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If you have sold or transferred all of your ordinary shares in Arbuthnot Banking Group PLC, please pass this Circular immediately to the purchaser or transferee or to the stockbroker, bank or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

ARBUTHNOT BANKING GROUP PLC

(Registered in England and Wales No. 1954085)

Directors:

Henry Angest (Chairman and Chief Executive)
James Cobb
James Fleming
Ruth Lea
Paul Lynam
Sir Christopher Meyer
Andrew Salmon
Robert Wickham (Deputy Chairman)

Registered Office:

Arbuthnot House
7 Wilson Street
London EC2M 2SN

7 April 2015

Dear Shareholder

SHARE OPTION SCHEME

1. Share Option Scheme

In April 1995, the Group adopted (1) an Inland Revenue approved share option scheme and (2) an unapproved share option scheme. In accordance with their rules, the first of these option schemes expired in May 2005 while the latter was renewed until May 2015. Your Directors believe that it is important for the Company to retain the flexibility to use share options as a means of attracting, retaining and motivating staff in the future. At the date of this letter options are in existence but not yet due to be exercised in respect of 200,000 ordinary 1p shares.

In this context, the Board is seeking shareholder approval at the Annual General Meeting to be held on 14 May 2015 to renew The Arbuthnot Banking (formerly Secure Trust) Group 1995 Unapproved Executive Share Option Scheme (the "Unapproved Executive Scheme") for a further period of 10 years.

A summary of the rules of the Unapproved Executive Scheme is set out in the Appendix to this letter. These rules incorporate the ability for the Board to grant options subject to such objective conditions of option exercise as it may determine. As and when the Board decides to grant options at some future date, it will then also determine whether to make each specific grant subject to performance and other conditions. It is not, however, committed under the scheme rules to imposing such conditions.

2. Recommendation

Copies of this document and the rules of the Unapproved Executive Scheme may be inspected at the registered office of the Company at any time during normal business hours up to and including 14 May 2015 and will also be available for inspection at the Annual General Meeting.

Your directors unanimously believe that retaining the Unapproved Executive Scheme is advantageous to the Company and to shareholders. Accordingly, your directors recommend you to vote in favour of the resolution to be proposed at the Annual General Meeting to give effect to this proposal as they intend to do so in respect of their own beneficial shareholdings amounting to 8,270,700 Ordinary Shares, representing approximately 54.13 per cent of the existing issued share capital of the Company.

Yours faithfully

Henry Angest
Chairman

APPENDIX

The Arbuthnot Banking (formerly Secure Trust) Group 1995 Unapproved Executive Share Option Scheme (the “Unapproved Executive Scheme”).

The principal features of the Unapproved Executive Scheme, the terms of which are set out in full in the Rules of the Scheme, are as follows:

(A) Administration

The Unapproved Executive Scheme will be administered by the Board, which may grant options to acquire Ordinary Shares of the Company (“Ordinary Shares”) at the Exercise Price (see paragraph (D) below). No consideration shall be paid for the grant of each option; the grant of each option shall be made by deed.

(B) Eligible Employees

Participants in the Unapproved Executive Scheme must be executive directors of the Company and/or of one or more of its subsidiaries in the UK or overseas, who devote a substantial part of their working time each week to the business of the Company (and/or the relevant subsidiary) and who are selected by the Board, or other employees of the Company and/or one or more of its subsidiaries in the UK or overseas, who devote a substantial part of their working time each week to the business of the Company (and/or the relevant subsidiary) and who are selected by the Board. Part-time directors and employees may therefore participate in the Unapproved Executive Scheme, if selected by the Board, provided that broadly their engagement or employment with the Company (and/or the relevant subsidiary) is their main engagement or employment.

(C) Offers of Options

Although the grant of options in any year is at the discretion of the Board, if offers are made in any year pursuant to the Unapproved Executive Scheme, they will be made during the period commencing on the second dealing day following and ending 6 weeks following the announcement of the annual results or the announcement of any interim results of the Company, although they may not be granted prior to the fixing of the Exercise Price in accordance with the provisions summarised in (D) below.

Options shall not be offered to any individual who is due for retirement at normal retirement age within two years.

Options granted under the Unapproved Executive Scheme will be personal to the participants to whom they are granted and may not be transferred or assigned. However, they will be exercisable by the legal personal representative of a participant who dies before exercising his option.

(D) Exercise Price

The price per share payable on the exercise of an option will be determined by the Board and will not be less than the greater of:

- (i) the nominal value of the Ordinary Shares; and
- (ii) the price equal to the middle market quotation for the Ordinary Shares as derived from the London Stock Exchange Daily Official List on the dealing day immediately preceding the date of the offer of the relevant option, provided that no such dealing day shall be a dealing day preceding the latest announcement of the results of the Company for any period; or
- (iii) if the Ordinary Shares are not listed on the London Stock Exchange, the market value of the Ordinary Shares on the day immediately preceding the date of the offer of the relevant option.

