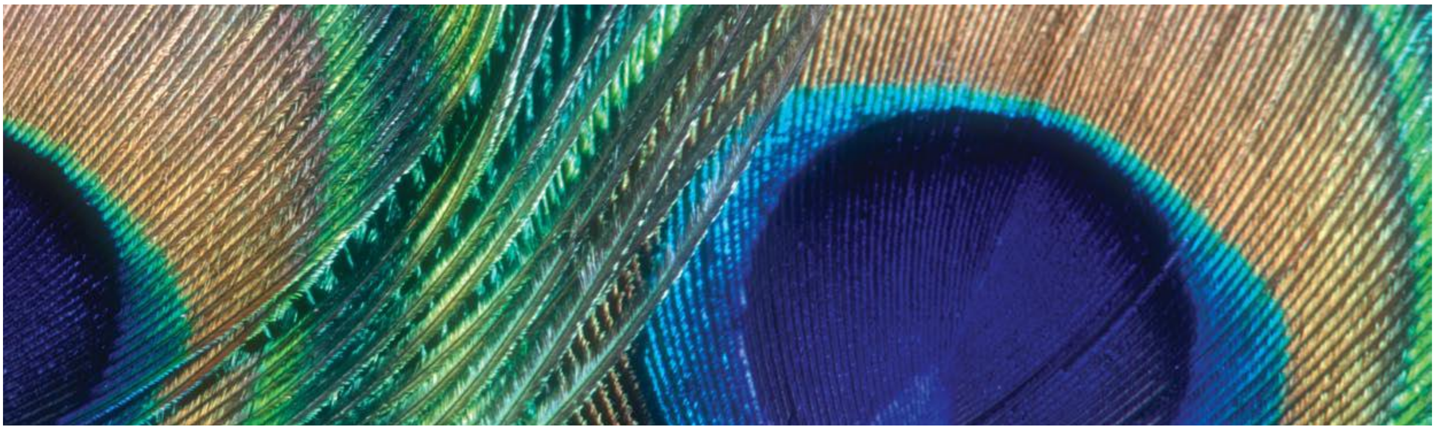
ARBUTHNOT BANKING GROUP PLC

Pillar 3 disclosures for the quarter ended 30 September 2018



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Overview

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Background

The Group's lead regulator, the Prudential Regulatory Authority ("PRA"), sets and monitors capital requirements for the Group as a whole and for its regulated subsidiaries. The lead regulator adopted the Basel III capital requirements with effect from 1 January 2014. As a result, the Group's regulatory capital requirements were based on Basel III in 2014. The Capital Requirements Directive (CRD IV) sets out disclosure requirements for banks operating under the regime. The disclosure requirements (Pillar III) aim to complement the minimum capital requirements (Pillar I) and the supervisory review process (Pillar II) and aim to encourage market discipline by allowing market participants to assess key pieces of information on risk exposures and the risk assessment processes of the Group.

Scope

The disclosures have been prepared at a consolidated level for Arbuthnot Banking Group PLC. These disclosures cover the Pillar III qualitative and quantitative disclosure requirements. There are no differences between the basis of consolidation of the Group for accounting and regulatory purposes. The Group contains two subsidiaries authorised to undertake regulated business under the Financial Services and Markets Act 2000. Arbuthnot Latham & Co., Ltd ("AL") is regulated by the Prudential Regulatory Authority and the Financial Conduct Authority and is an authorised deposit-taking business. It in turn has a subsidiary, Renaissance Asset Finance Limited ("RAF"), which is regulated by the Financial Conduct Authority. AL, the Group's regulated banking subsidiary, reports to the PRA on a solo-consolidated basis. The solo-consolidated group includes RAF.

Disclosure Policy

The full Pillar III disclosures are issued annually together with the Annual Report and Accounts. Reduced Pillar III disclosures are also required at each quarter end. This document sets out the reduced Pillar III disclosure requirements for Arbuthnot Banking Group PLC and its subsidiaries as at 30 September 2018.

The Pillar III disclosures are subject to internal review procedures broadly consistent with those undertaken for unaudited information published in the Annual Report. The information contained in this document has not been audited by the Group's external auditors, except to the extent it is deemed to be equivalent to those made under accounting or listing requirements.

The Pillar III disclosures have been prepared purely for explaining the basis on which the Group has prepared and disclosed certain capital requirements and information about the management of certain risks and for no other purpose. They do not constitute any form of financial statement and must not be relied upon in making any judgement on the Group.

Media and location

The report will be published on the Arbuthnot Banking Group PLC corporate website (www.arbuthnotgroup.com).

