable in terms of upside weighting and house prices than in 2023. The stage 2 and 3 private banking loans were both down compared with 2023.

Capital

Capital ratios strong and grew in 2024

The core equity Tier 1 ratio was 13.2% (13.0%), and the total capital ratio was 15.3% (15.2%). The ratios have grown, in the context of i) strong profitability, ii) tightened credit criteria seeing private banking loans fall, iii) the low capital intensity in raising deposits and generating a positive spread by deploying them at the BoE (zero credit weighting, tiny increase in operating capital from higher costs). The growing ratios are despite ABG paying a special dividend. 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.

The equity-to-assets ratio has fallen from 5.5% to 5.3% 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 2025 PBT at 6x 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% end-2025), there is a further reduction in profit in 2025, but the group's mitigating actions should then see 2026 rise on 2025. Investors should not lose sight of the fact that 2025E is still 6x 2021 PBT.

Changes to estimates

Year-end Dec (£000)	2024			2025E		
	Old	New	% change	Old	New	% change
Group operating income	176,183	179,511	2%	179,203	181,149	1%
Total costs	(140,000)	(139,806)	0%	(146,250)	(148,451)	2%
Cost:income ratio	79%	78%	-2%	82%	82%	0%
Total impairments	(3,500)	(6,275)	79%	(6,000)	(6,058)	1%
Reported PBT	34,032	35,090	3%	28,342	28,362	0%
Adj. PBT (co. basis)	34,032	35,090	3%	28,342	28,362	0%
Statutory EPS (p)	154.7	152.3	-2%	129.6	129.7	0%
Adj. EPS (co. basis, p)	154.7	152.3	-2%	129.6	129.7	0%
Loans to deposits	53%	51%		58%	49%	

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	266,040	272,040
Interest expense	(17,024)	(13,027)	(20,932)	(95,217)	(137,568)	(146,540)	(150,040)
Net interest income	**58,058**	**64,075**	**99,081**	**136,619**	**125,867**	**119,500**	**122,000**
Fees and comms. income	14,735	18,223	21,586	23,170	29,142	32,502	36,252
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	31,703	35,453
Banking operating income	**72,500**	**82,198**	**120,130**	**159,021**	**153,980**	**151,203**	**157,453**
Leasing revenue	0	68,673	99,367	100,952	110,832	130,000	150,000
Leasing cost of sales	0	(62,196)	(82,109)	(81,074)	(85,301)	(100,054)	(115,446)
Gross profit from leasing	0	6,477	17,258	19,878	25,531	29,946	34,554
Group operating income	**72,500**	**88,675**	**137,388**	**178,899**	**179,511**	**181,149**	**192,007**
Total impairments	(2,849)	(3,196)	(5,503)	(3,191)	(6,275)	(6,058)	(6,058)
Other income	678	3,955	1,627	2,522	1,660	1,722	1,722
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)**	**(148,451)**	**(153,451)**
Profit before tax from cont. ops.	**(1,090)**	**4,638**	**20,009**	**47,117**	**35,090**	**28,362**	**34,220**
Income tax	(242)	2,148	(3,551)	(11,738)	(10,236)	(7,191)	(8,832)
Profit for year	**(1,332)**	**6,786**	**16,458**	**35,379**	**24,854**	**21,171**	**25,388**

Source: ABG, Hardman & Co Research

Divisional pre-tax profits

Year-end Dec (£000)	2021	2022	2023	2024E	2025E	2026E
Banking	12,166	22,898	66,039	28,123	17,250	15,000
WM	(2,121)	(4,101)	(4,256)	(4,893)	(4,000)	(3,000)
AAG	3,829	(2,074)	(3,189)	28	596	3,704
RAF	(62)	194	1,632	5,576	6,700	8,700
ACABL	4,737	5,193	8,542	11,940	13,500	15,500
Other divisions	(2,253)	11,700	(5,377)	5,725	5,725	5,725
Centrals	(10,632)	(12,856)	(15,577)	(11,409)	(11,409)	(11,409)
Group total	**4,638**	**20,009**	**47,117**	**35,090**	**28,362**	**34,220**

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	1,080,440	1,286,277
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**	**2,226,000**	**2,501,000**
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**	**5,113,397**	**5,643,734**
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**	**4,499,400**	**5,049,400**
Liab. relating to assets held for sale	0	0	0	0	0	0	0
Current tax liability	0	413	1,748	294	3,001	7,191	8,832
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**	**4,833,368**	**5,347,027**
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	267,648	284,327
Other reserves	-13,970	(301)	(213)	61	608	608	608
Total equity	**194,023**	**200,879**	**211,978**	**252,440**	**266,956**	**280,029**	**296,708**

Source: ABG, Hardman & Co Research

Valuation

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

With our higher estimates, the new fair value (£19.32), on our assumptions, represents an undemanding 1.2x 2024 book value for a business expected to deliver a near 6x increase in profits in 2025 vs. 2021. There is a small increase on our previous valuation £18.86, primarily from rolling forward the base year

Average is £19.32, around double current price

Summary of different valuation techniques by approach

£ per share	GGM	SOTP	DDM
Implied valuation	24.29	20.95	12.73

Source: Hardman & Co Research

GGM

The assumptions and sensitivities in our GGM model are given below. The valuation has risen by a £1 by rolling forward the base year and having a higher book value.

GGM £24.29

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)	280.0	280.0	280.0	280.0
Valuation (£m)	357.0	399.0	297.5	373.4
Valuation per share (p)	**24.29**	**27.15**	**20.24**	**25.40**
Variance (p per share)		**42.0**	**-59.5**	**16.3**

Source: Hardman & Co Research

SOTP

SOTP £20.95

The valuation has fallen from £21.37 to £20.95 p/sh, with small mix changes.

SOTP

	2024E post-tax	Rating	Value (£m)
Banking	12.8	10	127.7
WM (2.5% FUMA)			55.0
AAG	0.4	12	5.3
RAF	5.0	12	59.5
ACABL	10.0	12	119.9
Other divisions	4.2	6	25.4
Centrals	(8.4)	5	(42.2)
Total			**350.5**

Source: Hardman & Co Research

DDM

ABG now has attractive 2025E ordinary dividend yield of 6.3%. DDM model indicates £12.73.

Our DDM model reflects the strong earnings that we expect through our forecast period, before assuming 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 final 2024 dividend was 1p below our forecast (total for year, including special dividend, still up 50%), and we have carried this lower level forward, resulting in a small drop in this valuation.

Appendix: 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)

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

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