(E) Exercise of Options

Options will normally be exercisable by the participant at any time between the third and seventh anniversaries of grant. Earlier exercise is permitted in the event of a takeover, reconstruction or liquidation of the Company or if the company by which the participant is employed leaves the Group, or if the participant’s employment terminates by reason of his death, ill health, injury, disability or redundancy. There are time limits within which early exercise of options in such circumstances must be made, failing which the options lapse. Except in these circumstances, options will lapse if the participant ceases to be employed by the Group.

The Scheme Rules provide that options may be granted subject to such objective conditions of exercise as the Board may determine.

An unexercised option may be exercised in the case of:

- (i) a general offer being made to all holders of Ordinary Shares and such offer becoming or being declared unconditional, within 3 months from the date on which such offer becomes or is declared unconditional;
- (ii) the Court sanctioning a compromise or arrangement proposed for the purposes of a scheme for the reconstruction of the Company or its amalgamation with any other company, within one month of such compromise or arrangement becoming effective; and
- (iii) the Company convening a general meeting for the purposes of considering a resolution for its winding-up, at any time prior to the passing of such resolution.

(F) Issue of Shares

Shares allotted and issued following exercise of an option will rank *pari passu* in all respects and form one class with Ordinary Shares then in issue, save as regards dividends payable by reference to a record date prior to the date of issue. The Company will apply to the London Stock Exchange for the Ordinary Shares issued on the exercise of options pursuant to the Approved Executive Scheme to be admitted to the Official List. The Company will at all times keep available sufficient authorised and unissued share capital to satisfy outstanding options save to the extent that such options may be satisfied by the transfer of shares which have already been issued.

(G) Scheme Limits

The maximum number of Ordinary Shares over which options may be granted on any date, when added to the number of Ordinary Shares issued and remaining issuable in respect of rights conferred in the previous 10 years under the Unapproved Executive Scheme and any other share scheme, other than an SAYE share option scheme, operated by the Company for its employees and directors, shall not exceed 5 per cent of the issued Ordinary share capital of the Company.

The number of Ordinary Shares over which options may be granted on any date, when added to the number of Ordinary Shares issued and remaining issuable in respect of rights conferred in the previous 10 years under the Unapproved Executive Scheme and any other share scheme for the Company's employees and directors, shall not exceed 10 per cent of the issued Ordinary share capital of the Company.

Additionally, the number of Ordinary Shares over which options may be granted on any date, when added to the number of Ordinary Shares issued and remaining issuable in respect of rights conferred in the previous 3 years under the Unapproved Executive Scheme and any other share option or incentive scheme or profit sharing scheme operated by the Company for its employees and directors, shall not exceed 3 per cent of the issued Ordinary share capital of the Company.

It should be noted that the above limits apply only to new shares issued or issuable upon the exercise of options under the relevant schemes and not to shares which the Company has procured to be transferred to participants in satisfaction of their options.

No options may be granted more than 10 years after the date on which the Unapproved Executive Scheme is adopted by resolution of the Board.

(H) Alteration of capital of the Company

The number and nominal amount of Ordinary Shares subject to the Unapproved Executive Scheme and the number and nominal amount of shares subject to any option are subject to appropriate adjustment in the event of any capitalisation or rights issue by the Company or any consolidation, subdivision or reduction of the Company's share capital.

(I) Amendments

The directors have the power to amend the Unapproved Executive Scheme at any time, provided that it cannot be amended to the advantage of the participants without the prior approval of shareholders in general meeting (except for minor amendments to benefit the administration of the scheme, to take account of a change in legislation or to obtain or maintain favourable tax, exchange control or regulatory treatment for participants in the scheme or for the company or for the Group save that no amendment shall be made to the Scheme Limits without the prior approval of shareholders in general meeting).

(J) Payment of Cash Equivalent

Where an Option granted under the Unapproved Executive Scheme has been exercised in respect of any number of Shares, and those Shares are not allotted or transferred in the Grantee within 28 days of the receipt of the notice exercising the Option, the Board may determine that, in substitution for his right to acquire such number of those Shares as the Board may in its absolute discretion decide, the Grantee shall be paid by way of additional emoluments, in full and final satisfaction of his said right to receive Shares, a sum in sterling equal to the cash equivalent of that number of Shares. For this purpose, the cash equivalent will be broadly the amount by which the market value of those Shares at exercise exceeds the exercise price.

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