Regulatory developments

The Basel Committee on Banking Supervision ("BCBS") published revised Pillar III disclosure requirements. Some of these disclosures became effective in 2017 with further reporting requirements spread over the next 2 years. The BSBS also published its Basel III post-crisis regulatory reforms on 7 December 2017. These reforms include the revised standardised approach to credit risk and are due to take effect from 1 January 2022.

Key Regulatory Metrics

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Key Metrics		Sep 2018	Jun 2018	Mar 2018	Dec* 2017	Sep 2017
	Available capital (£'000)					
1	Common Equity Tier 1 ("CET 1")	150,139	153,417	155,360	158,614	149,842
1a	Fully loaded ECL accounting model CET 1	148,481	150,951	152,805		
2	Tier 1	150,139	153,417	155,360	158,614	149,842
2a	Fully loaded accounting model Tier 1	148,481	150,951	152,805		
3	Total capital	163,273	166,507	168,298	171,718	162,873
3a	Fully loaded ECL accounting model total capital	161,615	164,040	165,743		
	Risk weighted assets (£'000)					
4	Total risk weighted assets ("RWA")	1,026,562	995,187	972,732	918,717	807,129
	Risk-based capital ratios as a percentage of RWA (%)					
5	CET 1 ratio	14.6%	15.4%	16.0%	17.3%	18.6%
5a	Fully loaded ECL accounting model CET 1	14.5%	15.2%	15.7%		
6	Tier 1 ratio	14.6%	15.4%	16.0%	17.3%	18.6%
6a	Fully loaded accounting model Tier 1 ratio	14.5%	15.2%	15.7%		
7	Total capital ratio	15.9%	16.7%	17.3%	18.7%	20.2%
7a	Fully loaded ECL accounting model total capital ratio	15.7%	16.5%	17.0%		
	Additional CET1 buffer requirements as a percentage of RWA (%)					
8	Capital conservation buffer requirement (2.5% from 2019)	1.9%	1.9%	1.3%	1.3%	1.3%
9	Countercyclical buffer requirement	0.5%	0.5%	0.0%	0.0%	0.0%
10	Bank D-SIB additional requirements	0.0%	0.0%	0.0%	0.0%	0.0%
11	Total of bank CET1 specific buffer requirements (row 8 to 10)	2.4%	2.4%	1.3%	1.3%	1.3%
12	CET1 available after meeting the bank's minimum capital requirements	7.8%	8.5%	9.0%	10.3%	11.6%
	Basel III Leverage Ratio					
13	Total Basel III leverage ratio measure	2,117,315	1,997,149	1,830,275	1,800,380	1,537,407
14	Basel III leverage ratio (%) (row 2/row 13)	7.1%	7.7%	8.5%	8.8%	9.7%
14a	Fully loaded ECL accounting model Basel III leverage ratio (row 2a/row 13)	7.0%	7.6%	8.3%		
	Liquidity Coverage Ratio					
15	Total HQLA	540,501	416,520	330,217	340,633	380,684
16	Total net cash outflow	171,750	232,243	94,123	153,270	78,065
17	LCR ratio (%)	314.7%	179.3%	350.8%	222.2%	487.7%
	Net Stable Funding Ratio					
18	Total available stable funding	1,684,565	1,573,878	1,421,790	1,426,055	1,311,234
19	Total required stable funding	1,091,238	1,048,477	1,007,518	957,303	791,293
20	NSFR ratio (%)	154.4%	150.1%	141.1%	149.0%	165.7%

* - Includes year end verified reserves.

Key Regulatory Metrics

The Bank of England announced an increase in the countercyclical buffer for all UK banks to 0.5%, effective June 2018, and plans for a further increase to 1.0% effective November 2018. The Capital Conservation Buffer is phased in until 2019 when it will be 2.5%. Based on the individual capital guidance received from the PRA, the Group has a total capital requirement ("TCR") of 9.83%, which exclude the buffer requirements.

Overview of RWA

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Overview of Risk Weighted Assets		a	b	c
		RWA		Minimum capital requirement
		30/09/18 £000	30/06/18 £000	30/09/18 £000
1	Credit risk (excluding counterparty credit risk)	**939,565**	**906,325**	**75,165**
2	Of which: standardised approach (SA)	939,565	906,325	75,165
3	Of which: foundation internal ratings-based (F-IRB) approach	-	-	-
4	Of which: supervisory slotting approach	-	-	-
5	Of which: advanced internal ratings-based (A-IRB) approach	-	-	-
6	Counterparty credit risk (CCR)	-	-	-
7	Of which: standardised approach for counterparty credit risk	-	-	-
8	Of which: Internal Model Method (IMM)	-	-	-
9	Of which: other CCR	-	-	-
10	Credit valuation adjustment (CVA)	126	-	-
11	Equity positions under the simple risk weight approach	-	-	-
12	Equity investments in funds - look-through approach	-	-	-
13	Equity investments in funds - mandate-based approach	-	-	-
14	Equity investments in funds - fall-back approach	-	-	-
15	Settlement risk	-	-	-
16	Securitisation exposures in the banking book	-	-	-
17	Of which: securitisation internal ratings-based approach (SEC-IRBA)	-	-	-
18	Of which: securitisation external ratings-based approach (SEC-ERBA), including internal assessment approach	-	-	-
19	Of which: securitisation standardised approach (SEC-SA)	-	-	-
20	Market risk	**1,071**	**67**	**86**
21	Of which: standardised approach (SA)	1,071	67	86
22	Of which: internal model approaches (IMA)	-	-	-
23	Capital charge for switch between trading book and banking book	-	-	-
24	Operational risk	**85,799**	**85,799**	**6,864**
25	Amounts below thresholds for deduction (subject to 250% risk weight)	-	-	-
26	Floor adjustment	-	-	-
27	Total (1+6+10+11+12+13+14+15+16+20+23+24+25+26)	**1,026,561**	**992,191**	**82,115**

Leverage Ratio

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The leverage ratio is a regulatory measure complementing capital. It is a comparable measure, as the on balance sheet amount used in the leverage exposure is free from risk weighting. The leverage exposure is calculated as Tier 1 capital divided by the leverage exposure. The leverage ratio together with the other regulatory metrics is actively monitored and assessed by the Group.

The following three tables follow the formats that are prescribed by the European Banking Authority (EBA). Rows without balances have been omitted.

Table LRSum: Summary reconciliation of accounting assets and leverage ratio exposures	30/09/18 £000	30/06/18 £000
Total consolidated assets as per published financial statements	2,151,796	2,050,917
Adjustments for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	22,055	23,022
Other adjustments	(56,536)	(76,790)
Total leverage exposure	**2,117,315**	**1,997,149**

LRCom: Leverage ratio common disclosure	30/09/18 £000	30/06/18 £000
On-balance sheet exposures (excluding derivatives and SFTs):		
On-balance sheet exposures (excluding derivatives and securities financing transactions (SFTs), but including collateral)	2,151,164	2,050,580
Asset amounts deducted in determining Tier 1 capital	(56,535)	(76,790)
Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets)	**2,094,629**	**1,973,790**
Derivative exposures:		
Replacement cost associated with all derivatives transactions (ie net of eligible cash variation margin)	632	337
Add-on amounts for PFE associated with all derivatives transactions (mark-to-market method)	-	-
Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets)	**632**	**337**
Other off-balance sheet exposures:		
Off-balance sheet exposures at gross notional amount	217,843	227,509
Adjustments for conversion to credit equivalent amounts	(195,789)	(204,487)
Other off-balance sheet exposures (sum of lines 17 to 18)	**22,054**	**23,022**
Capital and total exposures:		
Tier 1 capital	150,139	153,417
Total leverage ratio exposures	2,117,315	1,997,149
Leverage Ratio	**7.1%**	**7.7%**

Liquidity

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Liquidity Coverage Ratio ("LCR")

		Total unweighted value (average)	Total weighted value (average)
High-quality liquid assets			
1	Total HQLA		540,501
Cash outflows			
2	**Retail deposits and deposits from small business customers, of which:**	**629,367**	**64,753**
3	Stable deposits	101,527	5,076
4	Less stable deposits	527,840	59,677
5	**Unsecured wholesale funding, of which:**	**560,010**	**223,465**
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks	-	-
7	Non-operational deposits (all counterparties)	560,010	223,465
8	Unsecured debt	-	-
9	**Secured wholesale funding**		-
10	**Additional requirements, of which:**	**216,014**	**19,185**
11	Outflows related to derivative exposures and other collateral requirements	-	-
12	Outflows related to loss of funding of debt products	-	-
13	Credit and liquidity facilities	216,014	19,185
14	**Other contractual funding obligations**	9,593	-
15	**Other contingent funding obligations**	1,829	-
16	**TOTAL CASH OUTFLOWS**		**307,403**
Cash inflows			
17	**Secured lending (eg reverse repo)**	-	-
18	**Inflows from fully performing exposures**	186,219	136,787
19	**Other cash inflows**	-	-
20	**TOTAL CASH INFLOWS**	**186,219**	**136,787**
			Total adjusted value
21	**Total HQLA**		**540,501**
22	**Total net cash outflows**		**170,616**
23	**Liquidity coverage ratio (%)**		**317%**

High quality liquid assets principally consist out of the Group's Bank of England reserve account and covered bonds.